

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 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
2. 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
3. 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
4. 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
5. 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
6. 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
7. 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
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. An MNC might become multinational to:
 - A. Increase transport costs

- B. Overcome trade barriers
- C. Reduce market access
- D. Avoid economies of scale

10. 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

Section B: Short answer (10 marks)

Define the term footloose multinational. (2)

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

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

Define the term multinational company (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 the reasons why a business might want to become a multinational. (10)

Recommend whether a government should welcome a multinational wanting to locate in its country. (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

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 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 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.

Define the term multinational company (MNC). (2)

A multinational company has its headquarters in one country but owns/controls operations in multiple other countries.

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.