



Lecture Introduction to International Management (ST 08) - Final Exam
Course No.: 11040; 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:

You are welcome to use a dictionary and a calculator!

(max. 60 points)

Answer only 4 of the following 5 questions! (max. 15 points for each question)

1. 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.
2. Assume that a multi-national corporation (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. Subsidiary B assembles the engines and the body and sells the cars. A's production cost per engine are \$5,000. The arm's length price is \$6,000. Subsidiary B sells the cars for \$8,000 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. Explain the underlying concept of transfer pricing.
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 internal as well as external sources and flows of funds to finance this project.
4. Researchers use dimensions to describe cultures. Name three of such studies and the dimensions defined in them. Using the dimensions defined in one of the studies, compare two

national cultures of your choice. What are limits to referring to such studies when preparing international business activities?

5. Company A considers entering into a strategic alliance with either Company B, in order to profit from cooperation. By entering into an alliance with Company B, Company A will gain €100K. Company A could gain €50K by forming and alliance with Company C. Company B, a bigger firm than Company A, will gain €70K with Company A as an alliance partner and €75K with Company C. Company C will gain €65K with Company B as a partner and €60K with Company A as a partner. There is no other company on the market. Explain the concept of BATNA. What is the BATNA of Company A if it enters a negotiation with Company B? Explain the concept of ZOPA. If Company A negotiates with Company B, what is the ZOPA? Will they reach an agreement? What can be done if they wish to reach an agreement?

Company B

	Agreement	Non-Agreement
Company A	100/70	0/75
	50/0	50/75

Part B (max. 60 points)

What are motives and potential problems for this form of external growth? Use your information, imagination, and economic logic to present a plausible line of arguments, using economic terminology and concepts.

Read the following text carefully.

Air France eyes move to railways

Air France is holding talks on a joint venture that could lead to it offering high-speed rail travel.

The airline confirmed reports it was discussing a possible tie-up with Veolia, a French utility firm that also runs several rail services. Commentators suggest such a deal would enable the airline to cut fuel costs by moving some services onto the railways. Under the plans Veolia would run trains from Air France's hub airport in Paris to other European destinations. "We are reviewing the feasibility and possibility of such a project, but it is too early to discuss its terms," an Air France spokesman told the Reuters news agency. The joint venture is likely to remain focused on international travel as, under European Union plans, legislation is set to free up the international rail passenger market in 2010. Veolia has previously run public rail franchises in several countries worldwide under the now-defunct Connex brand. It now runs continental Europe's largest private freight service and several rail connections. With significant improvements being made to the network of high speed rail routes in Europe the potential of such services is improving. As it confirmed reports of the talks, Air France added it had been looking at launching its own rail links over the past four years as it had been unhappy with the service provided when it had bought rail seats off existing train operators.

Source: BBC Online (2008), July, 07 2:408

Good luck !