

IB Business Management

Multinational Companies (1.6) Assessment

Name: _____ Class: _____ Date: _____

Instructions: Answer all questions. Total marks: 50.

Section A: Multiple choice (10 marks)

1. A possible environmental issue linked to MNCs in host countries is:
 - A. Automatic reduction in emissions
 - B. Pollution if regulation is weak
 - C. Guaranteed renewable energy use
 - D. No impact on resources

2. One reason a business might locate production nearer to overseas markets is to:
 - A. Increase distribution distances
 - B. Reduce transport and distribution costs
 - C. Avoid local demand
 - D. Increase tariffs

3. One advantage of MNCs to host countries is:
 - A. Lower tax revenue always
 - B. Increased investment and employment
 - C. Reduced competition
 - D. Guaranteed long-term stability

4. An MNC might become multinational to:
 - A. Increase transport costs
 - B. Overcome trade barriers
 - C. Reduce market access
 - D. Avoid economies of scale

5. A host government benefits from an MNC partly through:
 - A. Monopoly power of the MNC
 - B. Tax revenues and employment creation
 - C. Guaranteed profit reinvestment
 - D. Elimination of local firms

6. A key criticism of some MNCs is that they:
 - A. Always pay higher wages than local firms
 - B. Use transfer pricing/profit shifting to reduce tax
 - C. Never invest in infrastructure
 - D. Cannot influence governments

7. A multinational company (MNC) is best defined as a business that:
 - A. Operates only online
 - B. Has headquarters in one country and operations in several countries
 - C. Sells only imported goods
 - D. Is owned by a government

8. 'Footloose' multinationals are those that:
 - A. Avoid international markets
 - B. Move locations if costs/taxes/regulations change
 - C. Only operate in one city
 - D. Are owned by employees

9. External economies of scale in a host country may be improved if MNCs:
 - A. Reduce competition

- B. Invest in local suppliers and infrastructure
- C. Avoid training local staff
- D. Increase tariffs

10. A possible disadvantage of MNCs to host countries is:

- A. Skills transfer always increases
- B. Profits may be repatriated to the home country
- C. Infrastructure always declines
- D. Wages always rise rapidly

Section B: Short answer (10 marks)

Explain one way an MNC might influence government policy. (2)

Explain one reason why a business wants to become multinational. (2)

Define the term footloose multinational. (2)

Explain one benefit to a host country of welcoming an MNC. (2)

Section C: Case study (20 marks)

Case: TechCloud, an MNC headquartered in Country A, sells digital services worldwide. It reports much of its profit in a low-tax country where it has a small office. Country B argues it should receive more tax revenue because most sales happen there.

1. Define the term profit shifting. (2)
2. Explain two problems for governments caused by MNC tax avoidance. (6)
3. Analyse the possible impact on Country B if TechCloud is forced to pay higher taxes locally. (6)

Section D: Extended response (10 marks)

Answer ONE question.

Discuss how multinationals can influence governments and why this may be controversial. (10)

Evaluate the advantages and disadvantages to a host country of welcoming multinational companies. (10)

Answer Key + Markscheme

Section A Answers

1. B
2. B
3. B
4. B
5. B
6. B
7. B
8. B
9. B
10. B

Section B Indicative Answers

Explain one way an MNC might influence government policy. (2)

An MNC may lobby government, threaten to relocate investment/jobs, negotiate tax incentives, or use its economic importance to gain influence.

Explain one reason why a business wants to become multinational. (2)

Reasons include access to new markets, reducing costs (e.g., labour), securing raw materials, overcoming trade barriers, and risk diversification.

Define the term footloose multinational. (2)

A footloose multinational can relocate operations to another country relatively easily if conditions such as taxes, wages, or regulation change.

Explain one benefit to a host country of welcoming an MNC. (2)

Benefits may include foreign direct investment, jobs, skills transfer, improved infrastructure, and increased competition/choice.

Section C Indicative Points

Profit shifting: arranging accounts/pricing so profits are reported in low-tax locations. Problems: lost tax revenue, perceived unfairness, funding public services. Impact of higher local tax: more revenue but MNC may raise prices or reduce investment; improved fairness/competition.

Section D Marking Guidance (10 marks)

Level 1 (1–3): Limited knowledge; mostly descriptive; little/no judgement. Level 2 (4–6): Clear explanation with some analysis; relevant examples. Level 3 (7–8): Balanced analysis; good application; supported judgement. Level 4 (9–10): Strong evaluation; criteria-based judgement; well-developed arguments and counterarguments.