



Lecture Introduction to International Management (ST 2011) - Final Exam  
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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.
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, good luck!

Answer only 6 of the following 7 questions! (max. 10 points for each question)

1. Suppose firm B offers you a co-operation 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 (J) or not. In order to realize the cooperation an initial total investment of 20 million € is required. The potential total returns of this joint venture are 12 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 co-operation technological progress proceeds. An investment of 1,000,000 € in this innovation would reduce the total costs from 20 million € to 16 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 the joint venture?
2. Which problems are INCOTERMS supposed to solve? How do they do so? Name and explain four examples.
3. Name and explain potential barriers to cross-border M&As. Moreover, name and briefly explain three advantages and three disadvantages of cross-border M&As.
4. Name and explain potential pitfalls of corporate collaborations, also describe the respective underlying economic problem and potential solutions. What factors determine the fit of cooperative ventures? Name them and use your own examples to explain them.
5. What are the three types of staffing policies in international business? Briefly describe each one. What are the advantages and disadvantages of each approach? Briefly explain two factors that positively influence the three directions of expatriate adjustment.
6. Internationalization is a specific corporate strategy to achieve organizational growth. Explain the ten factors for growth according to A. T. Kearney which describe determinants of growth from a market and resource perspective.

7. Assume that a multinational corporation has a subsidiary (A) located in country A, which has a corporate tax rate of 25 percent. Subsidiary A sells a pre-product to a subsidiary (B) located in country B, which has a corporate tax rate of 30 percent. Subsidiary B assembles the final good. A's production cost per pre-product are \$12,000. The firm's length price is \$14,000. Subsidiary B sells the cars for \$18,000 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.

Part B (max. 60 points)

Which Problems do you predict to occur in this relationship? Discuss potential problems and possible solutions based on economic reasoning, using economic terminology. Read the following text carefully.

BMW, Audi Plan Production Expansion as They Vie for Luxury Lead

Bayerische Motoren Werke AG and Volkswagen AG's Audi are both planning to expand capacity as they seek to lead the luxury-car market. BMW, the world's No. 1 luxury-car maker, is considering building two new factories in emerging markets to expand its lead over Audi. Chief Executive Officer Norbert Reithofer said today. Audi may build cars in the U.S. as it aims to increase its global workforce by 17 percent through 2020. Audi, which has outsold Daimler AG's Mercedes-Benz so far this year, is setting its sights on topping BMW as the global luxury-car leader by 2015. The Volkswagen unit wants to expand in the U.S. and extend its lead over BMW in Europe and China with new cars like the A1 subcompact and Q3 compact sport-utility vehicle. "We're expecting further growth over the long term beyond 2015," Chief Executive Officer Rupert Stadler said in a speech at Audi's annual shareholders' meeting in Neckarsulm, Germany. "That gives us confidence to further expand our product portfolio and develop our internationalization, possibly also with production capacity in the U.S.," Audi, which employs about 60,000 people worldwide, plans to add 10,000 positions over the coming decade, the CEO said. The company expects China to keep growing "in a high pace" in the medium term. It's also targeting U.S. sales of 200,000 cars and sport-utility vehicles starting in 2015, after deliveries in the market exceeded 100,000 vehicles last year for the first time.

BMW isn't sitting idle. The maker of BMW, Mini and Rolls-Royce cars is also expanding in emerging markets as it looks to guard its independence and fend off Audi. The Munich-based carmaker is evaluating sites for a plant in Brazil and considering building a new factory in Russia, India, South Korea or Turkey, Reithofer said at BMW's annual shareholders' meeting. "People in these countries want more individual mobility," Reithofer said in a speech. "We want to further our lead in the premium sector." BMW's joint-venture plant in Shenyang, China, is boosting investment to 1 billion euros (\$1.42 billion) from 560 million euros. The automaker, which is also planning to invest 2 billion euros in German plants, is adding assembly of the X3 sport-utility vehicle to a factory in Chemnitz, India. The company will pay a record profit-sharing bonus to employees this year based on 2010 results. Workers paid under collective-bargaining deals will get an average 5,840 euros, the equivalent of 1.6 times monthly wages. The company today confirmed its goal of increasing profit this year and selling more than 1.5 million vehicles. BMW aims to hire 2,000 people this year to support expansion, Reithofer said.

BMW is proposing a dividend of 1.30 euros per share after 2010 net income surged to 3.22 billion euros from 204 million euros a year earlier. The investor payout is a record for the company, Reithofer said today. The German carmaker earned more money per car than ever in its 95-year history in the first quarter because of saving derivatives of the revamped 5-Series sedan and lower spending on supplies. BMW made a profit of 4,462 euros per car on average, compared with 4,145 euros at Daimler AG's Mercedes-Benz and 2,981 euros at Volkswagen's Audi. Sales of BMW's 5-Series more than doubled to 85,400 vehicles in the first quarter, fueling a 21 percent advance in total sales to 382,800 autos. BMW said May 4 it expects to sell "well over" 1.5 million vehicles this year, a record, surpassing the 2010 level of 1.46 million.

China's growing economy and a rebound in spending in the U.S. are driving record demand for vehicles from the three German luxury-car makers. VW reported first-quarter earnings before interest and taxes more than tripled because of demand for Audi in China. Daimler's operating profit rose 71 percent, led by sales of the Mercedes S-Class. Audi's operating profit was 10.6 percent of sales in the first quarter, compared with 9.3 percent for Mercedes and 11.9 percent for BMW's automotive division. BMW is expanding its lineup to reach a goal of selling more than 2 million cars and SUVs annually by 2020. It has created the "i" electric-car sub-brand, which will start in 2013 with the i3, a battery-powered city car. BMW is also planning the i8, a hybrid supercar. The sub-brand's models will have frames built largely of carbon fiber and display a blue ring around the BMW logo. The company is developing front-wheel drive models for the BMW brand and plans to expand the Mini line with a coupe and roadster. The manufacturer is pushing into transport-related services and experimenting with short-term rentals. BMW has also started a \$100 million venture-capital unit and invested in the MyCityWay guide service.