International Marketing, 18e **(Cateora)**
Chapter 18 Pricing for International Markets

1) Setting the right price for a product can be the key to success or failure in international markets.

2) Companies that use pricing to achieve marketing objectives use pricing as a static element.

3) A product sold in one country may be exported to another and undercut the prices charged in that country.

4) The possibility of a parallel market occurs when price differences are less than the cost of transportation between two markets.

5) To restrict the gray market, companies must establish and monitor controls that effectively police sales channels.

6) Companies should use the full-cost pricing approach when it has high fixed costs relative to its variable costs.

7) In countries where large shares of the population are moving into middle-income classes, penetration pricing will depress market growth.

8) Deflation results in ever-decreasing prices, creating a positive result for consumers, but putting pressure on everyone in the supply chain to lower costs.

9) With deflation, consumers face ever-rising prices that eventually exclude many of them from the market.

10) When the U.S. dollar strengthens, U.S. exports will decrease.

11) Price escalation could lead to the sales of exported goods being confined to a limited segment of wealthy, price-insensitive customers.

12) The international marketer must rely on experience and marketing research to determine middleman costs because no convenient source of data on middleman costs is available.

13) Eliminating costly functional features of a product or lowering overall product quality can reduce price escalation.

14) Longer channels of distribution are more useful for keeping prices under control than shorter channels of distribution.

15) Involving fewer middlemen in distribution means higher overall taxes.

16) In a free trade zone, payment of import duties is postponed until the product leaves the free trade zone and enters the country.

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17) For countervailing duties to be invoked, it must be shown that prices are higher in the importing country than in the exporting country.

18) Gerard was concerned that he would not be able to get maintenance and servicing on equipment used in his overseas operation. Leasing the equipment would be the best option for Gerard.

19) Countertrading does not benefit countries that face a shortage of hard currencies with which to trade.

20) Barter houses help countries negotiate prices for imports and exports and also provide facilities for cash payments and receipts.

21) Administered pricing is an attempt to establish prices for an entire market.

22) Paul's oil delivery company was struggling to make ends meet, so it conspired with the other oil delivery companies in the area to set prices, allocate market territories, and redistribute profits. By controlling the market in this way, the companies created a cartel.

23) Cartels have the ability to maintain control of markets for indefinite periods.

24) Domestic cartelization is legal in the United States.

25) Letters of credit shift the buyer's credit risk to the bank issuing the letter of credit.

26) An irrevocable, confirmed letter of credit means that a U.S. bank accepts responsibility to pay the seller regardless of the financial situation of the buyer or foreign bank.

27) Except for cash in advance, letters of credit afford the greatest degree of protection for the seller.

28) The portion of international business handled on a cash-in-advance basis is not large and this is typically used when credit is doubtful.

29) In bills of exchange, the buyer assumes all the risk until the payment is made.

30) Sales on open accounts are recommended when shipping is hazardous.

31) Assuming that an international marketer has produced the right product, used the proper channel of distribution, and promoted the goods correctly, the effort will fail if the international marketer fails to
A) inform the host government about all its marketing objectives.
B) set the right price for the goods or services.
C) set the import tariff for the goods or services.
D) form a joint venture in order to sell the product.
E) work on a franchise basis in the country.

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32) In general, price decisions are viewed in two ways: pricing as a static element in a business decision, and pricing
A) that depends on factors that are often beyond the control of a company.
B) as more a phenomenon of luck than planning.
C) as an active instrument of accomplishing marketing objectives.
D) that is determined by local sales managers.
E) that is static no matter the market.

33) What is most likely to be true of a company that views prices as an active instrument of accomplishing marketing objectives?
A) The company sets prices to achieve specific objectives.
B) The company follows market prices to achieve specific objectives.
C) The company exports only excess inventory.
D) The company views its export sales as an insignificant source of revenue.
E) The company places a low priority on foreign business.

34) A company that views pricing as a static element in a business decision most probably
A) places a high priority on foreign business.
B) sets prices to achieve specific objectives such as targeted return on profit.
C) views export sales as active contributions to sales volume.
D) views domestic sales as an insignificant source of revenue.
E) places a low priority on foreign business.

35) Gift Group Inc., an importing organization in New York, buys perfume from a company in France for $13 a unit. Unknown to the French company, Gift Group sells this product in the United States for $19 a unit. This leads to a loss of revenue for the French company as it also sells its perfume in the United States but for a higher price of $22. What concept does this demonstrate??
A) black-listed importing
B) indirect importing
C) circular importing
D) co-mingled importing
E) parallel importing

36) _____ distribution, a practice often used by companies to maintain high retail margins to encourage retailers to maintain the exclusive-quality image of a product, can create a favorable condition for parallel importing.
A) Exclusive
B) Speculative
C) Intensive
D) Lateral
E) Dual

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37) Firms that are unfamiliar with overseas marketing and firms that produce industrial goods orient their pricing solely on the basis of
A) cultural differences in perceptions of pricing.
B) market segmentation from market to market.
C) the costs of production of the goods.
D) market segmentation from country to country.
E) competitive pricing in the market.

38) In _____ pricing, a firm is concerned only with the marginal or incremental cost of producing goods to be sold in overseas markets.
A) full-cost
B) fixed-cost
C) variable-cost
D) demand-based
E) premium

39) Marianne's Chocolates sell well in the U.S. at a price of $24 per pound, and she has overproduced one kind of chocolate bar. Marianne has decided to see if she can sell them in Mexico, so she sets a price that is just over her cost. She figures if she makes even a little money, it would be worth it. Marianne is using _____ pricing.
A) full-cost
B) fixed-cost
C) variable-cost
D) demand-based
E) premium

40) What characterizes the variable-cost pricing approach?
A) Prices are often set on a cost-plus basis, that is, total costs plus a profit margin.
B) No unit of a similar product is different from any other unit in terms of cost.
C) Each unit must bear its full share of the total fixed and variable cost.
D) This approach is suitable when a company has high variable costs relative to its fixed costs.
E) Any contribution to fixed cost after variable costs are covered is profit to the company.

41) _____ pricing is a practical approach to use when a company has high fixed costs and unused production capacity.
A) Full-cost
B) Cost-plus
C) Marginal-cost
D) Demand-based
E) Premium

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42) Companies that use _____ pricing insist that no unit of a similar product is different from any other unit in terms of cost and that each unit must bear its full share of the total fixed and variable cost.
A) full-cost
B) fixed-cost
C) variable-cost
D) demand-based
E) premium

43) Which approach to pricing is most suitable when a company has high variable costs relative to its fixed costs?
A) full-cost pricing
B) marginal-cost pricing
C) static-cost pricing
D) demand-based pricing
E) premium pricing

44) A company uses _____ when the objective is to reach a segment of the market that is relatively price insensitive and thus willing to pay a premium price for the value received.
A) penetration pricing
B) everyday low pricing
C) predatory pricing
D) price skimming
E) psychological pricing

45) If the supply of a product in a market is limited, a company may follow a _____ approach to maximize revenue and to match demand to supply.
A) penetration
B) psychological pricing
C) variable-cost pricing
D) predatory pricing
E) price skimming

46) A _____ policy is used to stimulate market and sales growth by deliberately offering products at low prices.
A) penetration pricing
B) variable-cost pricing
C) premium pricing
D) price skimming
E) full-cost pricing

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47) Cosmeticon, a U.S.-based firm, has recently started exporting cosmetics to India. Cosmeticon has introduced a new range of mineral-based makeup products for the first time in the Indian market. As Cosmeticon has no competitors in this segment of the Indian cosmetics market, it has set a very high price for its products in order to reach the premium, price insensitive segment of the market. This is an example of
A) penetration pricing policy.
B) psychological pricing policy.
C) bundling.
D) price skimming.
E) cost-based pricing policy.

48) In most cases, the reason products cost relatively little in one country and cost more in another is the
A) profiteering measures taken by exporting companies.
B) consistency in perception of quality in all countries.
C) inelastic demand of most consumer goods.
D) requirement that all export goods must use set skimmed price.
E) higher costs of exporting.

49) What results from the added costs incurred as a result of exporting products from one country to another?
A) price deflation
B) penetration pricing
C) price escalation
D) price gouging
E) predatory pricing

50) A(n) _____ duty is a flat charge per physical unit imported.
A) ad valorem
B) compound
C) prohibitive
D) alternative
E) specific

51) _____ duties are levied as a percentage of the value of the goods imported.
A) Specific
B) Protective
C) Prohibitive
D) Ad valorem
E) Compound

52) What primary discriminatory tax must be taken into account in foreign competition?
A) transfer taxes
B) tariffs
C) tolls
D) excise taxes
E) inflation taxes

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53) In a deflationary market, in order to win the trust of consumers, it is essential for a company to
A) engage in forfaiting agreements with consumers.
B) spend more on advertising and stall the production of products.
C) allow prices to escalate and target the price insensitive segment of the market.
D) keep prices low and raise brand value.
E) form a cartel to control the dynamics of the market.

54) When the value of the dollar is weak relative to the buyer's currency, sellers usually use _____ pricing.
A) competition-based
B) demand-based
C) premium
D) psychological
E) cost-plus

55) When the Indian rupee depreciated against the U.S. dollar, PC manufacturers who were dependent on imported components had to either absorb the increased cost or
A) raise the quantity of inputs they used in production.
B) give discounts to their customers.
C) increase the wages that they paid to labor.
D) increase the production of PCs.
E) raise the price of PCs.

56) When a company exports a product from the United States to another country, the company is most likely to be unable to determine the ultimate price of a product if
A) the channels of distribution are short.
B) the number of middlemen in its distribution channels is low.
C) large orders are placed by retailers.
D) marketing and distribution channel infrastructures are well developed.
E) the middleman markups are not standardized.

57) What is the most probable reason a manufacturer would choose to conduct its manufacturing operations in a third country?
A) to standardize middlemen margins
B) to reduce the credit risk of the seller
C) to increase the capital–labor ratio
D) to avoid antidumping duties
E) to reduce manufacturing costs

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58) Lower prices to the buyer may also mean lower tariffs, because most tariffs are levied on a(n) _____ basis.
A) specific
B) alternative
C) accrual
D) shorter, lower
E) ad valorem

59) The creation of a free trade zone may lead to
A) a decline in exports.
B) an increase in taxes and duties levied on a product.
C) a reduction in the price escalation.
D) a decline in imports.
E) an increase in labor costs and overheads.

60) By shipping unassembled goods to a free trade zone (FTZ) in an importing country, a marketer can typically lower costs because
A) labor costs are higher in the importing country.
B) the final prices of the goods are adjusted for inflation.
C) use of unassembled goods gives the marketer immunity from dumping penalties.
D) duties are typically assessed at lower rates for unassembled goods.
E) local content used in production is low.

61) A marketer may face lower costs by shipping unassembled goods to a free trade zone (FTZ) in an importing country because
A) locally produced components may not be used in production.
B) labor costs may be lower in the importing country.
C) FTZs levy higher taxes and surcharges on imported goods.
D) ocean transportation rates may not be affected by the weight and volume of the components.
E) duties may be assessed at a higher rate for unassembled goods.

62) The costs of production may be lowered if a firm ships unassembled goods to a free trade zone (FTZ) in an importing country because
A) wages and other overheads may be higher in an FTZ.
B) locally produced components do not qualify for tariffs.
C) unassembled goods may qualify for lower freight rates.
D) the finished goods cannot be exported to other countries.
E) goods imported in an FTZ qualify for the same level of tariffs as other imported goods.

63) Dumping has been defined as the situation in which a product is sold in the international market
A) at a price below the cost of production.
B) only to the premium, price insensitive segment of the market.
C) where the demand for the product is lower than in the domestic market.
D) at a higher price than in the domestic market.
E) at the same price as in the domestic market.

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64) What is the function of a countervailing duty?
A) balance revenues against costs
B) restrict the amount a country will import
C) increase revenues from parallel imports
D) increase the amount a country will export
E) permit the use of foreign currency within the country

65) A _____, which restricts the amount a country will import, may be imposed on foreign goods benefiting from subsidies, whether in production, export, or transportation.
A) trigger volume
B) trigger price
C) minimum access volume
D) market access opportunity
E) substantial cause

66) For _____ duties to be levied on a product, it must be shown that prices are lower in the importing country than in the exporting country and that producers in the importing country are being directly harmed by the dumping of the product.
A) countertrade
B) domestic protection
C) countervailing
D) foreign practice
E) import restriction

67) Dumping in the world markets is most likely to increase when
A) domestic production capacity is low.
B) demand in the home country is low.
C) demand in the foreign country is low.
D) foreign production capacity is high.
E) cost of production is low.

68) Assembly in the importing country is a way companies attempt to lower prices and avoid dumping charges. These assembly plants are known as _____ plants.
A) antidumping
B) screwdriver
C) import-oriented
D) export-oriented
E) automated

69) An important selling technique to alleviate high prices and capital shortages for capital equipment is the _____ system.
A) leasing
B) antidumping
C) direct buy-back
D) consignment
E) rental

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70) What would be considered an advantage of leasing equipment rather than owning it?
A) Lease revenue tends to fluctuate greatly.
B) Leased equipment rarely breaks down.
C) Leasing helps guarantee better maintenance on overseas equipment.
D) Leasing keeps companies from using experimental equipment.
E) Leasing is less risky than outright sale of equipment.

71) When Burger Boys an American fast-food company, wanted to market its burgers and fries in France, it was asked to import French mustard to the United States in return. This is an example of
A) bargaining.
B) countervailing duties.
C) buy-back.
D) countertrade.
E) bribery.

72) The use of countertrade in international trade
A) allows trade with countries short of hard currency.
B) reduces a firm's competitive advantage.
C) increases the tax liabilities of trading firms.
D) leads to a loss of revenue.
E) is considered unethical.

73) A crucial problem confronting a seller in a countertrade negotiation is determining the _____ for the goods offered as payment.
A) delivery method
B) warranties
C) insurance premiums
D) potential demand
E) the cost

74) What do barter houses do?
A) They specialize in trading goods acquired through barter arrangements.
B) They negotiate barter arrangements with countries that accept the U.S. currency as a countertrade.
C) They specialize in bartering with third countries for unused raw materials.
D) They direct bartered goods to the World Trade Organization for its approval.
E) They review disputes in barter arrangements at the request of the International Court of Justice.

75) _____ are the primary outside source of aid for companies affected by the uncertainty of a countertrade.
A) Trade unions
B) Barter houses
C) Industry associations
D) Swap centers
E) Satellite towns

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76) What is true of price quotations for international sale?
A) Price quotations can be made only if it is shown that prices are lower in the importing country than in the exporting country.
B) Price quotations must specify the currency to be used, credit terms of the transaction, and documents required.
C) The price quotation and contract should define only the quantity of goods and not necessarily the quality.
D) Price quotations must be quoted only in terms of electronic trade dollars.
E) Price quotations need to specify the transportation charges but need not necessarily state what type of documentation needs to be used.

77) In general, the end goal of all _____ activities is to reduce the impact of price competition or eliminate it.
A) reciprocal pricing
B) administered pricing
C) free trade
D) export-oriented trade
E) price skimming

78) What is an example of a price-fixing arrangement most directly associated with international marketing?
A) price escalation
B) barter houses
C) letters of credit
D) cartels
E) countertrade

79) A _____ exists when various companies producing similar products or services work together to control markets for the types of goods and services they produce.
A) cabal
B) monopoly
C) cartel
D) producers' association
E) competitive market

80) OPEC is an example of a _____; it can control the price of oil by controlling the market.
A) cabal
B) monopoly
C) cartel
D) producers' association
E) competitive market

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81) What is the typical payment procedure for established customers where the goods are delivered and the customer is billed on an end-of-the-month basis.
A) an open account
B) a letter of credit
C) a bill of exchange
D) cash in advance
E) forfaiting

82) A(n) _____ means that once the seller has accepted the credit, the buyer cannot alter it in any way without permission of the seller.
A) open account
B) letter of credit
C) bill of lading
D) bill of regression
E) sales agreement

83) A _____, which shifts the buyer's credit risk to the bank, is not a guarantee of payment to the seller. Rather, payment is tendered only if the seller complies exactly with its terms.
A) open account
B) letter of credit
C) bill of lading
D) bill of regression
E) credit agreement

84) With _____, the seller assumes all risk until the actual dollars are received.
A) open accounts
B) irrevocable letters of credit
C) bills of exchange
D) factoring agreements
E) forfaiting contracts

85) A company manufactures extremely specialized equipment for medical imaging. Because of its value, when the company exports this equipment overseas to hospitals, it generally requires _____, which is a nonrefundable deposit.
A) a letter of credit
B) a dollar draft
C) a forfaiting contract
D) cash in advance
E) an open account

86) _____ leave sellers in a position where most of the problems of international commercial finance work to their disadvantage.
A) Letters of credit
B) Dollar drafts
C) Forfaiting contracts
D) Cash in advance agreements
E) Open accounts

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87) In a(n) _____ transaction, the seller makes a one-time arrangement with a bank or other financial institution to take over responsibility for collecting the account receivable.
A) forfaiting
B) factoring
C) barter
D) cash-in-advance payment
E) open account

88) Sales on open accounts are
A) very common as a method of payment in foreign trade.
B) generally recommended when special merchandise is ordered by the buyer.
C) not generally recommended when there is political unrest in the importer's country.
D) recommended when the country of the importer imposes difficult exchange restrictions.
E) less risky for the seller when it involves new buyers.

89) In _____, a company has an ongoing relationship with a bank that routinely buys its short-term accounts receivable at a discount.
A) forfaiting
B) factoring
C) a barter transaction
D) a cash-in-advance transaction
E) an open accounts transaction

90) Differentiate the two ways price decisions are viewed.

91) Describe what happens in parallel importing. What are the advantages and disadvantages of this practice?

92) What is the difference between variable-cost pricing and full-cost pricing? When would a company choose one over the other?

93) What are common reasons why price escalation occurs in international marketing?

94) What is a tariff? What are the three basic ways in which tariffs may be levied?

95) What is a countertrade? What are the advantages and disadvantages of countertrading?

96) Making price quotations for international sales requires including a number of elements that may not be relevant in domestic pricing. Explain the process and what must be considered.

97) What is administered pricing, and how does it differ from price fixing? How is it arranged in international markets?

98) Discuss the meaning and nature of cartels. Are these groups beneficial? State an example.

99) What is the difference between forfaiting and factoring?

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1) Setting the right price for a product can be the key to success or failure in international markets.

Answer: TRUE
Explanation: Setting the right price for a product or service can be the key to success or failure in international markets. Even when the international marketer produces the right product, promotes it correctly, and initiates the proper channel of distribution, the effort fails if the product is not properly priced.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-01 Components of pricing as competitive tools in international marketing.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

2) Companies that use pricing to achieve marketing objectives use pricing as a static element.

Answer: FALSE
Explanation: Price decisions are viewed two ways: pricing as an active instrument of accomplishing marketing objectives, or pricing as a static element in a business decision.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-01 Components of pricing as competitive tools in international marketing.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

3) A product sold in one country may be exported to another and undercut the prices charged in that country.

Answer: TRUE
Explanation: Because of the different prices possible in different country markets, a product sold in one country may be exported to another and undercut the prices charged in that country.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-02 How to control pricing in parallel import or gray markets.
Bloom's: Remember
AACSB: Analytical Thinking
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4) The possibility of a parallel market occurs when price differences are less than the cost of transportation between two markets.

Answer: FALSE
Explanation: A parallel market (gray market) exists when products intended to be sold in one market, exclusively at a particular low price, are sold in a second market (usually illegally) where market prices are higher. The possibility of a parallel market occurs whenever price differences are *greater* than the cost of transportation between two markets.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-02 How to control pricing in parallel import or gray markets.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

5) To restrict the gray market, companies must establish and monitor controls that effectively police sales channels.

Answer: FALSE
Explanation: Companies that are serious about restricting the gray market must establish and monitor controls that effectively police *distribution* channels. In some countries they may get help from the courts.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-02 How to control pricing in parallel import or gray markets.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

6) Companies should use the full-cost pricing approach when it has high fixed costs relative to its variable costs.

Answer: FALSE
Explanation: Companies following the full-cost pricing philosophy insist that no unit of a similar product is different from any other unit in terms of cost and that each unit must bear its full share of the total fixed and variable cost. This approach is suitable when a company has high *variable* costs relative to its *fixed* costs.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-02 How to control pricing in parallel import or gray markets.
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7) In countries where large shares of the population are moving into middle-income classes, penetration pricing will depress market growth.

Answer: FALSE
Explanation: In country markets experiencing rapid and sustained economic growth, and where large shares of the population are moving into middle-income classes, penetration pricing may be used to stimulate market growth even with minimum competition. Penetration pricing may be a more profitable strategy than skimming if it maximizes revenues as a base for fighting the competition that is sure to come.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-02 How to control pricing in parallel import or gray markets.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

8) Deflation results in ever-decreasing prices, creating a positive result for consumers, but putting pressure on everyone in the supply chain to lower costs.

Answer: TRUE
Explanation: Deflation results in ever-decreasing prices, creating a positive result for consumers, but both put pressure to lower costs on everyone in the supply chain. In a deflationary market, it is essential for a company to keep prices low and raise brand value to win the trust of consumers.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-03 Price escalation and how to minimize its effect.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

9) With deflation, consumers face ever-rising prices that eventually exclude many of them from the market.

Answer: FALSE
Explanation: Deflation results in ever-decreasing prices, creating a positive result for consumers, but putting pressure to lower costs on everyone in the supply chain.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-03 Price escalation and how to minimize its effect.
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10) When the U.S. dollar strengthens, U.S. exports will decrease.

Answer: TRUE
Explanation: The weaker U.S. dollar, compared with most of the world's stronger currencies, that existed in mid-2003 stimulated exports from the United States. Consequently, when the dollar strengthens, U.S. exports will soften.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-03 Price escalation and how to minimize its effect.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

11) Price escalation could lead to the sales of exported goods being confined to a limited segment of wealthy, price-insensitive customers.

Answer: TRUE
Explanation: Unless some of the costs that create price escalation can be reduced, the marketer is faced with a price that may confine sales to a limited segment of wealthy, price-insensitive customers.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-03 Price escalation and how to minimize its effect.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

12) The international marketer must rely on experience and marketing research to determine middleman costs because no convenient source of data on middleman costs is available.

Answer: TRUE
Explanation: The international marketer must rely on experience and marketing research to ascertain middleman costs because no convenient source of data on middleman costs is available.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-03 Price escalation and how to minimize its effect.
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13) Eliminating costly functional features of a product or lowering overall product quality can reduce price escalation.

Answer: TRUE
Explanation: Eliminating costly functional features or even lowering overall product quality is a method of minimizing price escalation. For example, the quality and additional features required for the more developed home market may not be necessary in countries that have not attained the same level of development or consumer demand.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-03 Price escalation and how to minimize its effect.
Bloom's: Remember
AACSB: Analytical Thinking
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14) Longer channels of distribution are more useful for keeping prices under control than shorter channels of distribution.

Answer: FALSE
Explanation: Shorter channels can help keep prices under control. Designing a channel that has fewer middlemen may lower distribution costs by reducing or eliminating middleman markups.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-03 Price escalation and how to minimize its effect.
Bloom's: Remember
AACSB: Analytical Thinking
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15) Involving fewer middlemen in distribution means higher overall taxes.

Answer: FALSE
Explanation: Besides eliminating markups, fewer middlemen may mean lower overall taxes. Some countries levy a value-added tax on goods as they pass through channels.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-03 Price escalation and how to minimize its effect.
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16) In a free trade zone, payment of import duties is postponed until the product leaves the free trade zone and enters the country.

Answer: TRUE
Explanation: In a free port or FTZ, payment of import duties is postponed until the product leaves the FTZ area and enters the country.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-03 Price escalation and how to minimize its effect.
Bloom's: Remember
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17) For countervailing duties to be invoked, it must be shown that prices are higher in the importing country than in the exporting country.

Answer: FALSE
Explanation: For countervailing duties to be invoked, it must be shown that prices are lower in the importing country than in the exporting country and that producers in the importing country are being directly harmed by the dumping.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-03 Price escalation and how to minimize its effect.
Bloom's: Remember
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18) Gerard was concerned that he would not be able to get maintenance and servicing on equipment used in his overseas operation. Leasing the equipment would be the best option for Gerard.

Answer: TRUE
Explanation: Leasing helps guarantee better maintenance and service on overseas equipment.
Difficulty: 2 Medium
Topic: Requirements of a Globally Dispersed Production System
Learning Objective: 18-03 Price escalation and how to minimize its effect.
Bloom's: Apply
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19) Countertrading does not benefit countries that face a shortage of hard currencies with which to trade.

Answer: FALSE
Explanation: Corporate debts to suppliers, payments and services, even taxes—all have a noncash component or are entirely bartered. Many countries constantly face a shortage of hard currencies with which to trade and thus resort to countertrades when possible.
Difficulty: 1 Easy
Topic: Countertrade
Learning Objective: 18-04 Countertrading and its place in international marketing practices.
Bloom's: Remember
AACSB: Analytical Thinking
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20) Barter houses help countries negotiate prices for imports and exports and also provide facilities for cash payments and receipts.

Answer: FALSE
Explanation: Barter houses specialize in trading goods acquired through barter arrangements and are the primary outside source of aid for companies beset by the uncertainty of a countertrade.
Difficulty: 1 Easy
Topic: Countertrade
Learning Objective: 18-04 Countertrading and its place in international marketing practices.
Bloom's: Remember
AACSB: Analytical Thinking
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21) Administered pricing is an attempt to establish prices for an entire market.

Answer: TRUE
Explanation: Administered pricing is an attempt to establish prices for an entire market. Such prices may be arranged through the cooperation of competitors; through national, state, or local governments; or by international agreement.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-05 The mechanics of price quotations.
Bloom's: Remember
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22) Paul's oil delivery company was struggling to make ends meet, so it conspired with the other oil delivery companies in the area to set prices, allocate market territories, and redistribute profits. By controlling the market in this way, the companies created a cartel.

Answer: TRUE
Explanation: A cartel exists when various companies producing similar products or services work together to control markets for the types of goods and services they produce.
Difficulty: 2 Medium
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-05 The mechanics of price quotations.
Bloom's: Apply
AACSB: Knowledge Application
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23) Cartels have the ability to maintain control of markets for indefinite periods.

Answer: FALSE
Explanation: One important aspect of cartels is their inability to maintain control of markets for indefinite periods. Greed by cartel members and other problems generally weaken the control of the cartel.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-05 The mechanics of price quotations.
Bloom's: Remember
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24) Domestic cartelization is legal in the United States.

Answer: FALSE
Explanation: The legality of cartels globally at present is not clearly defined. Domestic cartelization is illegal in the United States.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-05 The mechanics of price quotations.
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25) Letters of credit shift the buyer's credit risk to the bank issuing the letter of credit.

Answer: TRUE
Explanation: Letters of credit shift the buyer's credit risk to the bank issuing the letter of credit.
Difficulty: 1 Easy
Topic: Currency Management and Business Strategy in the Global Monetary System
Learning Objective: 18-06 The mechanics of getting paid.
Bloom's: Remember
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26) An irrevocable, confirmed letter of credit means that a U.S. bank accepts responsibility to pay the seller regardless of the financial situation of the buyer or foreign bank.

Answer: TRUE
Explanation: An irrevocable, confirmed letter of credit means that a U.S. bank accepts responsibility to pay regardless of the financial situation of the buyer or foreign bank. From the seller's viewpoint, this step eliminates the foreign political risk and replaces the commercial risk of the buyer's bank with that of the confirming bank.
Difficulty: 1 Easy
Topic: Currency Management and Business Strategy in the Global Monetary System
Learning Objective: 18-06 The mechanics of getting paid.
Bloom's: Remember
AACSB: Analytical Thinking
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27) Except for cash in advance, letters of credit afford the greatest degree of protection for the seller.

Answer: TRUE
Explanation: Except for cash in advance, letters of credit afford the greatest degree of protection for the seller.
Difficulty: 1 Easy
Topic: Currency Management and Business Strategy in the Global Monetary System
Learning Objective: 18-06 The mechanics of getting paid.
Bloom's: Remember
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28) The portion of international business handled on a cash-in-advance basis is not large and this is typically used when credit is doubtful.

Answer: TRUE
Explanation: The portion of international business handled on a cash-in-advance basis is not large. Cash places unpopular burdens on the customer and typically is used when credit is doubtful.
Difficulty: 1 Easy
Topic: Currency Management and Business Strategy in the Global Monetary System
Learning Objective: 18-06 The mechanics of getting paid.
Bloom's: Remember
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29) In bills of exchange, the buyer assumes all the risk until the payment is made.

Answer: FALSE
Explanation: In letters of credit, the credit of one or more banks is involved, but with bills of exchange (also known as dollar drafts), the seller assumes all risk until the actual dollars are received.
Difficulty: 1 Easy
Topic: Currency Management and Business Strategy in the Global Monetary System
Learning Objective: 18-06 The mechanics of getting paid.
Bloom's: Remember
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30) Sales on open accounts are recommended when shipping is hazardous.

Answer: FALSE
Explanation: Sales on open accounts are generally not recommended when the practice of the trade is to use some other method, when special merchandise is ordered, when shipping is hazardous, when the country of the importer imposes difficult exchange restrictions, or when political unrest requires additional caution.
Difficulty: 1 Easy
Topic: Currency Management and Business Strategy in the Global Monetary System
Learning Objective: 18-06 The mechanics of getting paid.
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31) Assuming that an international marketer has produced the right product, used the proper channel of distribution, and promoted the goods correctly, the effort will fail if the international marketer fails to
A) inform the host government about all its marketing objectives.
B) set the right price for the goods or services.
C) set the import tariff for the goods or services.
D) form a joint venture in order to sell the product.
E) work on a franchise basis in the country.

Answer: B
Explanation: Even when the international marketer produces the right product, promotes it correctly, and initiates the proper channel of distribution, the effort fails if the product is not properly priced.
Difficulty: 2 Medium
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-01 Components of pricing as competitive tools in international marketing.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

32) In general, price decisions are viewed in two ways: pricing as a static element in a business decision, and pricing
A) that depends on factors that are often beyond the control of a company.
B) as more a phenomenon of luck than planning.
C) as an active instrument of accomplishing marketing objectives.
D) that is determined by local sales managers.
E) that is static no matter the market.

Answer: C
Explanation: In general, price decisions are viewed two ways: pricing as an active instrument of accomplishing marketing objectives, or pricing as a static element in a business decision.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-01 Components of pricing as competitive tools in international marketing.
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33) What is most likely to be true of a company that views prices as an active instrument of accomplishing marketing objectives?
A) The company sets prices to achieve specific objectives.
B) The company follows market prices to achieve specific objectives.
C) The company exports only excess inventory.
D) The company views its export sales as an insignificant source of revenue.
E) The company places a low priority on foreign business.

Answer: A
Explanation: If prices are viewed as an active instrument, the company sets prices (rather than following market prices) to achieve specific objectives, such as returns on profit or targeted sales volumes.
Difficulty: 2 Medium
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-01 Components of pricing as competitive tools in international marketing.
Bloom's: Understand
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34) A company that views pricing as a static element in a business decision most probably
A) places a high priority on foreign business.
B) sets prices to achieve specific objectives such as targeted return on profit.
C) views export sales as active contributions to sales volume.
D) views domestic sales as an insignificant source of revenue.
E) places a low priority on foreign business.

Answer: E
Explanation: The company that follows pricing as a static element probably exports only excess inventory, places a low priority on foreign business, and views its export sales as passive contributions to sales volume.
Difficulty: 2 Medium
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-01 Components of pricing as competitive tools in international marketing.
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35) Gift Group Inc., an importing organization in New York, buys perfume from a company in France for $13 a unit. Unknown to the French company, Gift Group sells this product in the United States for $19 a unit. This leads to a loss of revenue for the French company as it also sells its perfume in the United States but for a higher price of $22. What concept does this demonstrate??
A) black-listed importing
B) indirect importing
C) circular importing
D) co-mingled importing
E) parallel importing

Answer: E
Explanation: Because of the different prices possible in different country markets, a product sold in one country may be exported to another and undercut the prices charged in that country, known as a parallel market. As Gift Group has bought perfume from the French company and sold it in the United States for a lower price than what the French company sells it for in order to undercut them, it is practicing parallel importing.
Difficulty: 3 Hard
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-02 How to control pricing in parallel import or gray markets.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

36) _____ distribution, a practice often used by companies to maintain high retail margins to encourage retailers to maintain the exclusive-quality image of a product, can create a favorable condition for parallel importing.
A) Exclusive
B) Speculative
C) Intensive
D) Lateral
E) Dual

Answer: A
Explanation: Exclusive distribution, a practice often used by companies to maintain high retail margins to encourage retailers to provide extra service to customers, to stock large assortments, or to maintain the exclusive-quality image of a product, can create a favorable condition for parallel importing.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 18-02 How to control pricing in parallel import or gray markets.
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