IGCSE ECONOMICS · 2.2 THE GLOBAL ECONOMY · CHAPTER 36 · PAPER 2

Multinational Companies and Foreign Direct Investment

Topic question sheet L36 | **Total: 30 marks** | **Time: 35 minutes** | **Student Book pp. 295–303**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Section A: Multiple choice

One mark each. Choose **one** answer: A, B, C or D.

1 Which of the following is a benefit of FDI to a country? **(1)**

A Lower interest rates
B Lower exchange rate
C Higher employment
D Lower economic growth

2 Which of the following is an example of FDI? **(1)**

A Nissan taking over a parts supplier in Japan
B A US MNC building a factory in Shanghai
C A Bangladeshi firm selling clothes to a German retailer
D A government investing in its own infrastructure

3 When an MNC sends profits back to its home country, this is called: **(1)**

A offshoring
B repatriation
C tax avoidance
D a joint venture

4 Which is a reason why MNCs have emerged? **(1)**

A Higher transport costs
B Access to natural resources
C More trade barriers
D Smaller markets

Section B: Short answers

Define, state, calculate, draw and explain. Show your working for calculations.

5 Define a **multinational company**. **(1)**

6 Calculate the total tax Lusavia could lose over the 10-year tax holiday. You are advised to show your working. **(2)**

7 State **two** ways governments attract FDI, using the extract. **(2)**

8 Explain how MNCs can help develop skills in a host country. **(3)**

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Section C: Data response

Read the extract, then answer the questions. Use evidence from the extract in every answer.

Extract: A Car Plant in Lusavia

A Japanese car maker plans a US$900m factory in the fictional country of Lusavia. It will employ 4500 people and buy parts from local suppliers. In return, the government will give the company a 10-year corporation tax holiday and build a new road to the port.

Critics point out that the company's profits will be sent back to Japan and that Lusavia will lose up to US$40m a year in tax. Environmental groups are worried about water use near a protected wetland.

Fictional case, written for this sheet.

9 With reference to the extract, analyse how the car plant could benefit Lusavia's economy. **(6)**

10 With reference to the extract, evaluate whether the government of Lusavia should accept the car maker's investment on these terms. **(12)**

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Mark scheme: Multinational Companies and Foreign Direct Investment

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Section A

1 *Which of the following is a benefit of FDI to a country? (1 mark)*

Answer: C (Higher employment). MNCs create jobs.

2 *Which of the following is an example of FDI? (1 mark)*

Answer: B (A US MNC building a factory in Shanghai). Investment in a foreign country.

3 *When an MNC sends profits back to its home country, this is called: (1 mark)*

Answer: B (repatriation). Profits return home.

4 *Which is a reason why MNCs have emerged? (1 mark)*

Answer: B (Access to natural resources). E.g. oil, minerals.

Section B

5 *Define a multinational company. (1 mark)*

A firm that operates in many different countries (1).

6 *Calculate the total tax Lusavia could lose over the 10-year tax holiday. You are advised to show your working. (2 marks)*

Working: 40 × 10 (1).

Answer: up to US$400m (1).

7 *State two ways governments attract FDI, using the extract. (2 marks)*

Tax holiday/tax break (1).

Infrastructure investment (new road to the port) (1).

8 *Explain how MNCs can help develop skills in a host country. (3 marks)*

Point: MNCs train their workers (1).

Development: they also give technical help to local suppliers (1), so workers and firms learn new methods and become more productive (1).

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Section C

9 *With reference to the extract, analyse how the car plant could benefit Lusavia's economy. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): jobs, local suppliers (multiplier), infrastructure, exports.

Application (2): 4500 jobs; US$900m investment; parts from local suppliers; new road.

Analysis (2): incomes and spending rise; suppliers expand; better road cuts transport costs for all firms; car exports improve the current account.

Knowledge 2 · Application 2 · Analysis 2.

10 *With reference to the extract, evaluate whether the government of Lusavia should accept the car maker's investment on these terms. (12 marks · levels)*

For: 4500 jobs, supplier contracts, capital and technology, exports, road benefits all firms; tax after 10 years.

Against: up to US$400m tax lost; profits repatriated; wetland damage; company may leave after the tax holiday.

Judgement: accept, but negotiate a shorter holiday, local training targets and environmental conditions; depends on spillovers to local suppliers.

Levels: L1 1–3 · L2 4–6 · L3 7–9 · L4 10–12 (balanced, well-developed arguments using the data throughout, and a justified conclusion that answers the question).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.

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