

Study Questions

Lecture 11

Multinationals and International Capital Movements

Part 1: Multiple Choice

Select the **best** answer of those given.

1. Which of the following would be an example of foreign direct investment from the United States to Taiwan?
 - a. A U.S. bank buys bonds issued by a Taiwan computer manufacturer.
 - b. A U.S. car manufacturer enters into a contract with a Taiwan firm for the latter to make and sell it spark plugs.
 - c. Microsoft hires a Taiwanese computer programmer to debug some software for it.
 - d. The state of California rents space in Taipei for one of its employees to use promoting tourism in California.
 - e. Warren Buffet (a U.S. citizen) buys a controlling share in a Taiwanese electronics firm.

2. What is the relationship between foreign direct investment (FDI) and multinational enterprises (MNEs)?
 - a. An MNE never involves FDI.
 - b. FDI is never done by an MNE.
 - c. All MNEs involve FDI.
 - d. All FDI is done by MNEs.
 - e. Some (but not all) MNEs do some (but not all) FDI.

3. What is the connection, if any, between comparative advantage (CA) and foreign direct investment (FDI)?
 - a. Nothing. CA has nothing to do with FDI.
 - b. Countries often engage in FDI in industries where the country they invest in has a comparative disadvantage.
 - c. Countries often engage in FDI in industries where the country they invest in has a comparative advantage.
 - d. When a country's firms invest abroad, this helps to create CA in the same industry at home.
 - e. When a country's firms invest abroad, this helps to create CA in the same industry in the country where they undertake the investment.

4. If a German manufacturer of household appliances wants to take advantage of the cheaper labor available in the Czech Republic, which of the following actions will **not** serve that purpose?
 - a. Build a manufacturing subsidiary there and employ Czech workers.
 - b. Build a plant in the Czech Republic and send all German workers to operate it.
 - c. License a Czech firm to produce its products under its own label.
 - d. Contract for a Czech firm to do some of the processing for it.
 - e. Buy a Czech firm that produces similar products, and adapt it to produce its own products.

5. Tariff Jumping occurs when
 - a. A firm that otherwise would have exported to a country instead invests there in order to avoid paying the country's tariff.
 - b. A country raises a tariff against a foreign exporter who sells to it below cost.
 - c. Countries raise (and lower) their tariffs in an effort to stabilize the price of a product on the domestic market.
 - d. A firm buys inputs from domestic firms rather than importing them from abroad over a tariff.
 - e. A government levies a tariff on the price of a good that already has been increased by another tariff.

6. When a company moves its tax residence to a low-tax jurisdiction such as the UK or Ireland, on what portion of its earnings does it pay less taxes?
- Its earnings from production in the country that it moves its tax residence from.
 - Its earnings from production in the country that it moves its tax residence to.
 - Its earnings on intangible assets, like holdings of noble gases.
 - Its earnings on intangible assets, like patents.
 - None. Rules of the IMF require that such jurisdictions levy taxes at the same rate as a firm's original country.

Part II: Short Answer

Answer in the space provided.

- Look back at the choices provided for question 4 above. Which of them constitute acts of foreign direct investment?
- Suppose that Mexico has previously had restrictions on inflows of foreign direct investment from all sources, including the United States. Then suppose that they remove those restrictions on flows from the United States in a particular industry, say hammocks. As a result, several hammock producers in the U.S. move production to Mexico via FDI. Indicate for each of the groups below whether you expect them to gain or to lose from this flow of investment.
 - Workers previously employed in hammock production in the U.S.
Gain / Lose
 - Workers previously employed in hammock production in Mexico.
Gain / Lose
 - Owners of firms that move production to Mexico.
Gain / Lose
 - Owners of U.S. hammock firms that **do not** move production to Mexico.
Gain / Lose

- e. Owners of firms in Mexico that previously produced hammocks.

Gain / Lose

- f. Consumers of hammocks (assume that there already was free trade in hammocks).

Gain / Lose

3. What do the following acronyms stand for, and what do they mean?

a. DFI

b. MNE

c. TNC

d. MOFA

4. What are three ways that a company in one country can serve (sell its product to) a market in a foreign country?

5. How could U.S. firms doing FDI abroad cost jobs in the United States? How could it save jobs in the United States?