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. How did Walmart enter the market in Mexico?
   a. Merger
   b. New investment
   c. Licensing
   d. Joint Venture

2. After an initial review of bribery allegations, Walmart gave jurisdiction of the investigation to
   a. The new Walmart CEO
   b. The Department of Justice
   c. Walmart of Mexico
   d. Nobody

3. In what other markets has Walmart been implicated for bribery and corruption?
   a. Brazil
   b. Canada
   c. China
   d. India

4. After NAFTA, the Detroit Three automakers offshored which types of truck to Mexico?
   a. High value
   b. Less-complex
   c. More capital intensive
   d. Older vintage

5. Where did the Detroit Three automakers expand capacity immediately following NAFTA?
   a. Canada
   b. Mexico
   c. Mexico and the US
   d. Canada and Mexico
   e. Canada, Mexico, and the US
6. Transfer pricing is important in which industries?
   a. Pharmaceuticals
   b. Biotechnology
   c. Telecommunications
   d. Industries with lots of outsourcing rather than integration.

7. Which of the following are associated with superior management practices?
   a. Primogeniture
   b. Competition
   c. Concentrated Ownership
   d. Being a multinational

8. The management advantage of multinationals is __________
   a. Diminished in markets other than their home market
   b. Amplified in markets other than their home market
   c. Similar across all markets
   d. Inconclusive

9. Prior to the management intervention in India, approximately what percentage of the workforce costs were spent on repairs of poorly constructed textiles?
   a. 1%
   b. 5%
   c. 10%
   d. 20%

10. When quotas under the MFA were removed in China, state-owned firms
    a. were better off
    b. were worse off
    c. were indifferent to the removal of quotas
Part 2 Transfer Pricing (10 points each)

1. Please discuss how the outsourcing decision is crucial for the applicability of transfer pricing. (10 points)

   *When outsourcing occurs, there is market or negotiation and a stated price. When there is integration, then the normal laws of supply and demand are suspended, which requires a transfer price between affiliated parties.*

2. Please discuss how the documentation standards for transfer pricing have changed over the last two decades. In what way are these changes good for the firm? In what way are they bad? (10 points)

   *Documentation standards have increased dramatically over the last few years.*

   *This can be good for the firm since it brings certainty to the process over transfer pricing. If the rules are clear, this prevents the possibility of double taxation.*

   *On the other hand, this is a classic example of red tape, which can be a fixed cost of operation.*
3. Please discuss the differences between the Comparable Uncontrolled Price and Comparable Profits Methods? What is wrong with these rules? (10 points)

*The comparable uncontrolled price is used when the affiliated parties somehow also trade a similar good with unaffiliated parties. Under this case, the transfer price between affiliated parties should be similar to the uncontrolled price between one part of the affiliated arrangement and an outside firm.*

*The comparable profits method is used when no comparable uncontrolled price exists. Under this technique, one finds a similar firm doing similar things in similar markets and then compares profit margins in both markets. Transfer prices are set to make profit margins relatively similar.*

*These rules are poorly thought out since firms that integrate and firms that outsource are not the same selection of firms. This is particularly important for CUP since the inputs that are integrated and those outsourced are almost surely going to be different inputs.*
Part 3 Investment, Management, and Policy (10 points each)

1. Subject to the voluntary export restraint, please list the four ways firms in Hong Kong responded (10 points)

   Moved production to china – save on costs within quota
   Upgraded quality – increase margins within quota
   Move to a non-quota country
   Buy and sell quota credits

2. What are four reasons that the principle of non-discrimination is economically and practically efficient? Please give one reason why the principle of non-discrimination may naturally discriminate. (10 points)

   **Positives**

   Prevents negotiation over roughly many tariffs
   Ensures low-cost supplier wins
   Prevents trade re-routing
   Prevent bilateral opportunism

   **Negatives**

   MFN may naturally discrimination when quality differs within a product. That is, a luxury variety and a basic variety may be assessed the same tariff but their consumers may differ. Thus, the tariff can discriminate across these consumers.
3. Please describe the alleged process by which Walmart increased growth by using bribes? How did the alleged scheme unravel? (10 points)

Walmart used trusted fixers, or gestores, to funnel money to mayors, city councils, obscure urban planners, and permitting agencies. This accomplished the following:

- Bought zoning approvals
  - Changed zoning maps
- Reductions in environmental impact fees
  - Made objections “vanish”
- Allegiance of neighborhood leaders

The alleged scheme unraveled when Sergio Cicero Zapata, a participant in the scheme, was passed over for a promotion and not happy.