



Lecture International Management I (WT 05/06) - Final Exam
Course No.: 1585; Lecturer: Prof. Dr. Birgitta Wolff

Final Exam

In the Final Exam to this class, you will have one hour to solve the problems with a maximum of 60 points. There are a few pieces of general advice we can offer at this stage:

1. Use the theoretical tools and terminology you have learned in class and from the textbook.
2. Make sure there is a clear structure in your argument. (Use some time to sort your ideas before you start writing the version you want to submit, esp. if you answer B.)
3. Use the time you have! If you are ready much earlier than we planned you should wonder if you forgot something.
4. Remember: people have to be able to decipher what you write.
5. Leave a margin for our comments, so we can give you a more detailed feedback than just the number of points.
6. You are welcome to use a dictionary.

Here is the set of problems:

Please solve either part A or part B (max. 60 points)!

Part A (max. 60 points)

Answer only 4 of the following 6 questions! (max. 15 points for each question)

1. Assume that an MNC has a subsidiary (A) located in Country A, which has a corporate tax rate of 40 percent. Subsidiary A sells engines to a subsidiary (B) located in Country B, which has a corporate tax rate of 50 percent. A's production cost per engine are \$4,000. The arm's length price is \$3,000. Subsidiary B sells these engines for \$6,000 each. Calculate the net profits for both subsidiaries under arm's length prices. Determine the transfer price that maximizes the profit of the MNC and calculate the net profits of both subsidiaries with the new transfer price.
2. Describe and explain PORTER's "Diamond" and discuss the model's implications for governmental and corporate policies using real life or stylized examples.
3. A German subsidiary of an American MNC, which also has subsidiaries in different other countries, wants to invest into a new assembly line. Name and explain possible sources and flows of funds to finance this project. Comment on why being part of an MNC might actually have advantages with respect to financing such investments.
4. A German producer of coffee machines considers exporting his machines to Russia. Explain the easiest way to assure that the importer pays and the mechanism behind. What are other ways to make the importer pay? Explain them.
5. What are unique characteristics of the Chinese market and related key success factors for MNCs in China? What are key lessons for MNCs with respect to the Chinese market characteristics? You are welcome to use examples to illustrate your findings.

6. What is opportunistic behavior? Which conditions in international business are likely to foster a business partner's opportunistic behavior? Name at least three types of opportunistic behavior in practice and describe them.

Part B (max. 60 points)

Read the following text carefully:

Strike shuts Toyota Indian plant

BBC News Online, Monday, 9 January 2006

Japanese carmaker Toyota has shut down a factory in Bangalore, India, because of a strike by workers who want three sacked colleagues to be reinstated. The strike is in its third day and started after three workers were dismissed on disciplinary grounds. Toyota runs the plant, which makes Corolla and Camry cars, with its partner, Indian firm Kirloskar Group. Company and union officials will meet on Monday after workers demonstrated outside the plant over the weekend. Reports estimated that as many as 400 workers blocked the road to the factory on Saturday.

'Restore normalcy'

"We were forced to declare a lockout because the safety of our officers and machines was threatened by the striking employees," said AR Shankar, general manager of Toyota Kirloskar Auto Parts. "We would like to restore normalcy as soon as possible, but at the same time we would not like to compromise on discipline," he said. Toyota is not the first Japanese firm to experience problems with its Indian workforce. Last year, police clashed with workers from Honda's Indian scooter division, costing the firm millions of dollars in lost production. Toyota's southern Indian plant can produce about 60,000 vehicles a year. Workers began the strike on Friday, and the company said it was unsure what would happen in coming days. "We don't know which direction the events are set to take and it is a tense moment for the company," Mr Shankar said.

Source: <http://news.bbc.co.uk/2/hi/business/4594494.stm> (19.01.2006)

Describe and explain possible risks of foreign direct investments, and use theoretical concepts to analyse the case described in the article.

Good luck !