

I have neither given nor received unauthorized aid on this examination, nor have I concealed any similar misconduct by others.

Signature _____

Part 1 (2 points each – circle your answer for multiple choice)

1. Walmart was successful in
 - a. England
 - b. Germany
 - c. Both a and b
 - d. Neither a or b

2. Firms may wish to avoid offshoring because of
 - a. Low wages
 - b. Intellectual property concerns
 - c. Task matching
 - d. (b) and (c)

3. The Labor department collects data on layoffs...
 - a. ...of 10 people or more
 - b. ...of 50 people or more
 - c. ...of 100 people or more
 - d. ...arbitrarily

4. _____ of jobs lost due to "movement of work" were moved to another country.
 - a. 10%
 - b. 25%
 - c. 50%
 - d. 70%

5. When is integration more efficient than outsourcing?
 - a. When the downstream firm makes large profits
 - b. When the downstream firm has the more important investments
 - c. When the downstream firm uses cheap labor
 - d. When the downstream firm makes low quality goods.

Part 2 - 2 points Each.

Please mark whether each firm/industry characteristic has a significant effect on overall management practice.

Characteristic	Effect (positive, negative, or insignificant)
Presence of Unions	insignificant
CEO Pay	insignificant
Ownership Concentration	insignificant (positive effect)
Leverage (Debt to Equity Ratio)	insignificant
Primogeniture	negative
Industry competition	positive
Education level	positive
Management Consulting	positive
Incorrect information	negative

Please mark whether the stated activity can be considered offshoring and/or outsourcing (these are not meant to be real).

Situation	Outsourcing?	Offshoring?
UCSC pays Google to run the email system	X	
Professor Spearot pays an Indian Firm to edit his research papers ¹	X	X
Toyota produces a car in the US based on an idea created at Toyota Research in the US		
Ford Kentucky, USA Truck Assembly purchases interior components from Lear Corporation Saltillo, Mexico	X	X
Facebook opens an engineering shop in Ireland.		X
Transocean leases a mailbox from a company in Zug, Switzerland to route mail.	X	X

¹ This doesn't actually happen

Part 2: (5 points each)

1. Subject to the voluntary export restraint, please list the four ways firms in Hong Kong responded.

1. Increased Quality
 2. Assembled in China
 3. Moved to non-VER country
 4. Bought and sold quota credits
- # Each
+1 for trying

2. Please list an advantage and disadvantage of the 3 main types of foreign investment.

	Pro	Con
Greenfield	Precise	Slow
Acquisitions	Faster than Greenfield	Imprecise can be costly
JV	Very Fast	Very Fast Imprecise Agency Problems

-1 for each of the 6 missed

3. What are four reasons that the principle of non-discrimination is economically and practically efficient?

- Prevents trade rerouting
 - Prevents bilateral opportunism
 - Easy to negotiate
 - Easy to administer at the border
- +1 Each
+1 for trying

4. What are three legal exceptions to the WTO principle of non-discrimination?

- FTAs - 2 for missing each
- GSP programs - 5 max
- Administered Protection

5. What did the WTO cover that the GATT did not?

- Intellectual Property
 - Dispute resolution
 - Services
 - Textiles
 - Administered Protection
- +1 Each

6. Why was the original textile VER with Japan an epic failure?

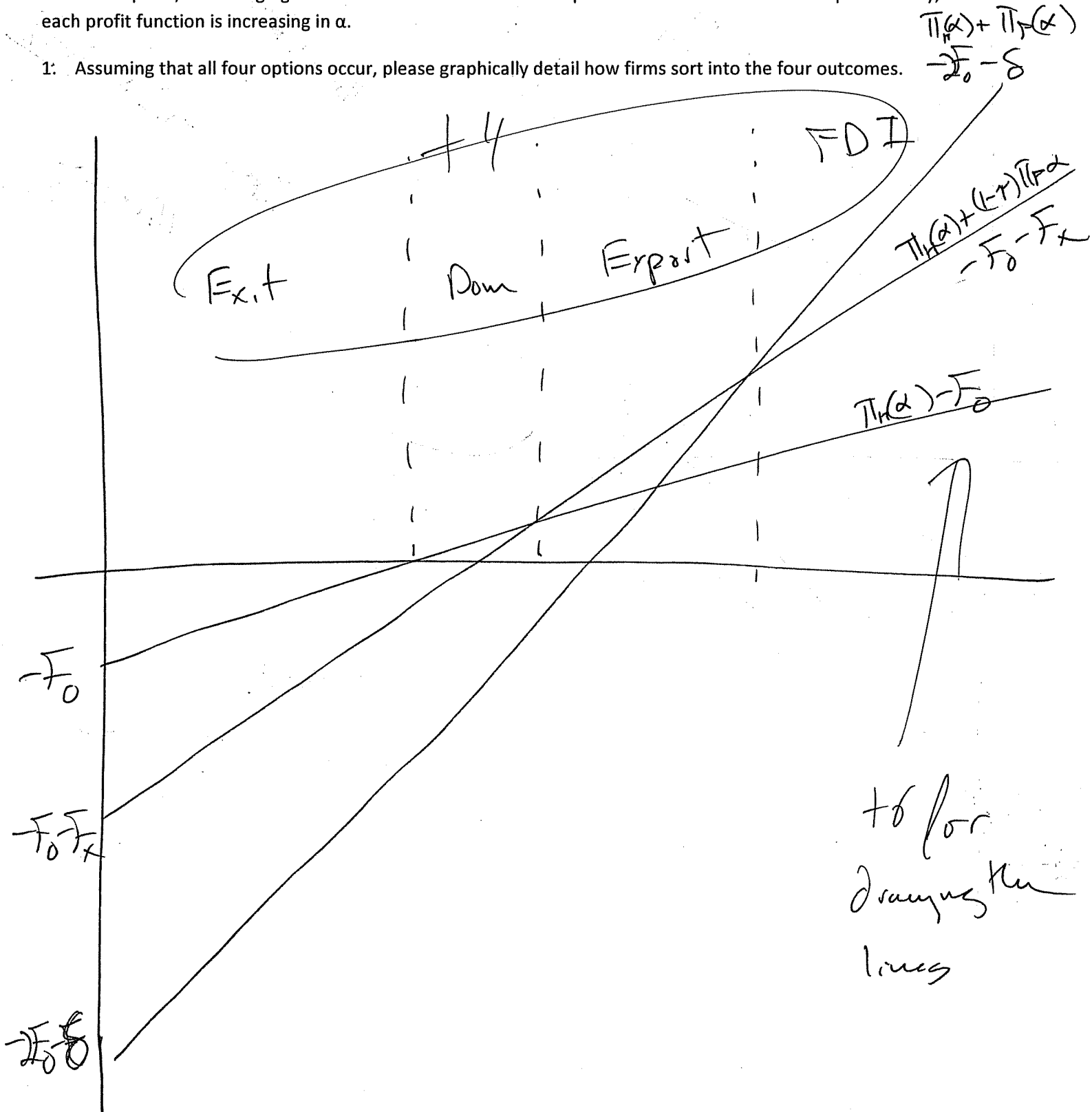
- Imports simply moved from Japan to other exports
 - Imports substituted away from cotton.
- +2.5
- +2.5

Part 3 – 10 Points each

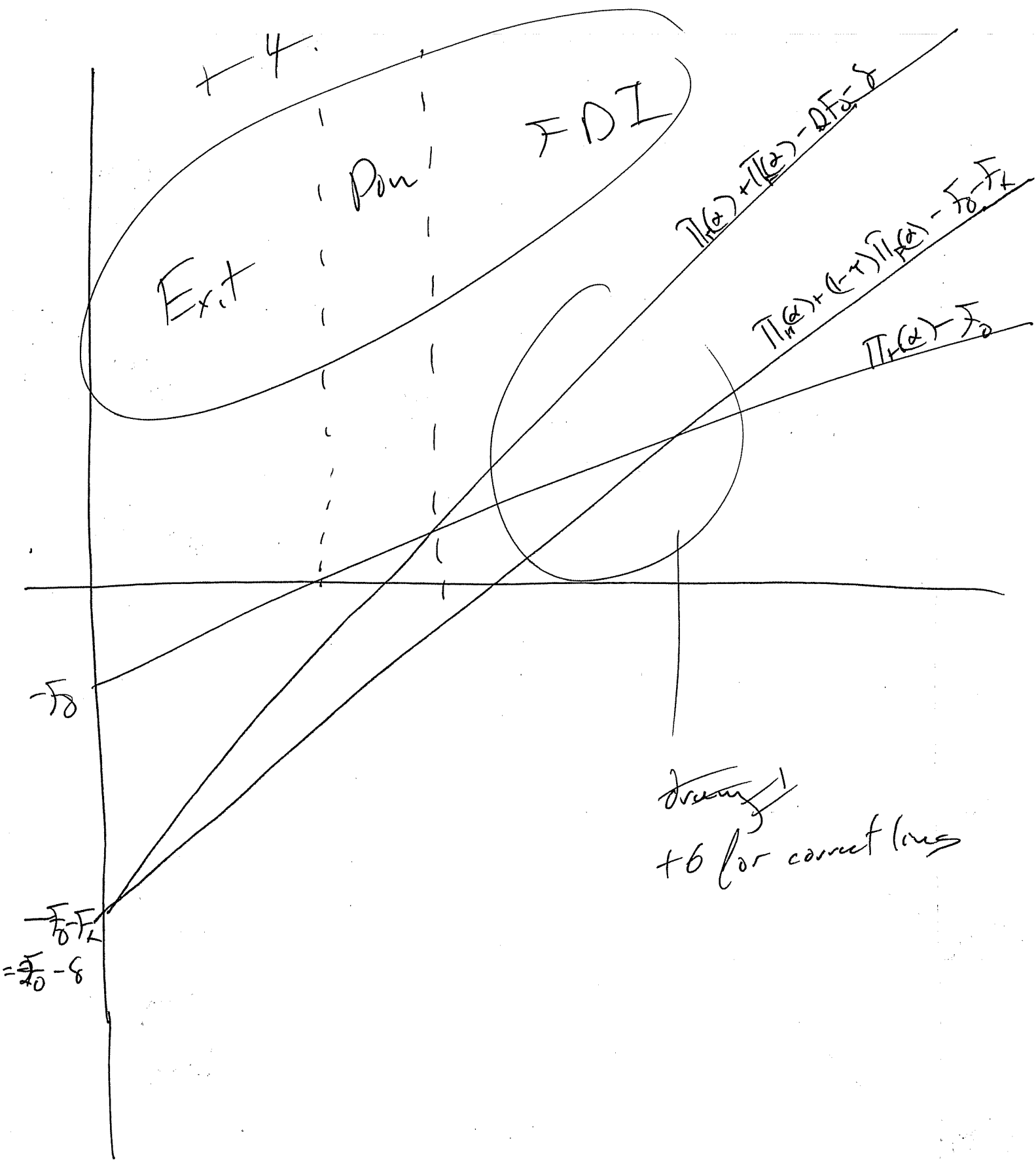
Consider the “Melitz”-type exporting/FDI model we discussed in class. A firm must decide whether to exit the market or operate, and if the latter, whether to be purely domestic, export to a foreign market, or produce directly in each market (foreign using FDI). The returns from exiting are zero. If the firm decides to operate in some manner, it must pay F_0 in overhead costs. If the firm also decides to export, it must pay F_x in exporting fixed costs. Finally, if the firm invests in the foreign country, it must pay another overhead cost F_0 and a fixed organizational cost δ .

The firm can earn $\Pi_H(\alpha)$ in the domestic market. If the firm sells in the foreign market, potential profits are $\Pi_F(\alpha)$. If the firm exports, the foreign government extracts a fraction τ of profits. The term α is firm level productivity, where each profit function is increasing in α .

1: Assuming that all four options occur, please graphically detail how firms sort into the four outcomes.



2. Suppose that like China, the foreign market wishes to promote FDI over exports. Precisely, the foreign market announces a subsidy policy such that they will subsidize foreign investment to the point where $\delta + F_0 = F_x$. Subject to this policy, please graphically detail how firms sort into the four outcomes.



3. In the previous question, what are the benefits and costs of the policy for the foreign country (no math required here)?

Pro

- Attract productive firms
- Tech transfer
- Capital investment

} Need
2 for
+5

Con

- Crowd out local businesses
- Subsidy costs

} need 2
for +5

