

Junior Financial Services
Macro Test III: The Global Economy
TAKE HOME TEST (Due January 12, 2015)

Name: _____

____ / 250

Matching: Culture (3 Points Each)

_____	Acculturation	1. Body language, hand gestures, and facial expressions.
_____	Aesthetics	2. Adjusting and adapting to a culture other than one's own.
_____	Ethnocentrism	3. The study of the rules in a culture about touching and how close people stand next to each other when speaking.
_____	Non-Verbal Language	4. What is considered to be of good taste or visually appealing in a culture.
_____	Proxemics	5. Tendency to consider one's own culture as superior to others.

Matching: Alphabet Soup (3 Points Each)

_____	IMF	1. The global institution responsible for helping countries deal with high inflation, devalued currencies, or foreign exchange issues.
_____	NAFTA	2. The global institution responsible for providing assistance to countries with trade negotiations or trade disputes.
_____	UN	3. A trade bloc including Canada, Mexico, and the United States.
_____	World Bank	4. The global institution responsible for helping developing countries gain access to loans and financial assistance to help fight poverty.
_____	WTO	5. The global institution responsible for dealing with humanitarian issues, such as natural disasters, epidemics, and health issues.

Matching: International Trade (3 Points Each)

_____	Foreign Exchange Rates	1. This is formed when a group of countries decide to come together to trade freely with each other (like in the Global Tactics Game).
_____	Purchasing Power Parity	2. These are essentially the "prices" of foreign currencies; they can be shown as direct rates, indirect rates, cross rates, or forward rates.
_____	Supply and Demand	3. A term that means something can be found everywhere.
_____	Trade Bloc	4. The underlying economic concept that determines the value of a country's currency (and just about anything else).
_____	Ubiquitous	5. Concept that says the price of a given product, like a Big Mac, should be the same in each country ... so you can figure out how much a currency is worth by comparing how much a product costs around the world.

Matching: Globalization (3 Points Each)

_____	Colonial Era	1. This is the time period in which globalization was driven by countries seeking markets to acquire raw materials.
_____	Diffusion Catalysts	2. The term that describes the movement of goods, services, ideas, technology, and capital around the globe.
_____	Exploration Era	3. This characteristic can have a significant impact of how a country trades with others, as we saw in the Global Trading Patterns Game.
_____	Geography	4. The earliest time period in the history of globalization; characterized by people traveling the world in search of new goods and markets.
_____	Globalization	5. Anything that helps to spread goods, services, ideas, technology, or capital around the world, such as the internet.

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Multiple Choice: Exchange Rates (3 Points Each)

- _____ 1. Which of the following is a direct quotation?
 a. £ 0.0056 / ¥
 b. ¥ 117.4050 / Sfrancs
 c. \$ 1.5147 / £
 d. All of these are direct quotations.

Use the cross currency table below to answer questions 2-5.

Key Currency Cross Rates		Dollar \$	Yen ¥	Euro €	CndDlr	Pound £	Peso	SFranc
1	U.S. (Dollar)	= 1	118.5430	0.8408	1.1831	0.6602	14.8810	1.0097
1	Japan (Yen)	= 0.0084	1	0.0071	0.0100	0.0056	0.1256	0.0085
1	EuropeanUnion (Euro)	= 1.1894	140.9850	1	1.4070	0.7847	17.6991	1.2011
1	Canada (CndDlr)	= 0.8452	100.1580	0.7107	1	0.5578	12.5786	0.8538
1	U.K. (Pound)	= 1.5147	179.5850	1.2743	1.7928	1	22.5734	1.5305
1	Mexico (Peso)	= 0.0672	7.9633	0.0565	0.0795	0.0443	1	0.0678
1	Switzerland (SFranc)	= 0.9904	117.4050	0.8326	1.1713	0.6534	14.7412	1

FROM
TO

- _____ 2. Let's say you are returning from a trip to Europe and have 100 euros left over, how many dollars could you exchange them for?
 a. \$840.80
 b. \$84.08
 c. \$1189.40
 d. \$118.94
- _____ 3. If you had 1000 Japanese yen and wanted to convert them to Mexican pesos, how many pesos would you get?
 a. 12.56 pesos
 b. 125.60 pesos
 c. 7963.30 pesos
 d. 796.33 pesos
- _____ 4. The correct way to write the quotation to convert from U.K. pounds to Canadian dollars is
 a. 1.7928 CndDlr / £
 b. 1.7928 £ / CndDlr
 c. 0.5578 CndDlr / £
 d. 0.5578 £ / CndDlr
- _____ 5. The quotation £ 0.0056 / ¥ is considered to be a(n)
 a. direct quotation
 b. indirect quotation
 c. cross rate quotation
 d. PPP quotation
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Short Answers (30 Points Each)

CHOOSE 4 OF THE 8 QUESTIONS TO ANSWER

You may WRITE or TYPE your answers ON SEPARATE SHEETS OF PAPER. Responses must be IN YOUR OWN WORDS and must be at least 75 words in length each. Staple pages to the back of this sheet.

Choose 4 of the 8 questions to answer. Please read each of the questions completely and answer them thoroughly.

1. Globalization can be a powerful force that impacts people, companies, and countries. Discuss some of the ways that globalization has an influence on the world and on you. What are the positive and negative aspects of globalization.
2. What is meant by diffusion in international business and what are some of the catalysts for diffusion that we see in the world today?
3. The world today consists of 192 countries, 7 billion people and thousands of ethnic groups spread across 7 continents. How does the tremendous diversity of the world marketplace impact international business decisions? How is diversity a positive for business and what are the ways that it presents challenges?
4. Discuss the history of globalization. When did it begin? How has it changed over time? Who have been the agents responsible for bringing about globalization over time? How is globalization different today than it was in earlier periods?
5. What does culture mean to you? Describe some of the key elements of culture and give examples of how these elements might vary between countries or regions. How does culture affect international business?
6. Discuss some of the ways that the media (television, newspapers, movies) and the internet have influenced culture around the world. How important have the media and internet been in the spread of ideas across cultures? Provide examples.
7. What is a trading bloc? Why might countries want to form trading blocs? How does this benefit the businesses and the people in those countries? What are some of the challenges that trading blocs pose for countries? Provide some examples that you experienced firsthand in the Global Tactics Game.
8. What world events created the need for the UN, WTO, World Bank, and IMF? Briefly explain each organization and the role each one plays in the world today. Why do some groups, like the anti-globalization movement, protest these organizations?

Extra Credit (+25XC)

Answer additional short answer questions from the list above for extra credit; must meet the same criteria as all the other responses. Make sure you indicate which answer is your extra credit.

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Case Study (75 Points)

Read the attached case study and then respond to the question below. You may WRITE or TYPE your answer on SEPARATE SHEETS of paper. Staple all pages to the back of the test. Your response should be in thoughtful, complete, and in your own words (about 150 words).

1. Discuss how Yum Brands has chosen to expand internationally. Specifically, how have they marketed their *existing* U.S. brands (KFC, Pizza Hut, and Taco Bell) in other countries? Why did they introduce a *new* brand (East Dawning) in China? What problems did they have in Mexico and why did they have to use the slogan “Es otra cosa” to market there? How does Yum Brands illustrate BOTH strategies that we discussed: doing business the same everywhere and adapting strategies for each region.

Provide specific examples from the case study to back up your answers. Make sure to use quotes when pulling phrases from the case. DO NOT copy your answers from elsewhere on the test.

CASE STUDY: KENTUCKY FRIED RICE

With its Chinese lettering and unremarkable name, the fast-food outlet in a Shanghai shopping mall looks like many others selling local fare. East Dawning is crowded with customers on this winter evening, and they’re sampling a menu that includes pork fried rice, marinated egg and plum juice. Stanley Yao, a restaurateur from Hong Kong who is opening a sushi joint nearby, dines here once a month. The food is “a little too oily,” he says, but he likes the soy-milk drinks, and “the prices, of course, are very reasonable.” (A meal of noodles, tea and custard dessert costs \$4.) With eight storefronts around Shanghai, East Dawning could soon give China’s biggest fast feeder, KFC, a run for its money. Good thing for them they’re playing on the same team.



domestic sales growth a skinny 2% annually, companies like Yum must go global to give Wall Street what it craves. A decade ago, stores overseas brought in less than 20% of profits; today it’s 50%.

The story of Yum Brands shows that in the global economy, it’s not so much what you sell but how you sell it. Ten years ago, Colonel Sanders was losing the global fast-food war to the Golden Arches. PepsiCo had spread its restaurant division too thin, planting capital-consuming, company-owned-and-operated stores in 32 countries instead of franchising them as it does in the U.S. But PepsiCo did set up valuable infrastructure, including supplier relationships and local management teams. “PepsiCo laid down the tracks but hadn’t yet taken advantage of the opportunity,” says Novak. In swift order, the newly independent Yum pulled its company-run operations out of all but eight countries. Later it focused expansion on three emerging economies (China, India and Russia) and three developed ones (France, Germany and the Netherlands). Over the past seven years, it has been opening stores outside the U.S., not including China, at a pace of more than 700 annually.

Starbucks has the gall to sling its lattes for coffee connoisseurs in Vienna, and Budweiser peddles its brew in Belgium. So why shouldn’t Yum Brands—the Louisville, Ky.-based company that owns KFC, Pizza Hut, Taco Bell and more—sell dumplings in a fast-growing market where Chinese food is just called food? Heck, while they’re at it, why not sell tacos in Mexico? Yum is doing both, with the test-marketing of East Dawning in Shanghai and the opening of a Taco Bell in Monterrey last fall. Yum’s iconoclastic CEO, David Novak, likens it to how Ray Kroc of McDonald’s brought hamburgers to America. “I asked, What’s the hamburger in China?” he says. “Obviously, it’s Chinese food.” Except Kroc was an American selling American food to Americans. Is this brilliant, or is Novak half-Kroc-ed?

Certainly Yum knows how to cross borders. Since it was spun off from PepsiCo in 1997, the company has radically transformed its overseas business. With Americans stuffed on fast-food options and

KFC and Pizza Hut restaurants now number more than 12,000 in 110 countries outside China, says Graham Allan, president of Yum Restaurants International. Of those stores, 85% are owned and run by franchisees. International profits drove the stock price up 82% over 10 years. Yum’s largest markets overseas include Australia and the U.K. Pizza Hut ranks as the most trusted food-service brand in India, and Russia will soon greet the Colonel through a partnership with top chicken chain Rostik’s.

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As millions of Chinese find their wealth swelling and their time shrinking, sit-down meals involving several generations no longer fit the needs of a hurried and harried middle class. “The lifestyle is changing,” says Su. “People are getting more urbanized and busy, with less time to cook at home.” KFC’s grab-and-go menu items were a novel solution, while Pizza Hut launched the concept of eating out at a casual restaurant with the whole family. KFC opened its first drive-through in 2002 just as China was becoming a car-owning culture. In 2001 Pizza Hut Home Service began introducing the idea of hot meals delivered to the door (which might seem ironic to Americans, for whom Chinese is the ultimate delivery meal).

Pizza and fried chicken are tasty treats, but they’re not staples in China like, say, noodles and dumplings—and that’s where Yum thinks it can really score. And if a Yank selling egg rolls to the Chinese seems a bit quixotic, then Novak, 55, is the right man for the job. The CEO of Yum since 2000, he’s a plain-talking, cheerleading executive who boasts of never having attended business school. He’s given to goofy team-building tactics like passing out rubber chickens to KFC managers whose stores are performing well. This time, Novak’s idea might be the right one at the right time.

The menus at East Dawning restaurants don’t offer overtly American fare but still attract Chinese consumers because of the quality and service associated with an American brand. The formula developed by Yum’s other banners overseas—cheap food delivered in cheerful surroundings—has provided a welcome mat for the company. “Those places are good quality,” a diner says. “You know what you’re going to get. They are a very professional company that must know what it’s doing, and I think the quality here shows that.”

Yum’s next “glocalization” trick: exporting Taco Bell, its top brand in the U.S., to Mexico. In late October, a Taco Bell headed for the border and to a Mexican suburb, its grand opening attended by government officials and hordes of press. Diners flocked to the restaurant, located in a busy shopping plaza in Monterrey, though many seemed bemused by the offerings. Claudia and Ignacio Sosa dropped in with their toddler Fatima after a trip to the supermarket. “This is not tacos or burritos or quesadillas, even though they’re called that,” says Claudia. “We have

never had a taco with rice and fried potatoes. But Fatima loves the fries.”

Yum executives are confident that Mexicans are ready for Mexicanish food. Up to 10 more Taco Bells are in the works there through 2008, with plans to reach 300 eventually. To be accurate, Yum first tested the market in 1992 but withdrew two years later. This time Taco Bell doesn’t pretend to be Mexican. “We’re Mexican-inspired,” says Yum’s Allan, “and Mexicans should feel proud of that.” Its



advertising slogan is “Es otra cosa,” or “It’s something else”—a pointed acknowledgment that what Yanks call a taco doesn’t resemble the real thing at all. Fries and ice cream are lumped onto the menu, the better to differentiate it from the offerings at the ubiquitous taquerias. But the items are proving so popular, they may remain on the menus in the next markets, which Yum says include Dubai,

Philippines, Spain and Japan.

What does appear sustainable is the world’s appetite for Yum’s fast food. Not everybody thinks that’s a good thing. After all, this is the company whose top-selling new product is the KFC Famous Bowl: breaded, fried chicken strips, corn, cheese, gravy and mashed potatoes—a 710-calorie dish that the comedian Patton Oswalt calls a “failure pile in a sadness bowl.” Fast foods—even those that mimic local cuisines—represent a dramatic change in diet for many cultures. “When you offer high-calorie food to a thin population, they go from small to large very quickly and begin to develop signs of heart disease, diabetes and high blood pressure at much lower weights,” says Marion Nestle, a New York University professor and the author of *Food Politics*. “You can expect to see these problems in India and China in very short order.”

For its part, Yum argues that it’s not exporting fatty foods so much as offering tasty options to the global public. “The answer to the nutrition issue is balance and exercise,” says Novak, pointing to a basketball tournament sponsored by KFC in China and a menu there that includes healthier alternatives like roasted chicken. In fact, the roasted menu items are such a hit in China that Yum executives are testing them out in the U.S. It’s an interesting twist: Yum is looking to the soaring international business to expand its appeal at home.