



Lecture International Management I (WT 07/08) - 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 \$5,000. 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. Explain and illustrate how Entrepreneurs can ensure to get paid after delivering a good or service abroad using a letter of credit. You are welcome to use an example
3. Assume a German manufacturer of notebooks has signed a contract with its business partner in Taiwan and is planning to invest one million Euros specifically dedicated to this project. The operational management of the project is in the hands of the Taiwanese partner. Which contractual risks can arise out of the investment? What are the basic reasons for these risks and why they are even more prevalent across country borders than within? How can these risks be prevented? Please explain
4. 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.

5. Name and explain five alternative organizational forms for foreign market entry. Discuss their pros and cons. You are welcome to use examples.

6. Explain why an entrepreneur's expectations about his/her business partner's behavior in an international transaction might be more unrealistic than expectations in a non-international deal.

Part B (max. 60 points)

Read the following text carefully.

Nokia to shut German plant

Helsinki. Nokia, the world's biggest maker of mobile phones, said Tuesday that it would close a factory in Germany and cut about 2,300 jobs as it shifted production to locations with lower costs. The factory in Bochum in western Germany is scheduled to close in mid-2008, Nokia said. Production will "mostly" be moved to a new plant in Romania, said Eija-Riitta Huovinen, a Nokia spokeswoman. Costs for the shutdown were not disclosed. Nokia has European plants in Finland, Hungary and Britain, a €60 million, or \$89 million, plant in Romania is scheduled to open this quarter. Last month, the company decided to move some production lines from Finland to South Korea because of labor shortages. "Germany isn't very cost efficient," said Jari Honko, an analyst at eQ Bank in Helsinki. "They were forced to do this." Honko added that "generally, Germany is an expensive country to ramp down a plant or lay off staff. This is likely to be an expensive move in the short term."

Nokia said the Bochum site, which makes mobile devices, is not competitive enough, even with additional investment. Nonproduction related activities in Bochum will be closed, the company said. Nokia said it planned to sell the unit that produced automotive products like hands-free car kits. The company also said it was in talks to sell a software research unit in Bochum to Sasken Technologies. Nokia fell 11 cents to €23.96 in afternoon trading in Helsinki. The Finnish company employed about 113,000 people as of Sept. 30. Nokia also has factories in Mexico, Brazil, China and India. It is spending \$75 million in Madras, India, to increase capacity at that plant. "If you build a plant, it would be better to do it in Asia than in Europe," said Wing-Yen Choi, an analyst at Theodoor Gilissen, a bank in Amsterdam. He said Nokia can still benefit from redirecting production to eastern Europe where costs are lower. "The plant was already written off and has zero economic value." The IG Metall union in Germany called Nokia's plan "inhuman" and "socially unacceptable." "That location is running well and the workers there give it all seven days a week." Ulrike Kleinbrahm, an IG Metall official based in Dusseldorf, said "As a top company in the industry, Nokia made a very brutal decision."

The Finnish company's global third-quarter market share by unit sales rose to 38.1 percent from 35.1 percent a year earlier, according to a report by Gartner, the researcher based in Stamford, Connecticut. Samsung increased its share to 14.5 percent from 12.2 percent and Motorola fell to 13.1 percent from 20.7 percent. Nokia has stayed ahead of competitors with products ranging from phones costing less than \$50 to advanced devices featuring satellite navigation and e-mail. Nokia said it also planned to sell its automotive accessory business and is in talks with Sasken Technologies to sell the adaptation software research and development unit, which is based in Bochum.

Source: International Herald Tribune, 01/15/2008.

Use theoretical concepts and terminology to analyze the impact of subsidies as well as other factors on the competitiveness of a company in international comparison