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.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Effect (positive, negative, or insignificant)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presence of Unions</td>
<td>insignificant</td>
</tr>
<tr>
<td>CEO Pay</td>
<td>insignificant</td>
</tr>
<tr>
<td>Ownership Concentration</td>
<td>insignificant (positive)</td>
</tr>
<tr>
<td>Leverage (Debt to Equity Ratio)</td>
<td>insignificant</td>
</tr>
<tr>
<td>Primogeniture</td>
<td>negative</td>
</tr>
<tr>
<td>Industry competition</td>
<td>positive</td>
</tr>
<tr>
<td>Education level</td>
<td>positive</td>
</tr>
<tr>
<td>Management Consulting</td>
<td>positive</td>
</tr>
<tr>
<td>Incorrect information</td>
<td>negative</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Situation</th>
<th>Outsourcing?</th>
<th>Offshoring?</th>
</tr>
</thead>
<tbody>
<tr>
<td>UCSC pays Google to run the email system</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Professor Spearot pays an Indian Firm to edit his research papers¹</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Toyota produces a car in the US based on an idea created at Toyota Research in the US</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ford Kentucky, USA Truck Assembly purchases interior components from Lear Corporation Saltillo, Mexico</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Facebook opens an engineering shop in Ireland.</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Transocean leases a mailbox from a company in Zug, Switzerland to route mail.</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

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

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

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

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

   - Prevents trade re-routing
   - Prevents bilateral opportunism
   - Easy to negotiate
   - Easy to administer at the border

   +1 for trying
4. What are three legal exceptions to the WTO principle of non-discrimination?

- FTAs
- GSP programs
- Administered Protection

- 2 for missing each
- 5 max

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 countries
- Imports substituted away from cotton

+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 $\delta$.

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

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 lives
- Tech transfer
- Capital investment

Con
- Crowd out local businesses
- Subsidy costs

Need 2 for +5

Need 2 for +5