

# WGU.Global-Economics-for-Managers.v2026-04-23.q45

<b>Exam Code:</b>	Global-Economics-for-Managers
<b>Exam Name:</b>	WGU Global Economics for Managers (C211, UZC2)
<b>Certification Provider:</b>	WGU
<b>Free Question Number:</b>	45
<b>Version:</b>	v2026-04-23
<b># of views:</b>	108
<b># of Questions views:</b>	450
<a href="https://www.freepdfdumps.com/WGU.Global-Economics-for-Managers.v2026-04-23.q45.html">https://www.freepdfdumps.com/WGU.Global-Economics-for-Managers.v2026-04-23.q45.html</a>	

## NEW QUESTION: 1

Which changes increase demand? (Choose TWO.)

- A. An increase in the price of a substitute
- B. A decrease in the price of a complement
- C. A decrease in consumer income for a normal good
- D. An increase in the price of the good itself

**Answer: (SHOW ANSWER)**

In Global Economics for Managers, demand for a good increases when factors other than its own price change in a favorable direction. Two such changes are an increase in the price of a substitute and a decrease in the price of a complement, making options A and B correct.

When the price of a substitute rises, consumers switch toward the relatively cheaper alternative, increasing demand for the good in question. For example, if the price of coffee increases, demand for tea may rise.

When the price of a complement falls, consumers are more likely to purchase both goods together, increasing demand. For instance, a decrease in the price of printers raises demand for printer ink.

Options C and D reduce demand rather than increase it.

Thus, A and B correctly identify changes that increase demand.

## NEW QUESTION: 2

Which quantity measures the market value of all final goods and services produced within a country in a given period of time?

- A. Gross national income (GNI)
- B. Net domestic product (NDP)
- C. Gross domestic product (GDP)

D. National disposable income

**Answer: C (LEAVE A REPLY)**

In Global Economics for Managers, gross domestic product (GDP) is defined as the market value of all final goods and services produced within a country's borders during a specific period, making option C correct. GDP is the most widely used indicator of a country's economic performance and size.

GDP includes only final goods and services to avoid double counting. Intermediate goods used in production are excluded because their value is already embedded in final goods. GDP also measures production within national borders, regardless of whether the producers are domestic or foreign-owned firms.

Option A, GNI, includes income earned by citizens abroad and excludes income earned domestically by foreign firms. Option B subtracts depreciation from GDP. Option D is not a standard national income measure.

Managers use GDP to evaluate market potential, economic growth, and country risk. Therefore, option C correctly identifies GDP.

### **NEW QUESTION: 3**

What are represented by formal institutions?

- A. Social norms
- B. Cultural beliefs
- C. Laws
- D. Traditions

**Answer: C (LEAVE A REPLY)**

In Global Economics for Managers, formal institutions are represented primarily by laws, making option C correct. Formal institutions include constitutions, statutes, regulations, contracts, and property rights that are officially codified and enforced by governments or legal authorities.

These institutions reduce uncertainty by clearly defining acceptable behavior and outlining consequences for violations. For firms, formal institutions establish the legal framework for business operations, including rules governing entry, competition, taxation, and dispute resolution.

Options A, B, and D describe informal institutions, which are unwritten and enforced through social mechanisms rather than legal authority.

Therefore, option C correctly identifies laws as representations of formal institutions.

### **NEW QUESTION: 4**

In which situation is the contender strategy appropriate for responding to multinational enterprises (MNEs)?

- A. There is high industry pressure to globalize, and competitive assets are transferable abroad.

**B.** There is high industry pressure to globalize, and competitive assets are customized to home markets.

**C.** There is low industry pressure to globalize, and competitive assets are transferable abroad.

**D.** There is low industry pressure to globalize, and competitive assets are customized to home markets.

**Answer: B (LEAVE A REPLY)**

In Global Economics for Managers, the contender strategy is appropriate when industry pressure to globalize is high, but competitive assets are customized to home markets, making option B correct. This strategy is typically adopted by domestic firms facing strong competition from multinational enterprises (MNEs) in industries that are becoming increasingly global.

High pressure to globalize means that firms must compete on an international scale, often due to global customers, standardized products, or strong foreign competitors. However, when a firm's competitive assets—such as brand reputation, customer relationships, distribution networks, or regulatory knowledge—are deeply rooted in the home market, they are not easily transferable abroad. In this situation, the firm cannot immediately expand internationally without losing its competitive advantage.

Under a contender strategy, firms focus on defending and strengthening their domestic position while gradually upgrading capabilities to prepare for future global competition. This may involve improving efficiency, investing in technology, forming selective alliances, or learning from foreign competitors operating in the home market.

Option A describes conditions suitable for an extender strategy, where firms can leverage transferable assets internationally. Options C and D reflect low pressure to globalize and are more consistent with defender or dodger strategies rather than contender behavior. Therefore, option B best captures the conditions under which the contender strategy is applied in response to MNE competition.

### **NEW QUESTION: 5**

What is purchasing power parity (PPP)?

**A.** A theory suggesting that the price for identical products sold in different countries must be the same in the absence of trade barriers

**B.** The gain from taking advantage of inefficient exchange rates

**C.** The movement of investors in the same direction at the same time

**D.** The idea that a country's exchange rate is an indicator of socioeconomic well-being

**Answer: A (LEAVE A REPLY)**

In Global Economics for Managers, purchasing power parity (PPP) is defined as a theory suggesting that the price for identical products sold in different countries must be the same in the absence of trade barriers, making option A correct. PPP is a fundamental concept in international economics used to analyze exchange rates and compare price levels across countries.

The core idea behind PPP is the law of one price, which states that identical goods should sell for the same price when prices are expressed in a common currency, assuming no transportation costs, tariffs, or market frictions. If prices differ, arbitrage opportunities arise, leading market forces to adjust prices or exchange rates until parity is restored.

Option B refers to speculative gains from exchange rate inefficiencies, not PPP. Option C describes herd behavior in financial markets. Option D incorrectly links exchange rates directly to socioeconomic well-being, which is not the theoretical basis of PPP.

Global Economics for Managers distinguishes between absolute PPP, which compares price levels directly, and relative PPP, which focuses on changes in inflation rates and predicts how exchange rates should adjust over time. While PPP may not hold perfectly in the short run due to trade barriers and non-traded goods, it remains a valuable long-run benchmark for evaluating currency misalignment.

For managers, PPP is useful when assessing international cost competitiveness, long-term exchange rate trends, and global pricing strategies. Thus, option A accurately captures the definition and purpose of purchasing power parity.

### **NEW QUESTION: 6**

What are costs to home countries of foreign direct investment (FDI)? (Choose TWO.)

- A. Job loss
- B. Reduced standard of living
- C. Cultural disintegration
- D. Capital outflow
- E. Loss of sovereignty
- F. Loss of intellectual property

**Answer: A,D (LEAVE A REPLY)**

According to Global Economics for Managers, foreign direct investment (FDI) can generate substantial benefits for both home and host countries, but it may also impose certain costs on the home country, particularly in the short to medium term. Two commonly identified costs are job loss and capital outflow, making options A and D correct.

Job loss may occur when firms shift production facilities, service operations, or manufacturing plants from the home country to foreign locations. This relocation is often driven by lower labor costs, proximity to emerging markets, or favorable regulatory environments abroad. While such decisions may increase firm profitability and global competitiveness, they can lead to unemployment or downward wage pressure in specific domestic industries. Global Economics for Managers emphasizes that these adjustment costs are often concentrated in particular regions or sectors, even if the national economy benefits in the long run.

Capital outflow refers to the movement of financial resources from the home country to finance investment abroad. When domestic firms invest overseas, funds that could have been used for domestic investment are instead allocated to foreign operations. In the short

run, this may reduce domestic capital formation and slow economic growth, particularly if domestic investment opportunities remain underfunded.

The remaining options are less consistent with standard managerial economics analysis. Reduced standard of living is not a direct or inevitable consequence of FDI and often depends on broader macroeconomic conditions. Cultural disintegration is a sociological concern rather than an economic cost emphasized in managerial economics. Loss of sovereignty is typically associated with host countries rather than home countries. Loss of intellectual property may occur in certain cases but is not a primary or systematic cost identified for home countries in FDI theory.

Thus, job loss and capital outflow best represent the principal costs to home countries highlighted in *Global Economics for Managers*.

### **NEW QUESTION: 7**

The benefit attributed to firms that enter a market before other firms in the same market segment is best described by which term?

- A. Late-mover advantage
- B. Competitive neutrality
- C. First-mover advantage
- D. Economies of scope

**Answer: (SHOW ANSWER)**

In *Global Economics for Managers*, the benefit enjoyed by firms that enter a market before competitors is known as first-mover advantage, making option C correct. First movers are firms that are pioneers in introducing new products, technologies, or business models into a market.

First-mover advantages can arise from several sources. Early entrants may be able to build brand recognition, secure control over scarce resources, establish customer loyalty, or set industry standards that later entrants must follow. In some cases, first movers can erect significant barriers to entry, making it difficult for competitors to gain market share.

However, *Global Economics for Managers* also notes that first-mover advantages are not guaranteed. Early entrants face higher uncertainty, development costs, and the risk of technological obsolescence. Nevertheless, when successful, first movers can sustain long-term competitive advantages.

Option A refers to late-mover advantage, which arises from reduced uncertainty. Option B is not a standard strategic concept. Option D relates to cost efficiencies across products, not timing of entry.

Thus, option C correctly identifies first-mover advantage.

### **NEW QUESTION: 8**

What is the definition of globalization?

- A. The spread of regulatory influence to a greater pool of subjects
- B. The development of custom products for each segment of a population

- C. The close integration of countries and peoples of the world
- D. The achievement of a one-world market for goods and services

**Answer: C (LEAVE A REPLY)**

In *Global Economics for Managers*, globalization is defined as the close integration of countries and peoples of the world, which makes option C the correct and most comprehensive answer. This definition reflects the central idea that globalization is a broad process through which national economies become increasingly interconnected and interdependent. It emphasizes integration rather than any single outcome such as trade expansion or regulatory change.

Globalization involves the growing cross-border movement of goods and services, capital flows, labor migration, technology transfer, and information exchange. For managers, this integration fundamentally alters business decision making by expanding market opportunities while simultaneously increasing exposure to global competition and risk. Firms must evaluate international sourcing options, global consumer demand, exchange rate movements, and geopolitical conditions when making strategic choices.

Option A is incorrect because globalization is not primarily defined by the expansion of regulatory authority.

While regulatory coordination may arise as economies integrate, it is a secondary effect rather than the core meaning of globalization. Option B refers to product customization and market segmentation, which are managerial marketing strategies and not a defining feature of globalization. Option D is too narrow because globalization is not limited to creating a single global market for goods and services; it also includes international financial integration, labor mobility, and the diffusion of ideas and managerial practices. According to *Global Economics for Managers*, globalization has been driven by trade liberalization, advances in transportation and communication technologies, and declining transaction costs. These forces enable firms to operate global value chains and consumers to access a wider variety of products at lower prices. At the same time, globalization introduces challenges such as increased competitive pressure, economic volatility, and political resistance, all of which managers must account for in decision making. Therefore, defining globalization as the close integration of countries and peoples accurately captures its scope and relevance within the context of business decision making in the global environment.

### **NEW QUESTION: 9**

What does the Federal Reserve do to expand aggregate demand? (Choose TWO.)

- A. Increase the foreign exchange rate
- B. Increase the money supply
- C. Lower the interest rate
- D. Decrease the money supply
- E. Raise mortgage rates
- F. Reduce the quantity of reserves

**Answer: B,C (LEAVE A REPLY)**

In Global Economics for Managers, the Federal Reserve expands aggregate demand by increasing the money supply and lowering interest rates, making options B and C correct. Increasing the money supply provides banks with more reserves, encouraging lending. Lower interest rates stimulate borrowing by households and firms, increasing consumption and investment. Both channels raise aggregate demand.

The remaining options contract demand rather than expand it. Therefore, B and C are correct.

**NEW QUESTION: 10**

Which effect does increased government spending have on aggregate demand if the multiplier effect is greater than the crowding-out effect?

- A. Aggregate demand increases by more than the increase in government spending.
- B. Aggregate demand decreases by more than the increase in government spending.
- C. Aggregate demand increases by less than the increase in government spending.
- D. Aggregate demand decreases by less than the increase in government spending.

**Answer: A (LEAVE A REPLY)**

In Global Economics for Managers, when the multiplier effect exceeds the crowding-out effect, increased government spending causes aggregate demand (AD) to rise by more than the initial increase in spending, making option A correct.

The multiplier effect occurs because government spending generates income, which leads to further consumption. Crowding out occurs when government borrowing raises interest rates and reduces private investment. If the multiplier is stronger, the net effect is an amplified increase in AD.

Thus, option A is correct.

**NEW QUESTION: 11**

Which transaction is included in the consumption component of GDP?

- A. A firm purchases new machinery
- B. A government builds a highway
- C. A person pays for a haircut
- D. A company exports automobiles

**Answer: C (LEAVE A REPLY)**

In Global Economics for Managers, the consumption component of GDP includes household spending on goods and services, making option C correct.

When a person pays for a haircut, it represents a direct purchase of a service by a household. Consumption is the largest component of GDP in most economies and includes spending on nondurable goods, durable goods, and services.

Option A is classified as investment. Option B is government spending. Option D is an export, counted in net exports.

Thus, option C correctly identifies a consumption transaction.

**NEW QUESTION: 12**

A country has experienced a decrease in inflation. What is the effect on the country's currency exchange rate?

- A. It depreciates
- B. It becomes unstable
- C. It increases
- D. It has no effect

**Answer: (SHOW ANSWER)**

In Global Economics for Managers, a decrease in inflation generally leads to an appreciation of a country's currency, making option C correct.

Lower inflation increases the purchasing power of a country's currency relative to others. As domestic prices rise more slowly than foreign prices, exports become more competitive, and demand for the currency increases. Under purchasing power parity, lower inflation is associated with currency appreciation.

Options A, B, and D contradict established exchange rate theory.

Therefore, option C is correct.

**NEW QUESTION: 13**

What is opportunity cost?

- A. The explicit monetary cost of an activity
- B. The lost potential from pursuing one activity at the expense of another, given the alternatives
- C. The total cost of all inputs used in production
- D. The marginal benefit of an additional unit

**Answer: B (LEAVE A REPLY)**

In Global Economics for Managers, opportunity cost is defined as the lost potential from pursuing one activity at the expense of another, given the available alternatives, making option B correct. Opportunity cost reflects the value of the next best alternative that is foregone when a decision is made.

This concept is central to economic decision making because resources—such as time, capital, and labor—are scarce. Choosing one option necessarily means giving up another. Opportunity cost includes both monetary and non-monetary factors and applies to individuals, firms, and governments alike.

For firms, opportunity cost may involve using capital for one investment rather than another. For consumers, it may involve spending money on one good instead of saving it or purchasing a different good. Managers must account for opportunity costs to make efficient and rational decisions.

Option A refers only to explicit costs, which are incomplete. Options C and D describe different cost and benefit concepts.

Thus, option B correctly defines opportunity cost.

**NEW QUESTION: 14**

Which goods have a positive cross-price elasticity?

- A. Complements
- B. Normal goods
- C. Substitutes
- D. Shortage goods

**Answer: (SHOW ANSWER)**

In *Global Economics for Managers*, substitute goods have a positive cross-price elasticity of demand, making option C correct. Cross-price elasticity measures how the quantity demanded of one good responds to a change in the price of another good.

For substitutes, an increase in the price of one good leads consumers to switch to the alternative, increasing demand for the substitute. This positive relationship results in a positive cross-price elasticity. Examples include tea and coffee or butter and margarine. Complements have negative cross-price elasticity, normal goods relate to income elasticity, and "shortage goods" is not an elasticity classification.

Thus, option C is correct.

**NEW QUESTION: 15**

Which statement about consumer surplus is true?

- A. It measures the well-being of sellers
- B. It is a good measure of economic well-being if policymakers want to satisfy buyers' preferences
- C. It represents government revenue
- D. It measures total production efficiency

**Answer: B (LEAVE A REPLY)**

In *Global Economics for Managers*, consumer surplus is a key measure of buyer welfare, making option B correct.

Consumer surplus equals the difference between what consumers are willing to pay and what they actually pay. Policymakers often use it to assess how market outcomes or policies affect consumers.

Options A and C describe producer surplus and tax revenue. Option D refers to total surplus, not consumer surplus alone.

Thus, option B is correct.

**NEW QUESTION: 16**

What are common types of barriers to entry that can cause a monopoly? (Choose TWO.)

- A. Elastic demand curves
- B. Economies of scale in the production process
- C. Government regulations prohibiting foreign investment
- D. Employee unions

E. Government regulations granting exclusive production rights

F. A firm purchasing competitors

**Answer: B,E (LEAVE A REPLY)**

In Global Economics for Managers, monopolies arise when barriers to entry prevent potential competitors from entering a market. Two common barriers are economies of scale and government-granted exclusive rights, making options B and E correct.

Economies of scale occur when average costs decline as output increases. In industries with very high fixed costs, a single large firm can produce at a lower cost than multiple smaller firms. This discourages entry because new firms cannot compete efficiently at small scales, leading to monopoly outcomes.

Government regulations granting exclusive production rights—such as patents, licenses, or exclusive franchises—also create monopolies by legally preventing competition. These barriers are intentional and often justified to encourage innovation or ensure service provision.

Option A does not restrict entry. Option C may limit foreign competition but does not necessarily create a monopoly. Option D does not prevent entry. Option F may increase market concentration but is not a structural entry barrier itself.

Thus, options B and E are correct.

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#### **NEW QUESTION: 17**

Which term best describes a market structure of limited competition in which the market is shared by a small number of sellers?

A. Monopoly

B. Monopolistic competition

C. Oligopoly

D. Perfect competition

**Answer: C (LEAVE A REPLY)**

In Global Economics for Managers, an oligopoly is defined as a market structure characterized by limited competition in which a small number of sellers dominate the market, making option C the correct answer.

These firms collectively control a large share of total market output, and each firm's actions significantly influence the behavior and profitability of the others.

Oligopolistic markets are common in industries with high barriers to entry, such as automobiles, airlines, telecommunications, and energy. Barriers may include economies of scale, high capital requirements, technological advantages, or government regulation.

Because only a few firms operate in the market, strategic decision making becomes critical.

Option A, monopoly, involves a single seller. Option B, monopolistic competition, includes many sellers offering differentiated products. Option D, perfect competition, involves many sellers with no market power.

Global Economics for Managers emphasizes that oligopolies are marked by strategic interaction, where firms must anticipate competitors' reactions when setting prices, output, advertising, or investment levels. This interdependence distinguishes oligopoly from other market structures.

Thus, option C accurately describes a market structure with limited competition and a small number of sellers.

### **NEW QUESTION: 18**

Which situation illustrates the proposition that when formal constraints are unclear or fail, informal constraints play a larger role in reducing uncertainty and providing constancy to firms?

- A.** Choosing a headquarters location based on cost of living, airports, and tax credits
- B.** Firms relocating overseas due to a new domestic tax policy
- C.** Firms entering gray markets due to high taxes
- D.** A firm follows strict environmental practices despite lax local laws

**Answer:** [\(SHOW ANSWER\)](#)

In Global Economics for Managers, one core proposition of the institution-based view is that when formal constraints are weak or unclear, informal constraints become more influential, making option D the correct illustration.

In option D, although local laws allow firms to bypass certain environmental safety standards, company leaders choose not to do so because of deep ethical values and social responsibility norms. These informal constraints—values, moral commitments, and corporate culture—guide behavior in the absence of strong formal enforcement.

Option A reflects rational economic decision making within clear formal rules. Option B illustrates response to formal policy change. Option C involves avoidance of formal rules rather than reliance on informal constraints.

Thus, option D best demonstrates how informal institutions substitute for weak formal institutions in guiding firm behavior.

### **NEW QUESTION: 19**

What does producer surplus measure?

- A. The benefit sellers receive from participating in a market
- B. The difference between the number of available goods and desired goods
- C. The economic well-being of a society
- D. The benefit buyers receive from participating in a market

**Answer: (SHOW ANSWER)**

In Global Economics for Managers, producer surplus measures the benefit that sellers receive from participating in a market, making option A the correct answer. Producer surplus represents the difference between the price sellers receive for a good and the minimum price they are willing to accept to produce that good.

This concept reflects the gains to producers from market transactions. At a given market price, some producers are willing to supply goods at lower costs than others. When the market price exceeds a producer's cost of production, that producer earns a surplus.

Summing this surplus across all producers yields total producer surplus.

Option B refers to a shortage or surplus condition, not producer surplus. Option C describes economic well-being, which is more broadly measured by indicators like GDP or total surplus. Option D defines consumer surplus, which measures benefits to buyers, not sellers.

Global Economics for Managers emphasizes that producer surplus, together with consumer surplus, forms total economic surplus, a key measure of market efficiency. Policies such as taxes, subsidies, and price controls affect producer surplus by changing prices and quantities.

For managers, understanding producer surplus helps analyze how market prices, costs, and policy interventions affect firm profitability and incentives. Therefore, option A correctly defines producer surplus.

### **NEW QUESTION: 20**

Which quantity is calculated using the formula variable costs (VC) + fixed costs (FC)?

- A. Implicit cost (IC)
- B. Explicit cost (EC)
- C. Total cost (TC)
- D. Average variable cost (AVC)

**Answer: C (LEAVE A REPLY)**

In Global Economics for Managers, total cost (TC) is defined as the sum of fixed costs (FC) and variable costs (VC), making option C correct. The formula is:

$$TC = FC + VC$$

Fixed costs do not change with output in the short run, such as rent or license fees, while variable costs change with the level of production, such as labor or raw materials. Total cost captures the full economic cost of producing a given level of output.

Option A, implicit cost, refers to opportunity costs without direct monetary payment. Option B, explicit cost, includes direct monetary expenditures but does not represent the total cost formula. Option D, average variable cost, is calculated as VC divided by quantity produced.

Understanding total cost is essential for profit maximization and production decisions. Therefore, option C is correct.

### **NEW QUESTION: 21**

Point A is on the same indifference curve as Point B. What can be said about the points?

- A.** Point B represents a bundle that costs more than Point A.
- B.** The consumer's preference for bundle A is the same as for bundle B.
- C.** The consumer prefers bundle A over bundle B.
- D.** Point A represents a bundle that costs more than Point B.

**Answer: B (LEAVE A REPLY)**

In *Global Economics for Managers*, an indifference curve represents all combinations of goods that provide the same level of satisfaction (utility) to a consumer. If Point A and Point B lie on the same indifference curve, the consumer is indifferent between the two bundles, making option B correct.

This means the consumer derives equal satisfaction from either bundle and has no preference for one over the other. Movement along an indifference curve reflects trade-offs between goods while maintaining constant utility.

Options A and D relate to cost, which is irrelevant to indifference curves. Option C is incorrect because preference differences occur only when points lie on different indifference curves.

Thus, option B correctly describes the implication of two points on the same indifference curve.

### **NEW QUESTION: 22**

In order to increase the money supply, what does the Federal Reserve do?

- A.** Sells government bonds to the public
- B.** Raises the federal funds rate
- C.** Buys government bonds from the public
- D.** Increases reserve requirements

**Answer: (SHOW ANSWER)**

In *Global Economics for Managers*, the Federal Reserve increases the money supply primarily through open market operations, specifically by buying government bonds from the public, making option C correct.

When the Fed purchases government securities, it pays banks and other sellers by crediting their reserves.

This action increases the amount of reserves in the banking system, enabling banks to extend more loans. As lending expands, the money supply grows through the money multiplier process.

Option A would decrease the money supply. Option B tightens monetary conditions. Option D reduces banks' ability to lend.

Managers should understand this mechanism because changes in the money supply affect interest rates, investment, exchange rates, and aggregate demand. Therefore, option C accurately describes how the Fed increases the money supply.

### **NEW QUESTION: 23**

What is the necessity of making sensible decisions in the absence of complete information called?

- A. Perfect rationality
- B. Bounded rationality
- C. Moral hazard
- D. Adverse selection

**Answer: B (LEAVE A REPLY)**

In *Global Economics for Managers*, bounded rationality describes the necessity of making sensible decisions without complete information, making option B correct. Because information is costly, limited, or imperfect, individuals and firms cannot always make fully optimal decisions.

Bounded rationality recognizes cognitive limitations and time constraints. Managers often rely on rules of thumb, experience, and simplified models rather than exhaustive analysis. This approach leads to satisfactory decisions rather than perfectly optimal ones.

Option A assumes complete information, which is unrealistic. Options C and D describe information asymmetry problems, not decision-making constraints.

Thus, option B correctly defines bounded rationality.

### **NEW QUESTION: 24**

Which system has elements of a market economy and a command economy?

- A. Fair economy
- B. Market-command economy
- C. Mixed economy
- D. Compromise economy

**Answer: C (LEAVE A REPLY)**

In *Global Economics for Managers*, a mixed economy is defined as an economic system that combines elements of both a market economy and a command economy, making option C the correct answer. In a mixed economy, resource allocation is determined partly by market forces—such as supply, demand, and prices—and partly by government intervention through regulation, taxation, public spending, and state ownership in selected sectors.

Most modern economies are mixed economies. While private firms and consumers make many economic decisions independently, governments play an active role in correcting market failures, providing public goods, redistributing income, and stabilizing the economy. Examples include regulations on labor and environmental standards, public education and healthcare systems, and social welfare programs.

Option A, fair economy, and option D, compromise economy, are not standard economic classifications.

Option B, market-command economy, is not a formally recognized system in managerial economics.

Global Economics for Managers emphasizes that understanding mixed economies is critical for managers because government policies directly affect costs, pricing, competition, and strategic decisions. Thus, option C correctly identifies the system that blends market and command features.

### **NEW QUESTION: 25**

The marginal cost of producing a computer is \$600, but the marginal revenue is \$1,000. What is the best action for the respective firm?

- A. Decrease production
- B. Exit the market
- C. Increase production
- D. Pause production

**Answer: (SHOW ANSWER)**

According to Global Economics for Managers, firms should increase production when marginal revenue (MR) exceeds marginal cost (MC), making option C correct.

In this case,  $MR = \$1,000$  and  $MC = \$600$ . Producing one additional unit generates more revenue than cost, increasing profit by \$400. Rational, profit-maximizing firms should continue expanding output as long as  $MR > MC$ .

This decision rule applies across market structures, including monopoly, oligopoly, and perfect competition.

The firm should stop increasing production only when MR equals MC.

Options A, B, and D would cause the firm to forgo profitable opportunities.

Thus, option C is the correct managerial response.

### **NEW QUESTION: 26**

Which entrant is able to erect significant barriers for other entrants?

- A. Late mover
- B. First mover
- C. Contender
- D. Dodger

**Answer: B (LEAVE A REPLY)**

In Global Economics for Managers, a first mover is a firm that enters a market early and is often able to erect significant barriers to entry, making option B correct.

First movers can secure scarce resources, establish strong brand recognition, achieve economies of scale, and set technological or industry standards. These advantages make it difficult for later entrants to compete effectively.

Late movers benefit from reduced uncertainty but rarely control key assets. Contenders and dodgers are strategic responses to multinational enterprises, not timing-based entry categories.

Therefore, option B correctly identifies the entrant most capable of erecting significant entry barriers.

### **NEW QUESTION: 27**

What is one of the elements of the Porter Diamond in the theory of national competitive advantage of industries?

- A.** Firm opportunity costs
- B.** Foreign supply markets
- C.** Domestic demand conditions
- D.** Trade deficits

**Answer: C (LEAVE A REPLY)**

In *Global Economics for Managers*, one of the four core elements of Porter's Diamond Model of National Competitive Advantage is domestic demand conditions, making option C the correct answer. Michael Porter's framework explains why certain industries within particular countries achieve international competitiveness, emphasizing the role of the national environment in shaping firm performance.

Domestic demand conditions refer to the nature, size, and sophistication of demand in the home market.

When domestic consumers are demanding, quality-conscious, and forward-looking, firms are pressured to innovate, improve product quality, and adopt advanced production methods. These pressures help firms develop capabilities that later become advantages in international markets. For example, firms accustomed to serving sophisticated domestic buyers are better prepared to compete globally.

Option A is incorrect because firm opportunity costs are a general microeconomic concept and are not part of the Porter Diamond. Option B is incorrect because the model emphasizes domestic factor conditions, not foreign supply markets. Option D, trade deficits, is a macroeconomic outcome and does not explain the structural sources of competitive advantage within industries.

*Global Economics for Managers* highlights that Porter's Diamond consists of four interrelated determinants:

factor conditions, domestic demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. Among these, domestic demand conditions are particularly important because they influence the direction and pace of innovation. Strong home demand encourages firms to anticipate global trends rather than merely react to them. For managers, understanding domestic demand conditions helps explain why firms from certain countries dominate specific global industries. Therefore, option C accurately identifies a key element of the Porter Diamond theory.

**NEW QUESTION: 28**

What are examples of regulatory pillars? (Choose TWO.)

- A. Stealing office supplies because most colleagues are doing the same thing
- B. Reporting a crime because it is against the law to withhold information
- C. Investing in foreign currencies because others view it as safe
- D. Paying parking tickets out of fear of a suspended driver's license
- E. Coasting through stop signs because it is common
- F. Refusing military service because of pacifist beliefs

**Answer: B,D (LEAVE A REPLY)**

In Global Economics for Managers, regulatory pillars are part of the institutional framework and refer to formal rules, laws, and enforcement mechanisms that guide behavior through coercion and legal sanctions.

Examples include laws backed by penalties for noncompliance, making options B and D correct.

Option B-reporting a crime because it is illegal to withhold information-clearly reflects compliance driven by legal obligation and enforcement. Option D-paying parking tickets out of fear of license suspension- also demonstrates behavior shaped by formal sanctions imposed by authorities.

The remaining options reflect normative or cognitive pillars, not regulatory ones. Options A and E describe behavior influenced by social norms rather than laws. Option C reflects herd behavior and shared beliefs, a cognitive pillar. Option F reflects deeply held moral values, characteristic of normative institutions.

Global Economics for Managers emphasizes that regulatory pillars are especially important for managers because they define the legal boundaries of business activity and impose explicit costs for violations. Thus, options B and D accurately represent regulatory pillars.

**NEW QUESTION: 29**

What happens when the Federal Reserve increases the money supply?

- A. The aggregate demand curve shifts to the left
- B. The aggregate supply curve shifts to the left
- C. The aggregate demand curve shifts to the right
- D. The aggregate supply curve shifts to the right

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 30**

Which company has a natural resource-seeking strategic goal?

- A. A company searching for a location where labor costs are low
- B. A company searching for a location with a large consumer market
- C. A company searching for a location where there is an abundance of oil
- D. A company searching for a location with advanced technology clusters

**Answer: C (LEAVE A REPLY)**

In Global Economics for Managers, a natural resource-seeking strategy refers to firms that engage in foreign direct investment to access specific natural resources that are unavailable or costly in their home country.

Option C correctly reflects this motive.

Companies in industries such as oil, gas, mining, agriculture, and timber often locate operations where resources are naturally abundant. The primary objective is to secure reliable and cost-effective access to essential inputs for production.

Option A describes a cost-seeking strategy, option B a market-seeking strategy, and option D a strategic asset-seeking strategy.

Thus, option C correctly identifies a natural resource-seeking strategic goal.

### NEW QUESTION: 31

Which statement about the GDP deflator is true?

- A. Its percentage change from one year to the next is the inflation rate.
- B. It is a more reliable indicator of economic well-being than real GDP.
- C. It includes fewer core economic measurements than GDP.
- D. It follows a nearly strict decreasing pattern from a base year.

**Answer: (SHOW ANSWER)**

In Global Economics for Managers, the GDP deflator is a price index used to measure inflation, making option A correct. The percentage change in the GDP deflator from one year to the next reflects the overall inflation rate of domestically produced goods and services.

The GDP deflator is calculated as:

$$\text{GDP Deflator} = (\text{Nominal GDP} / \text{Real GDP}) \times 100$$

Because it includes all goods and services produced domestically, it provides a broad measure of price changes across the economy. Unlike the CPI, it is not based on a fixed basket of goods.

Option B is incorrect because real GDP, not the GDP deflator, is used to assess economic well-being. Option C is incorrect because the GDP deflator is derived from the same GDP components. Option D is incorrect because the deflator generally increases over time due to inflation.

Thus, option A is correct.

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**NEW QUESTION: 32**

What is one of the three primary types of foreign exchange transactions?

- A. Hedges
- B. Forward transactions
- C. Balanced transactions
- D. Straddles

**Answer: B (LEAVE A REPLY)**

According to Global Economics for Managers, forward transactions are one of the three primary types of foreign exchange transactions, making option B the correct answer. The three main types are spot transactions, forward transactions, and swap transactions, which form the foundation of foreign exchange market activity.

A forward transaction is a contract in which two parties agree to exchange a specified amount of currency at a predetermined exchange rate on a future date. These contracts are widely used by firms to hedge against exchange rate risk, allowing managers to lock in costs or revenues and reduce uncertainty in international transactions.

Option A, hedges, describes the purpose of some foreign exchange transactions rather than a transaction type itself. Option C, balanced transactions, is not a recognized category in foreign exchange markets. Option D, straddles, refers to an options-based financial strategy, not a primary foreign exchange transaction.

Global Economics for Managers stresses that understanding forward transactions is essential for international business decision making. Exchange rate volatility can significantly affect profitability, and forward contracts provide firms with a practical tool to manage this risk.

For managers engaged in global trade and investment, forward transactions support planning, budgeting, and pricing decisions by reducing exposure to unpredictable currency movements. Therefore, option B accurately identifies one of the primary foreign exchange transaction types.

**NEW QUESTION: 33**

What is a characteristic of a market economy?

- A. Central planning determines production decisions.
- B. Factors of production are privately owned.
- C. Prices are fixed by the government.
- D. Resources are allocated through quotas.

**Answer: B (LEAVE A REPLY)**

In Global Economics for Managers, a market economy is characterized by private ownership of the factors of production, making option B correct. Individuals and firms own land, labor,

capital, and entrepreneurship, and decisions are guided by market prices rather than central planning.

Private ownership creates incentives for efficiency, innovation, and investment. Prices emerge from supply and demand, coordinating economic activity through what Adam Smith described as the "invisible hand." Options A, C, and D describe command economies, not market economies.

Thus, option B correctly identifies a defining feature of a market economy.

### **NEW QUESTION: 34**

One view of globalization claims that human civilization has always had some type of globalization.

Which view is it?

- A. The modern institutional view
- B. The short-run economic view
- C. The long-run historical view
- D. The technological convergence view

**Answer: (SHOW ANSWER)**

In *Global Economics for Managers*, the long-run historical view of globalization argues that globalization is not a recent phenomenon, but rather a process that has existed throughout human history. This view emphasizes that trade, migration, cultural exchange, and cross-border interactions have occurred for thousands of years, long before modern multinational enterprises or digital technologies emerged.

Under this perspective, early examples of globalization include ancient trade routes such as the Silk Road, maritime trade across the Mediterranean, and colonial-era exchanges of goods, capital, and labor. Although the scale, speed, and complexity of globalization have increased dramatically in recent decades, the underlying idea of cross-border integration is seen as historically continuous.

This view contrasts with more recent interpretations that define globalization as a post-World War II or late

20th-century phenomenon driven by multinational corporations, trade liberalization, and digital communication. The long-run historical view does not deny the importance of these modern forces but argues that they represent an intensification, not the origin, of globalization.

For managers, this perspective is important because it frames globalization as a persistent structural force rather than a temporary trend. Firms operating globally must recognize that international economic integration has deep roots and is likely to continue evolving rather than reversing permanently.

Therefore, option C correctly identifies the long-run historical view as the perspective that sees globalization as an enduring feature of human civilization.

### **NEW QUESTION: 35**

Which pillar of formal institutions represents the coercive power of governments?

- A. Normative
- B. Cognitive
- C. Regulatory
- D. Cultural

**Answer: C (LEAVE A REPLY)**

In *Global Economics for Managers*, the regulatory pillar of formal institutions represents the coercive power of governments, making option C correct. Regulatory institutions consist of laws, rules, regulations, and enforcement mechanisms that shape economic behavior through rewards and punishments.

The regulatory pillar relies on the authority of the state to enforce compliance.

Governments impose sanctions such as fines, imprisonment, or license revocation to ensure adherence to laws. For firms, this pillar defines what is legally permissible in areas such as labor practices, taxation, environmental standards, and competition policy.

The other institutional pillars—normative and cognitive—do not rely on coercion. Normative institutions are based on social norms and values, while cognitive institutions reflect shared beliefs and taken-for-granted assumptions.

Understanding the regulatory pillar is essential for managers because violations can result in severe legal and financial consequences. Thus, option C correctly identifies the pillar associated with government coercive power.

### **NEW QUESTION: 36**

Managers and firms rationally pursue their interests and make choices within institutional constraints.

Which situation illustrates this proposition of the institution-based view of global business?

- A. A firm increases advertising to boost brand awareness.
- B. A firm lowers prices to gain market share.
- C. A multinational relocates production after a minimum wage increase.
- D. A firm introduces a new product due to consumer trends.

**Answer: C (LEAVE A REPLY)**

In *Global Economics for Managers*, a core proposition of the institution-based view is that firms make rational decisions within institutional constraints, making option C correct.

When a country raises its minimum wage, labor costs increase due to a formal institutional change. A multinational firm responding by relocating production to a lower-cost country demonstrates rational behavior shaped by institutional rules.

Options A, B, and D reflect competitive strategy but do not directly involve institutional constraints.

Therefore, option C correctly illustrates the institution-based view.

### **NEW QUESTION: 37**

When there is an expectation of lower income in the future, what is the effect on the demand curve for a normal good?

- A. The demand curve shifts left.
- B. The demand curve shifts right.
- C. The demand curve shifts up.
- D. The demand curve shifts down.

**Answer: A (LEAVE A REPLY)**

In *Global Economics for Managers*, demand for a normal good increases with income and decreases when income falls. If consumers expect lower future income, demand for normal goods decreases, causing the demand curve to shift left, making option A correct.

A leftward shift indicates that at every price, consumers are willing and able to purchase less of the good.

Expectations about future income influence present consumption decisions, especially for durable and discretionary goods.

Options C and D incorrectly describe movement along a demand curve rather than a shift.

Option B would apply if income were expected to rise.

Therefore, option A is correct.

### **NEW QUESTION: 38**

Who are the primary and largest participants in the foreign exchange market?

- A. Multinational manufacturing firms
- B. Central banks
- C. Large international banks
- D. Individual currency traders

**Answer: (SHOW ANSWER)**

In *Global Economics for Managers*, large international banks are identified as the primary and largest participants in the foreign exchange (FX) market, making option C correct. These banks serve as market makers, facilitating currency transactions for governments, corporations, institutional investors, and other financial entities.

International banks dominate FX trading because they possess extensive global networks, large capital reserves, and advanced information systems. They quote buy and sell prices for currencies, provide liquidity, and execute transactions on behalf of clients. Much of the FX market operates through interbank trading, where major banks trade currencies among themselves.

While central banks (option B) are influential participants-particularly through monetary policy and intervention-they do not account for the majority of daily trading volume.

Multinational firms and individual traders participate primarily for hedging or speculative purposes, but their transaction volumes are much smaller.

Understanding the role of international banks helps managers assess exchange rate movements, liquidity conditions, and transaction costs in global markets. Therefore, option C correctly identifies the largest participants in the foreign exchange market.

**NEW QUESTION: 39**

When demand decreases and supply stays the same, what happens to the equilibrium point of price and quantity? (Choose TWO.)

- A. Quantity increases
- B. Quantity decreases
- C. Price increases
- D. Price decreases

**Answer: (SHOW ANSWER)**

In Global Economics for Managers, a decrease in demand with supply unchanged leads to a lower equilibrium price and a lower equilibrium quantity, making options B and D correct. A leftward shift of the demand curve creates excess supply at the original price. To eliminate the surplus, prices fall, and quantity exchanged decreases until a new equilibrium is reached.

Options A and C contradict standard supply-demand analysis.

Thus, B and D are correct.

**NEW QUESTION: 40**

When confronting MNEs, the extender strategy centers on what?

- A. Leveraging homegrown competencies abroad
- B. Cooperating through joint ventures (JVs) with MNEs and sell-offs to MNEs
- C. Leveraging local assets in areas in which MNEs are weak
- D. Engaging in rapid learning and then expanding overseas

**Answer: A (LEAVE A REPLY)**

In Global Economics for Managers, the extender strategy centers on leveraging homegrown competencies abroad, making option A the correct answer. This strategy is typically adopted by firms whose competitive assets are strong and transferable across borders and that operate in industries with significant pressure to globalize.

Homegrown competencies may include proprietary technology, strong brands, efficient production processes, or superior managerial know-how developed in the domestic market. Under an extender strategy, firms take these existing strengths and apply them to foreign markets, often through exporting, licensing, franchising, or foreign direct investment. The goal is to extend the firm's competitive advantage beyond national borders without fundamentally altering its core business model.

Option B describes a dodger or collaborator strategy, which emphasizes cooperation rather than independent expansion. Option C aligns more closely with a defender strategy, where firms rely on local advantages to resist foreign competition. Option D reflects elements of a contender strategy, where firms prioritize learning before expanding internationally. The extender strategy is particularly effective when firms face global competitors but already possess assets that can be scaled internationally at relatively low cost. For

managers, understanding this strategy is critical for deciding when and how to internationalize operations in response to MNE competition. Thus, option A accurately reflects the central focus of the extender strategy as defined in *Global Economics for Managers*.

#### **NEW QUESTION: 41**

If the demand for a good is elastic, what is true?

- A. The quantity demanded responds substantially to changes in the price.
- B. Total revenue increases with a change in price in either direction.
- C. Price and total revenue move in the same direction.
- D. The quantity demanded responds only slightly to changes in the price.

**Answer: A (LEAVE A REPLY)**

In *Global Economics for Managers*, demand is said to be elastic when the quantity demanded responds substantially to changes in price, making option A correct. Elastic demand occurs when consumers are highly sensitive to price changes, often because close substitutes are available or the good represents a significant portion of income.

When demand is elastic, a small percentage change in price leads to a larger percentage change in quantity demanded. This relationship has important implications for pricing and revenue decisions. In such cases, price and total revenue move in opposite directions—a price decrease increases total revenue, while a price increase reduces total revenue. Option B is incorrect because total revenue does not increase with price changes in both directions. Option C is false because price and total revenue move in opposite directions under elastic demand. Option D describes inelastic demand, where quantity responds only slightly to price changes.

Managers must understand elasticity when setting prices, forecasting revenue, and designing marketing strategies. Therefore, option A accurately defines elastic demand.

#### **NEW QUESTION: 42**

What is a key feature of an oligopoly?

- A. Firms are price takers.
- B. The market represents a prisoner's dilemma.
- C. Entry is free in the long run.
- D. Products are always homogeneous.

**Answer: B (LEAVE A REPLY)**

In *Global Economics for Managers*, oligopolies are often modeled as a prisoner's dilemma, making option B correct.

Firms face incentives to cooperate for mutual gain but also incentives to cheat to maximize individual profit.

This tension explains price rigidity, collusion instability, and strategic behavior.

Other options describe competitive markets or are not universally true.

Thus, option B is correct.

**NEW QUESTION: 43**

In which situation is the dodger strategy appropriate for responding to multinational enterprises (MNEs)?

- A.** There is low industry pressure to globalize, and competitive assets are transferable abroad.
- B.** There is high industry pressure to globalize, and competitive assets are transferable abroad.
- C.** There is high industry pressure to globalize, and competitive assets are customized to home markets.
- D.** There is low industry pressure to globalize, and competitive assets are customized to home markets.

**Answer: D (LEAVE A REPLY)**

In *Global Economics for Managers*, the dodger strategy is appropriate when industry pressure to globalize is low and a firm's competitive assets are customized to its home market, making option D correct.

Under this strategy, firms avoid direct confrontation with multinational enterprises by focusing on niche markets, specialized products, or protected domestic segments. Since globalization pressure is weak, firms are not forced to expand internationally, and their localized assets give them an advantage at home.

Dodgers may also cooperate selectively with MNEs or operate in areas where global competition is limited.

This strategy minimizes risk and preserves firm-specific advantages without costly global expansion.

Options A and B align with extender strategies. Option C aligns with contender strategies. Thus, option D correctly identifies when the dodger strategy is appropriate.

**NEW QUESTION: 44**

What are common types of barriers to entry that can cause a monopoly? (Choose TWO.)

- A.** A single firm owning a key resource
- B.** Economies of scale in the production process
- C.** Perfect information
- D.** Elastic demand
- E.** Free entry and exit

**Answer: A,B (LEAVE A REPLY)**

In *Global Economics for Managers*, monopolies arise when barriers to entry prevent competitors from entering a market. Two common barriers are control of a key resource and economies of scale, making options A and B correct.

When a single firm owns a unique or scarce resource, competitors cannot produce the good without access to that resource. Economies of scale create monopolies when one firm can produce at a lower average cost than multiple firms due to high fixed costs.

Options C, D, and E promote competition rather than monopoly.  
Thus, options A and B correctly identify monopoly-creating barriers to entry.

**NEW QUESTION: 45**

When supply increases and demand stays the same, what happens to the equilibrium point of price and quantity?

- A. Quantity increases
- B. Price increases
- C. Price remains the same
- D. Quantity decreases

**Answer: A (LEAVE A REPLY)**

In Global Economics for Managers, an increase in supply with demand held constant leads to a new equilibrium characterized by a lower price and a higher quantity, making option A- quantity increases- the correct answer. This outcome follows directly from standard supply-and-demand analysis.

When supply increases, the supply curve shifts to the right. At the original equilibrium price, producers are now willing and able to supply more than consumers wish to buy, creating excess supply. To eliminate this surplus, sellers reduce prices. As prices fall, quantity demanded increases until a new equilibrium is reached where quantity supplied equals quantity demanded.

Although price also changes (it falls), the question asks what happens to the equilibrium point of price and quantity, and among the given options, only quantity increases is correct. Price does not remain the same, nor does it increase, and quantity certainly does not decrease.

This concept is critical for managers analyzing productivity improvements, technological progress, or reductions in input costs. Supply increases are often driven by innovation, economies of scale, or favorable regulatory changes, all of which allow firms to produce more at every price.

Thus, option A correctly describes the equilibrium outcome when supply increases and demand remains unchanged.

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