FACULTY OF ECONOMICS AND MANAGEMENT

# 11040 Introduction to International Management (WT 2012/13)

## Retake Final Exam

## Examiner: Prof. Dr. Marjaana Gunkel

**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.

Here is the set of problems:

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**Please solve *__either__* part A *__or__* part B!**

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

**Answer <u>only</u> 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. Name 5 alternative ways of entering foreign markets by using own assets of the company. Explain these organizational forms and compare their advantages and disadvantages.

3. Name and explain the different elements of institutional frameworks in international business activities. Illustrate each institutional framework element and its influences with a fictive or real example.

4. Explain the difference between moral hazard and hold-up risk in international business transactions. Explain the risks theoretically and give real or stylized examples to illustrate your explanation.

5. 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.

Please, turn the page!

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

Question: Describe and explain possible risks of foreign direct investments, and use theoretical concepts to analyze the case described in the article.

Read the following text carefully.

**Venezuela takes oil rig from driller Ensco**

**CARACAS, Venezuela:** Venezuela's state oil company said Tuesday it is taking control of an oil rig owned by contract driller Ensco International Inc., accusing the U.S.-based company of abandoning operations.

Petroleos de Venezuela, SA, or PDVSA, said its joint venture with Italy's Eni SpA has begun drilling with the rig off Venezuela's Caribbean coast. "Ensco's decision to paralyze drilling operations was taken in the course of negotiating terms and conditions for payment," PDVSA said in a statement. "This sort of pressure goes against the services contract." Nobody at Ensco's headquarters in Dallas, Texas could be reached for comment late Tuesday. Of the company's 46-rig fleet, the offshore rig known as Ensco 69 is the only one operating in Venezuela.

PDVSA said Ensco had refused to accept certain methods of payment for services that began in December 2008, suspending operations. Joint venture Petrosucre assumed control on the base of "public use and social interest" to guarantee the rig's continued activity, PDVSA said.

Under President Hugo Chavez, Venezuela nationalized four major oil projects in 2007, pushing U.S. oil giants Exxon Mobil Corp. and ConocoPhillips to leave the country, while others stayed on. But as PDVSA becomes increasingly short of cash due to depressed world oil prices, the socialist leader has been courting Big Oil for new investment, analysts say. Prices for light, sweet crude have fallen more than 70 percent since July's record high of over $147.

Oscar Garcia Mendoza, president of the Venezuelan bank Banco Venezolano de Credito, said Tuesday he'd received information that PDVSA had been accumulating debts with private contractors. PDVSA did not comment on the issue. To boost prices, PDVSA says it has slashed oil output by 364,000 barrels per day to an average of 3 million barrels per day. OPEC has pushed production cuts to 4.2 million barrels per day since September. Union leaders complained earlier this month that PDVSA has laid off thousands of workers to comply with the cuts, halting at least eight oil rigs. But PDVSA dismissed the reports, saying only three oil rigs had been affected as service companies renegotiated contracts to reduce costs.

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