



**Lecture Introduction to International Management (ST 09) - 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 text-book.
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!

(max. 60 points)

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

1. Company A, located in Country A, considers entering into a strategic alliance with Company B, located in Country B. The pay-off matrix below presents the respective company profits. Should the players enter negotiations? What are the companies' outside options? Which transfer is required to reach an agreement? What are common mistakes made in such overseas negotiations?

	Company B	
	Agreement	Non-Agreement
Company A Agreement	60/60	36/72
Company A Non-Agreement	36/30	12/72

2. What are sources to recruit potential managers for multinational enterprises? Explain why multinational corporations send expatriates to their subsidiaries abroad instead of hiring local employees from the host country. What are the advantages and disadvantages of such an international staffing policy compared to alternative strategies?

3. Which problems are INCOTERMS supposed to solve? How do they do so? Name and explain five examples.

4. Name and explain potential pitfalls of corporate collaborations, also describe the respective underlying economic problem and potential solutions. Explain how companies can control opportunistic behavior in corporate collaborations.

5. In the state of Georgia several levels of incentives are provided to foreign companies to invest in this region of the U.S. Name and describe the different incentives and explain the difference in incentive effects in the U.S. compared to the effects of incentives typically provided by states in Germany.

**Part B (max. 60 points)**

International Joint Ventures are a suboptimal mode of entry into a foreign market. Use the example of Fiat to discuss potential problems and possible solutions based on economic reasoning, using economic terminology.

Read the following text carefully.

**Fiat set to make cars in China from 2011**

Fiat, long a laggard in the fast-growing Chinese market, is to make cars and engines there from 2011 in a joint venture with Guangzhou Automobile Group. The 50:50 agreement, signed in Rome yesterday, will see the partners invest more than €400m (\$57m) and build a 700,000 sq m production plant in Changsha in Hunan province. Fiat and GAC said the venture would have the capacity to produce 140,000 cars and 220,000 engines per year initially, but could later be expanded to produce as much as 250,000 cars and 300,000 engines annually. The first model to be launched will be Fiat's Linea sedan, part of the mid-size "C" segment popular in China. The venture will begin making cars in the second half of 2011, and receive Chinese government support under a programme to promote new investment in central China. The Chinese government, represented at yesterday's signing ceremony by President Hu Jintao, wants to promote low-emission cars and consolidate its fragmented auto industry. The deal with GAC comes amid increasing regional rivalry among China's rising automakers. GAC already has a joint venture with Japan's Honda that produces cars for export. Fiat, which sells the bulk of its cars in Europe and South America, has been considered unlucky with its choice of partners in China - the world's second-largest car market after the US - where it trails nearly all other foreign carmakers. The venture with GAC will launch into an intensely competitive market with more automakers and brands than America's. In 2007, Fiat terminated an unsuccessful joint venture with Nanjing Automotive, which had been distracted by efforts to develop Britain's MG car brand, and has since been merged with Shanghai Automotive. Since then, the Italian carmaker has been exporting cars from Europe to China, selling only about 3,000 to 4,000 there per year. This year, Fiat postponed plans indefinitely to form a joint venture with Chery Automobile, the privately owned Chinese car-maker. China requires foreign carmakers to build vehicles and engines in joint ventures with local companies. Fiat's parent group, which includes Iveco trucks and farm equipment producer CNH, has nine joint ventures in China employing about 13,000 people. Sergio Marchionne, Fiat's chief executive, says the carmaker needs to build scale significantly beyond about 2m cars it sells a year to between 5.5m and 6m. The Italian carmaker last month sealed an alliance with Chrysler of the US that will see it take an initial 20 per cent stake and build and sell small cars in the US under its own and Chrysler's brands.

Source: Financial Times, John Reed, London, 07/07/09

Good luck !