



11040 Introduction to International Management (ST 2012)

Final Exam

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Final Exam

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.

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. Assume that the multi-national corporation Seatrain has a subsidiary in Canada, which has a corporate tax rate of 35%. The subsidiary in Canada produces boat engines and sells them to another subsidiary of Airtrain in Swiss, which has a corporate tax of 50%. Canada faces production costs per unit of \$100,000. The arm's length price is \$120,000. The subsidiary in Swiss assembles the boat and sells it for \$150,000 each. Calculate the net profits for both subsidiaries under arm's length prices. Determine the transfer price that maximizes the profit of Seatrain and calculate the net profits of both subsidiaries with the new transfer price. Explain the terms "arm's length price" as well as "transfer price" and enumerate the benefits of manipulating the latter one.
2. What are INCOTERMS and which problems are they supposed to solve? How do they do so? Name and explain four (4) examples.
3. Name four (4) alternative ways of entering foreign markets by using a company's own assets. Explain these organizational forms and compare their advantages and disadvantages.
4. Name and explain the different types of staffing policies, which internationally active firms might use. Explain potential reasons for selecting each of the staffing policies.
5. 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.

Part B (max. 60 points)

BMW is a multinational corporation. Read the following text carefully and explain the different strategic approaches to manage multinational business operations in detail. How can the different frameworks affect the management of business operations? Use theoretical concepts and terminology to analyze the situation.

BMW to invest £250m in UK to expand Mini production

BMW is to invest £250m in its UK factories over the next three years, the company has announced. The money will be used to increase production of the Mini at its factories in Oxford, Birmingham and Swindon. It comes on top of a £500m investment which was announced by BMW last June. More than 5000 British workers are involved in the production of the Mini.

BMW said the investment showed its commitment to Britain "as a vital manufacturing base". "Over the last decade, Mini has become a unique global success and the BMW Group has even greater plans for the future development of the brand," said BMW board member Harald Krueger in a statement. "This additional investment is great news for all our employees in the UK."

BMW said the investment would help its "international growth strategy" for the Mini as it introduced new models to the market. In January it launched the Mini Roadster, a convertible version of the Mini Coupe, the first two-seater Mini model. Both new cars are assembled at the main plant at Cowley, Oxford, which has produced more than two million Mini models since 2001.

Production outside UK

As well as extra investment at the Oxford plant, the money will be earmarked for expanding production capabilities at the steel body pressings plant in Swindon and BMW's engine plant at Hams Hall, in the West Midlands.

However, BMW said that because of current capacity constraints at the Oxford plant, it was considering setting up "satellite production" of the Mini outside of the UK in the "medium term". It said it was in discussions with Nedcar, a subsidiary of Mitsubishi, to use its plant in Born, in the Netherlands. It will have spare capacity from 2013 following Mitsubishi's decision not to continue production of its Colt model there because of difficult economic conditions.

BMW has said that the Oxford plant will remain "the home and heart" of the Mini and will provide specialist advice on establishing the new facility.