OTTO-VON-GUERICKE-UNIVERSITY MAGDEBURG
Faculty of Economics & Management
– INTERNATIONAL MANAGEMENT –
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Lecture Introduction to International Management (ST 2010) - 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** and a **calculator**!

Here is the set of problems:

Please solve *either* part A *or* part B!

Part A *(max. 60 points)*

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

1. Explain the dimensions, which Hofstede uses to characterize different cultures. Compare two countries' cultures of your choice using Hofstede's cultural dimensions.

2. What are the factors that influence a firm's ability to sell the same product worldwide? Ideally, is it better for a firm to sell the same product worldwide or would a firm rather customize its products for each individual market?

3. Assume that a multi-national corporation has a subsidiary (A) located in country A, which has a corporate tax rate of 30 percent. Subsidiary A sells a pre-product to a subsidiary (B) located in country B, which has a corporate tax rate of 40 percent. Subsidiary B assembles the final good. A's production cost per pre-product are $10,000. The arm's length price is $12,000. Subsidiary B sells the final good for $16,000 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. Enumerate the benefits of manipulating transfer prices.

4. What are the three types of staffing policies in international business? Describe each one. What are the advantages and disadvantages of each approach?

5. Suppose firm B offers you a cooperation on a joint venture basis in order to carry out a special project. You as firm A have to decide whether to form the joint venture (C) or not. In order to realize the cooperation an initial total investment of 10 million € is required. The potential total returns of this joint venture are 6 million € per year over a period of 2 years. Assume an interest rate of 5 percent per annum. Assume your potential partner offers you a joint venture contract on a 50:50 basis. Each partner will contribute ½ of the total investment and receive ½ of the returns of the cooperation. Would A sign that contract? Calculate firm A's profit and explain. During the cooperation technological progress proceeds. An investment of 500,000 € in this innovation would reduce the total costs from 10 million € to 8 million €. The innovation is not available to partner B. How would the profit for each partner change given firm A made the investment? Will they make it? How can the firms make sure the new technology will be available to them?

Part B *(max. 60 points)*

Explain the function and procedures of non-market strategies and in particular the implementation of lobbying. Use theoretical concepts and terminology to analyze the case described in the article. Discuss the case from a managerial perspective.

Read the following text carefully.

Bankers to warn on regulation overkill risk

LONDON: Over-regulation will crimp economic growth and mistimed reform risks a double-dip recession, bankers are expected to warn this week as lawmakers mull a wide-ranging financial reform agenda. Banks face new taxes, the introduction of "living wills" and requirements to hold more and better quality capital and liquidity to ensure there cannot be a repeat of the recent financial crisis, the worst since the 1930s.

Banks admit change is needed, but are resisting some proposals and are concerned about the cumulative impact of a raft of measures. They want more time to implement change, saying a fragile recovery will be derailed if lenders have to shore up capital just when governments are reducing support and economies need banks to lend more. "There's a lot to play for here, not just for the banks but ultimately the return to economic growth and pension fund investment. And there's a lot that remains to be settled," said James Perry, a partner at law firm Ashurst in London. Banks' lobbying efforts appear to be paying off. Top countries on Saturday scrapped plans for a universal global bank tax in the face of opposition from Canada, Japan and Brazil, whose banks did not need public aid. New capital rules -- dubbed Basel III -- also look set to be phased in over a longer time than originally planned.

Some viewed that as pragmatic policy by lawmakers, rather than bowing to banks: the United States, Britain and other hard hit countries still look likely to impose a tax, while global reform can concentrate on Basel III, regarded as the litmus test of G20 resolve to toughen rules. The Institute of International Finance (IIF), a bank lobby group representing over 400 firms, will unveil its estimate of the impact of measures at a meeting in Vienna on Thursday. "There are a lot of moving pieces and the banks are saying you can't talk about one thing in isolation because they are getting hit from lots of different directions," Perry said. "In order to reach a pragmatic solution that addresses moral hazard and allows the banks to lend and do business for the good of the economy you have to weigh all these things and calibrate them," he added. That's why banks are getting more vocal about the danger of uncoordinated action and will make their case ahead of a meeting of G20 leaders in Canada on June 26-27. Key issues likely to be discussed by the IIF include: –Resolution regimes. The IIF wants G20 countries to set up a task force to oversee the creation of cross-border bank "living wills", making it clear that bondholders will bear more of any losses when a lender hits trouble. --Capital and liquidity.