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 acquired which company(s) in Germany?
   a. Wertkauf
   b. ASDA
   c. Interspar
   d. (a) and (b)
   e. (a) and (c)

2. A majority of value added for the typical US Barbie doll is accrued in
   a. China
   b. Indonesia
   c. France
   d. United States

3. What are the benefits of offshoring?
   a. Increased productivity
   b. Increased prices
   c. Increased jobs
   d. None of the above

4. The majority of inward FDI to China comes from
   a. United States
   b. Hong Kong
   c. Japan
   d. Korea

5. China liberalized foreign investment restrictions
   a. Quickly
   b. Slowly
   c. Upon entry to the WTO
   d. Not at all
Part 2 - 2 points Each.

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

<table>
<thead>
<tr>
<th>Situation</th>
<th>Outsourcing?</th>
<th>Offshoring?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor Spearot hires TAs to grade papers</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Facebook opens an EU branch in Ireland</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Facebook pays a firm in Poland to code a new service</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Plantronic pays a firm in Santa Clara to find a new accounting executive</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Dominican Hospital uses radiologists at Stanford to read x-rays</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Part 3: (5 points each)

1. Please list three positives and two negatives of FDI for a host country.

   Positives: Tech Transfer, Increased wage, Tax Revenues, Input Spillovers, up-to-date management, new capital

   Negatives: Crowding out of local firms, profits repatriated elsewhere, subject to global ups and downs (footloose capital)

2. Please list 5 policies that encourage FDI.

   Higher trade barriers, relaxed ownership restrictions, Tax Incentives, Labor/Environmental deregulation, Education reform, Health Care
3. Please list and discuss briefly the OLI theory of multinationals.

*Organization*

*Firms own assets in which there are economies of scale in ownership*

*Location*

*Firms own assets where location is important*

*Internalization*

*Own assets when agency problems are an issue*

4. In the case of Ireland, what facts supported the case that the FDI subsidies were not a good policy?

*No real organic growth of local industry*

*Growth would have happened anyway due to a reasonably educated, English speaking workforce that has close proximity to the EU.*
1. Please discuss why Walmart was not successful in Germany.

(Two points for each.)

*Acquired stores in poor locations*

*Brand did not mesh with German consumers*

  *Bulk purchasing*
  *Greeters*

*Supply chain problems*

*A strong competitor (ALDI)*

*German policies were tough (price match, store hours, new stores)*
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 $\Pi_H(\alpha)$ 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 $\tau$ of profits. The term $\alpha$ is firm level productivity, where each profit function is increasing in $\alpha$.

2. Assuming that all four options occur, please graphically detail how firms sort into the four outcomes.
3. Suppose that the destination market reduces the trade barrier, $\tau$. Please detail graphically the effects of this change on equilibrium cutoffs. Further, please discuss the effects of the policy change on the average productivity of each group of firms.

Average productivity of FDI firms goes up

Average productivity of domestic firms goes down

Ambiguous change to the average productivity of exporters
4. Suppose the destination market is feeling especially nice, and reduces \( \tau \) to zero. Assuming that \( F_X < F_0 + \delta \), please graphically detail how firms sort into each outcome.

Since Tariffs are zero, the variable profits of FDI and Exporting are the same. Given the assumption on fixed costs, FDI never occurs.