

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 any that apply)

1. Walmart failed in Germany for which reasons ?
 - a. Walmart Cheer
 - b. German retail laws**
 - c. Vigorous competition from competitors**
 - d. Overworked management
 - e. Previous failures in other markets
2. Ireland succeeded during the 1990's for which of the following reasons?
 - a. Access to the EU market**
 - b. Export subsidies
 - c. Development money from the EU
 - d. Well educated workforce**
3. Why did some in Ireland not feel FDI subsidies were a good idea?
 - a. Higher wages**
 - b. Limited tech spillovers**
 - c. High organic growth of local industry
 - d. High GDP growth
4. Which of the following are appropriate motivations for FDI
 - a. Place management in low skill locations
 - b. Avoiding trade costs**
 - c. Avoiding taxes**
 - d. Avoiding distribution costs
5. A country like the US would like its firms to offshore some production if offshoring _____:
 - a. leads to lower prices**
 - b. leads to fewer jobs
 - c. reduces tax revenues**
 - d. leads to increased specialization

Part 2 - 2 points Each.

Please mark whether each activity is offshoring, outsourcing, both, or neither

Situation	Outsourcing?	Offshoring?
Dominican Hospital pays Kings College London Hospital to read X-Rays and other imaging during nighttime hours.	X	X
General Motors moves production from a GM plant in Pontiac, MI to a different GM plant in Toledo Ohio		
Facebook opens an app-development affiliate in Dublin		X
UCSC hires Coursera to develop online courses	X	
Tesla buys car bodies for the Roadster from Lotus, which is located in England.	X	X

Part 3: (5 points each)

1. Please list a pro and con for Greenfield FDI, Mergers and Acquisitions as FDI, and Joint Ventures.

Greenfield

Pro: Precise, customized

Con: Relatively slow, need to start from scratch

Acquisitions

Pro: Quicker than Greenfield

Con: Integration of an imperfect partner

Joint Ventures

Pro: Very quick

Con: Legally murky brings about agency problems

2. Please discuss at least 4 ways in which FDI is more complex than exporting.

Exporting faces some of the common issues as FDI. FDI however is quite complex for the following reasons:

- Raise capital in foreign countries
- Hire foreign workers
- Deal with foreign suppliers
- Deal with foreign governments
- Cultural differences
- Where do you claim profits/losses?
- Where do you locate management?

3. Please list three reasons why and three reasons why not *a firm* would want to offshore.

Property rights

Technology

Agency problems

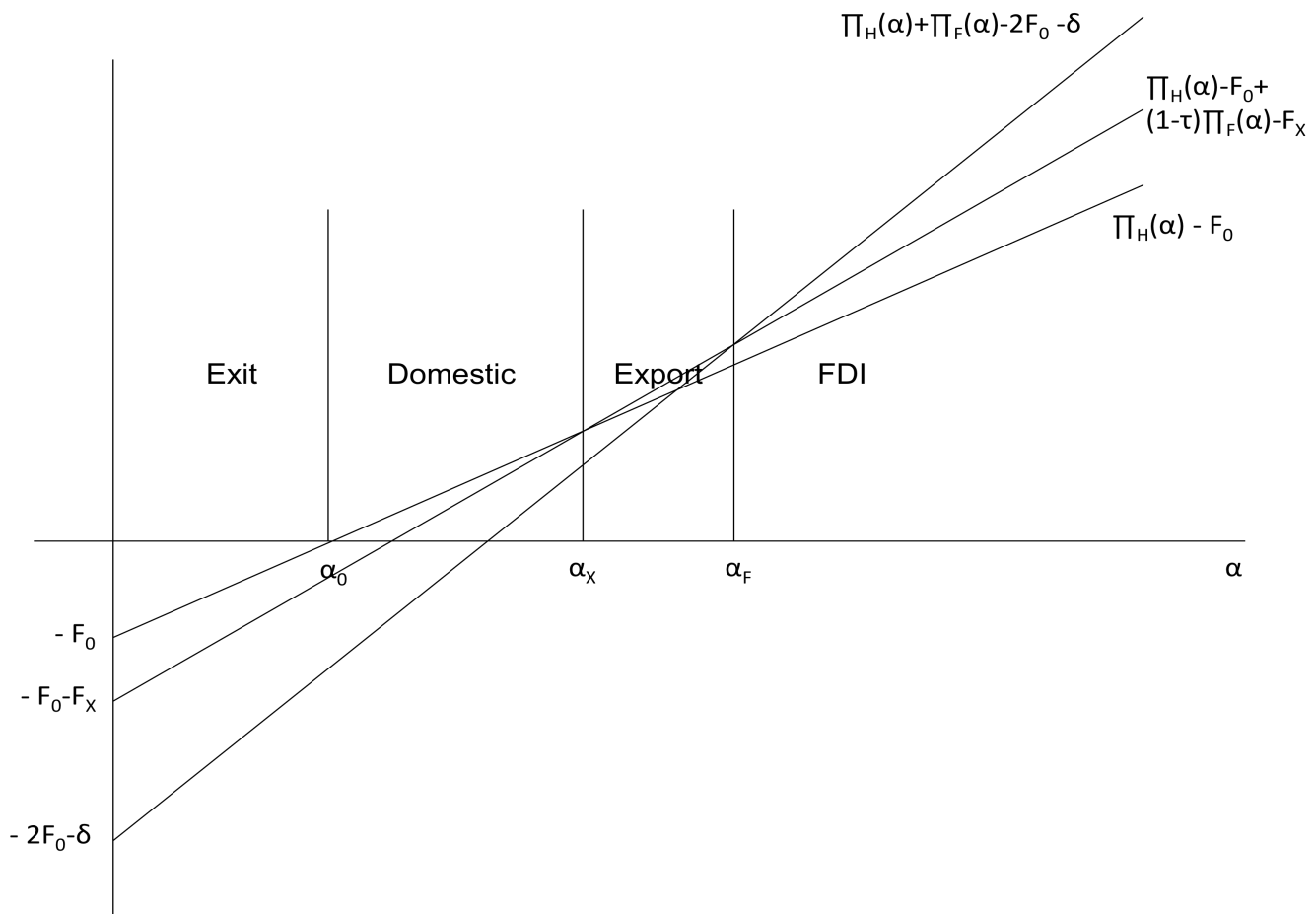
Monitoring Effort abroad

Multiple governments to deal with

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 options occur, please graphically detail how firms sort into the four outcomes.



2. Suppose that there is a fourth option, which is high-tech FDI. To use the high technology, you must pay the overhead cost as with normal FDI, but 2δ in additional costs. However, this scales up foreign profits according to $\theta\Pi_F(\alpha)$, where $\theta > 1$. Assuming that all options occur, please graphically detail how firms sort into these outcomes.

