

Multinationals and the Globalization of Production

Exam 2

Penn State // Fall 2017

Administrative things

- ▶ Sign in to Arkaive.com (course code: 84ST)
 - ▶ If not working, sign in up front

- ▶ Exam II (65 submissions)
 - ▶ Pick up from the front table
 - ▶ Mean = 71, max = 99 (exam I: mean = 64, max = 95)
 - ▶ [25th, 50th, 75th] percentile = [65, 76, 83] (exam I = [50, 68, 78])
 - ▶ Solutions online

Halftime

- ▶ Exam 1 + Exam 2 = 50% of final score
- ▶ Take the average of your exam scores
- ▶ Compare to the decile cutoffs

decile:	10	20	30	40	50	60	70	80	90	100
cutoff:	51	54	61	67	71	77	80	84	87	97

Case study question

- 5a. With respect to the United States and Mexico, what kind of policy change is GM worried about?
- 5b. Explain how GM's multinational structure makes it particularly vulnerable to this kind of risk.

Vertical FDI

- 6a. The trade costs for shipping electrical components to another country is $\tau_e = 0.1$. The cost of trading the finished tools is $\tau = 0.05$. What is the optimal firm structure? Explain your answer.
- 6b. As part of NAFTA's renegotiation, Mexico imposes a tariff of 15 percent on imported power tools, bringing the cost of shipping tools to $\tau = 0.20$. What is the optimal firm structure? Explain your answer.
- 6c. How has the renegotiation of NAFTA changed Black and Decker's demand for skilled and unskilled labor?

Competing for FDI

► $\pi_1 = 100, f_1^p = 105, \pi_2 = 95, f_2^p = 105, b_1 = 20, b_2 = 20, \eta = 0.01$

- 8a. What subsidy does country 1 offer it is the only country making a subsidy offer to the firm? What is the after-subsidy benefit?
- 8b. What subsidy does country 2 offer it is the only country making a subsidy offer to the firm? What is the after-subsidy benefit?

Competing for FDI

- 8c. Suppose the two countries both make sealed subsidy offers to the firm. If the firm's after-subsidy profit for locating the project in each country is the same, the firm will randomly choose a country to locate the project. What subsidies do the two countries choose?
- 8e. Is the outcome of this game socially optimal, in the sense that it created the largest joint surplus possible?

Regrading

- ▶ Points added wrong? See me after class.
- ▶ Would like a question regraded?
 - ▶ Look over the solution (on course website).
 - ▶ Complete exam regrade request form (on course website).
 - ▶ On the form, explain why your answer is correct.
 - ▶ Turn in regrade form and your exam to me.
 - ▶ Entire exam is regraded. Score could decrease.
- ▶ Deadline for regrade request: end of class Tuesday 11/28