

GMAT VERBAL READING COMPREHENSION

PRACTICE QUESTIONS & ANSWER KEY (SET 3)

Passage

The modern multinational corporation is described as having originated when the owner-managers of nineteenth-century British firms carrying on international trade were replaced by teams of salaried managers organized into hierarchies. Increases in the volume of transactions in such firms are commonly believed to have necessitated this structural change. Nineteenth-century inventions like the steamship and the telegraph, by facilitating coordination of managerial activities, are described as key factors. Sixteenth- and seventeenth-century chartered trading companies, despite the international scope of their activities, are usually considered irrelevant to this discussion: the volume of their transactions is assumed to have been too low and the communications and transport of their day too primitive to make comparisons with modern multinationals interesting.

In reality, however, early trading companies successfully purchased and outfitted ships, built and operated offices and warehouses, manufactured trade goods for use abroad, maintained trading posts and production facilities overseas, procured goods for import, and sold those goods both at home and in other countries. The large volume of transactions associated with these activities seems to have necessitated hierarchical management structures well before the advent of modern communications and transportation. For example, in the Hudson's Bay Company, each far-flung trading outpost was managed by a salaried agent, who carried out the trade with the Native Americans, managed day-to-day operations, and oversaw the post's workers and servants. One chief agent, answerable to the Court of Directors in London through the correspondence committee, was appointed with control over all of the agents on the bay.

The early trading companies did differ strikingly from modern multinationals in many respects. They depended heavily on the national governments of their home countries and thus characteristically acted abroad to promote national interests. Their top managers were typically owners with a substantial minority share, whereas senior managers' holdings in modern multinationals are usually insignificant. They operated in a preindustrial world, grafting a system of capitalist international trade onto a premodern system of artisan and peasant production. Despite these differences, however, early trading companies organized effectively in remarkably modern ways and merit further study as analogues of more modern structures.

Q 1

The passage suggests that modern multinationals differ from early chartered trading companies in that

- the top managers of modern multinationals own stock in their own companies rather than simply receiving a salary

- modern multinationals depend on a system of capitalist international trade rather than on less modern trading systems
- modern multinationals have operations in a number of different foreign countries rather than merely in one or two
- the operations of modern multinationals are highly profitable despite the more stringent environmental and safety regulations of modern governments
- the overseas operations of modern multinationals are not governed by the national interests of their home countries

Answer 1

Answer with Explanation

The passage suggests that modern multinationals differ from early chartered trading companies in that

- (A) the top managers of modern multinationals own stock in their own companies rather than simply receiving a salary
- (B) modern multinationals depend on a system of capitalist international trade rather than on less modern trading systems
- (C) modern multinationals have operations in a number of different foreign countries rather than merely in one or two
- (D) the operations of modern multinationals are highly profitable despite the more stringent environmental and safety regulations of modern governments
- (E) the overseas operations of modern multinationals are not governed by the national interests of their home countries

Inference

Since the question asks about differences, focus on the third paragraph, where differences are described. The first sentence of that paragraph is a general statement indicating that the early trading companies did differ strikingly from modern multinationals in many respects. Because the author sets up this first general statement as a contrast between the early and modern companies, the examples that follow it imply that what is mentioned as being true of the early trading companies is not true of modern multinationals. Thus, when the author says the early companies depended heavily on their national governments and thus characteristically acted abroad to promote national interests, the implication is that modern multinational companies do not.

- A) The author suggests in the third paragraph that at least some managers in both categories own, or owned, shares of their respective companies and that modern managers have less, not more, ownership than did the earlier managers.
- B) The next-to-last sentence of the passage indicates that the early trading companies established and used a system of capitalist international trade.
- C) The passage does not say or imply that early trading companies conducted business with only one or two foreign countries.

D) The passage does not say or imply that early trading companies were less profitable than modern multinationals, nor does it discuss modern regulations.

E) **Correct.** The passage implies that modern multinational companies, unlike early trading companies, need not depend heavily on their national governments or promote national interests abroad.

Q 2

It can be inferred from the passage that the author would characterize the activities engaged in by early chartered trading companies as being

- complex enough in scope to require a substantial amount of planning and coordination on the part of management
- too simple to be considered similar to those of a modern multinational corporation
- as intricate as those carried out by the largest multinational corporations today
- often unprofitable due to slow communications and unreliable means of transportation
- hampered by the political demands imposed on them by the governments of their home countries

Answer 2

Answer with Explanation

It can be inferred from the passage that the author would characterize the activities engaged in by early chartered trading companies as being

- (A) complex enough in scope to require a substantial amount of planning and coordination on the part of management
- (B) too simple to be considered similar to those of a modern multinational corporation
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- (D) often unprofitable due to slow communications and unreliable means of transportation
- (E) hampered by the political demands imposed on them by the governments of their home countries

Inference

To discover what the author believes about the activities of early trading companies, look at the beginning of the second paragraph. The previous paragraph had ended with the prevailing dismissal of these companies as unimportant. The author begins the second paragraph with a transitional expression, *in reality, however*, to emphasize a contrasting point of view. The first sentence lists an impressive array of complex activities, and in the next sentence the author notes that *the large volume of transactions associated with these activities seems to have necessitated hierarchical management structures*. The author believes the complex activities of the early companies required a multi-leveled management structure to oversee them.

- A) **Correct.** The activities of early trading companies were so complex that they required *hierarchical management structures* to oversee them (second sentence of the second paragraph).
- B) This is the prevailing view rather than the author's view.
- C) The author demonstrates their complexity, but does not claim they are as intricate as those of modern multinational corporations.
- D) The *large volume of transactions* suggests they were profitable, but the author's focus is on the complexity of the activities rather than on their outcomes.
- E) The author shows they *depended heavily* on the governments of their counties (second sentence of the final paragraph), but does not imply they were *hampered* by politics.

The correct answer is A.

Q 3

The author's main point is that

- modern multinationals originated in the sixteenth and seventeenth centuries with the establishment of chartered trading companies
- the success of early chartered trading companies, like that of modern multinationals, depended primarily on their ability to carry out complex operations
- early chartered trading companies should be more seriously considered by scholars studying the origins of modern multinationals
- scholars are quite mistaken concerning the origins of modern multinationals
- the management structures of early chartered trading companies are fundamentally the same as those of modern multinationals

Answer 3

Answer with Explanation

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- (B) the success of early chartered trading companies, like that of modern multinationals, depended primarily on their ability to carry out complex operations
- (C) early chartered trading companies should be more seriously considered by scholars studying the origins of modern multinationals
- (D) scholars are quite mistaken concerning the origins of modern multinationals
- (E) the management structures of early chartered trading companies are fundamentally the same as those of modern multinationals

Main idea

To understand the main point of the whole passage, review what the author does in each paragraph. The first paragraph presents the general view that the conditions in which early trading companies operated were too primitive to make a comparison to modern multinational corporations interesting. The second paragraph corrects this impression by citing their complex activities, and the third paragraph, after reminding the reader of important differences between them, closes by saying that early trading companies merit further study as analogues of more modern structures (final line of the passage). The author's main point is to show that an interesting comparison between early trading companies and modern multinational companies exists and deserves further study.

A) Early trading companies share similarities with modern multinational companies but are not credited with having originated them.

B) Early trading companies are compared to modern companies on the basis of their complex activities, but their success is not discussed.

C) **Correct.** An interesting comparison between early trading companies and modern multinational companies may be drawn and should be further studied.

D) The author does not say that the general view is mistaken, only that a comparison of early and modern companies deserves further study.

E) Early trading companies had hierarchical management structures (second sentence of the second paragraph), but the author does not say they were the same as those in modern companies.

The correct answer is C.

Q4

With which of the following generalizations regarding management structures would the author of the passage most probably agree?

- Hierarchical management structures are the most efficient management structures possible in a modern context.
- Firms that routinely have a high volume of business transactions find it necessary to adopt hierarchical management structures.
- Hierarchical management structures cannot be successfully implemented without modern communications and transportation.
- Modern multinational firms with a relatively small volume of business transactions usually do not have hierarchically organized management structures.
- Companies that adopt hierarchical management structures usually do so in order to facilitate expansion into foreign trade.

Answer 4

Answer with Explanation

With which of the following generalizations regarding management structures would the author of the passage most probably agree?

- (A) Hierarchical management structures are the most efficient management structures possible in a modern context.
- (B) Firms that routinely have a high volume of business transactions find it necessary to adopt hierarchical management structures.
- (C) Hierarchical management structures cannot be successfully implemented without modern communications and transportation.
- (D) Modern multinational firms with a relatively small volume of business transactions usually do not have hierarchically organized management structures.
- (E) Companies that adopt hierarchical management structures usually do so in order to facilitate expansion into foreign trade.

Application

Consider what the author says about *hierarchical management structures* in the second paragraph in order to find a statement (independent of the passage) with which the author would agree. After listing activities of the early trading companies, the author says in the second sentence of the second paragraph: *The large volume of transactions associated with these activities seems to have necessitated hierarchical management structures.* Thus, it is likely that the author would agree that, in general, firms with large volumes of transactions must have *hierarchical management structures*.

- A) Since the passage does not discuss hierarchical management as the most efficient possible in a modern context, there is no evidence that the author would agree.
- B) **Correct.** The author would agree that firms with large volumes of transactions need hierarchical management structures.
- C) This statement is explicitly contradicted in the second sentence of the second paragraph.
- D) The passage links hierarchical management with a high volume of business but provides no evidence about a low volume of business.
- E) The high volume of transactions, rather than foreign trade, necessitates hierarchical management.

The correct answer is B.

Q 5

The author lists the various activities of early chartered trading companies in order to

- analyze the various ways in which these activities contributed to changes in management structure in such companies

- demonstrate that the volume of business transactions of such companies exceeded that of earlier firms
- refute the view that the volume of business undertaken by such companies was relatively low
- emphasize the international scope of these companies' operations
- support the argument that such firms coordinated such activities by using available means of communication and transport

Answer 5

Answer with Explanation

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- (B) demonstrate that the volume of business transactions of such companies exceeded that of earlier firms
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- (D) emphasize the international scope of these companies' operations
- (E) support the argument that such firms coordinated such activities by using available means of communication and transport

Logical structure

To find the purpose of the list in the first sentence of the second paragraph, look at the context that surrounds it. The previous paragraph closes with the point of view, not shared by the author, that the volume of transactions of these early companies is assumed to be low. The author immediately contradicts this evaluation and counters it by listing the activities the trading companies actually engaged in, noting the large volume of transactions associated with these activities. Thus, the author includes this list in order to attack the common assumption that the volume of business transactions was low.

- A) Management structures were necessary to oversee the activities, but the passage does not mention specific ways in which the activities contributed to changes.
- B) No comparison to earlier firms is made.
- C) **Correct.** The list contradicts the statement in the previous paragraph that the volume of transactions was low.
- D) The international scope of the activities is not in question in the passage and does not need to be defended.
- E) The list is included to argue against a common assumption, not to argue for a position that this passage does not call into question.

The correct answer is C.