International bussiness an asian perspective chapter 9-11

Business, Work

CHAPTER 9 9. 1) The interest rate on South Korean government securities with one-year maturity is 4% and the expected inflation rate for the coming year is 2%. The US interest rate on government securities with one-year maturity is 7% and the expected rate of inflation is 5%. The current spot exchange rate for Korea won is $1 = W1, 200. Forecast the spot exchange rate one year from today. Explain the logic of your answer. Drawing on what we know about the Fisher effect, the real interest rate in both the US and South Korea is 2%.

The international Fisher effect suggests that the exchange rate will change in an equal amount but in an opposite direction to the difference in nominal interest rates. Hence since the nominal interest rate is 3% higher in the US than in South Korea, the dollar should depreciate by 3% relative to the South Korean Won. Using the formula from the book: (S1 - S2)/S2 x 100 = i$ - iWon and substituting 7 for i$, 4 for iWon, and 1, 200 for S1, yields a value for S2 of $1= W1, 165. 9. 3) You manufacture wine goblets.

In mid-June you receive an order for 10, 000 goblets from Japan. Payment of ? 400, 000 is due in mid-December. You expect the yen to rise from its present rate of $1 = ? 130 to $1 = ? 100 by December. You can borrow yen at 6 percent a year. What should you do? The simplest solution would be to just wait until December, take the ? 400, 000 and convert it at the spot rate at that time, which you assume will be $1=? 100. In this case you would have $4, 000 in mid-December. If the current 180-day forward rate is lower than 100? $, then a forward contract might be preferable since it both locks in the rate at a better level and reduces risk. If the rate is above ? 100/$,

then whether you choose to lock in the forward rate or wait and see what the spot does will depend upon your risk aversion. There is a third possibility also. You could borrowmoneyfrom a bank that you will pay back with the ? 400, 000 you will receive (400, 000/1. 03 = ? 388, 350 borrowed), convert this today to US$ (388, 350/130 = $2, 987), and then invest these dollars in a US account.

For this to be preferable to the simplest solution, you would have to be able to make a lot of interest (4, 000 - 2, 987 = $1, 013), which would turn out to be an annual rate of 51% ((1, 013/4000) * 2). If, however, you could lock in these interest rates, then this method would also reduce any exchange rate risk. What you should do depends upon the interest rates available, the forward rates available, how large a risk you are willing to take, and how certain you feel that the spot rate in December will be ? 100 = $1. 9.) You are the CFO of a Philipine firm whose wholly owned subsidiary in Mexico manufactures component parts for your Philipine assembly operations. The subsidiary has been financed by bank borrowings in the United States. One of your analysts told you that theMexicanpeso is expected to depreciate by 30 percent against the dollar on the foreign exchange markets over the next year. What actions, if any, should you take? Your financing and operating capital are in dollars, yet many of your costs (labor) must be in peso.

Your hard assets are all in peso, and their value will decline. On the other hand, if the peso depreciates, then your dollars will go further. So perhaps doing nothing is the best approach. If you are pretty sure that the peso will depreciate, then you may want to avoid any major peso-denominated costs

that you can until after devaluation. That may mean holding back on shipments if possible, and you may want any dollar-denominated purchases made before the devaluation.

You may want to move any peso-denominated major accounts into dollars before the devaluation. CHAPTER 10 1. Why did the gold standard collapse? Is there a case for returning to some type of gold standard? What is it? The gold standard collapse for the reason it would not allow for a nation's economic expansion. When times of war or acts of the like required for a economy's government to spend above the limits of its gold supply in turn the government would print extra money into circulation to compensate the excessive expenditures.

This would cause a problem when these times of crisis would end and the extra printed money caused rapid inflation with in that nation. That nation would then try to re-establish it's rate hold per ounce of gold, yet not being able to internationally maintain that rate which would causefailurein this system. This is just one good reason I see as the collapse of the gold standard. I would say not. The problem is presented when a nation has the desire and ambition to grow yet there is only a set amount of gold and silver to be removed from the earth to back monetary value.

When you have a limited amount of backing it kind of limits your growth and expansion. I could foresee a problem with any system if the players are too inconsistant and change theenvironmentof the game too often. I currently have faith in our floating exchange rate system because it acommidates human inconsistancy and allows for frequent change with the ability to

stabilize. 2. What opportunities might current IMF lending policies to developing countries create for international businesses? Most of these developing countries are consumer countries.

IMF usually focuses on areas that will be improved by the specific kitty. You can therefore look into these areas and seek to be an exporter to them, whether of services or of goods. These countries are also seeking to stabilize balance of trade. If they seek to import, there is still business for anyone who is aligned to hit at the right time. The fact also, that they have simplified cost and maturity means that it can create sustainability of any business that starts due to ease of re-borrowing. 3.

Do you think the standard IMF policy prescriptions of tight monetary policy and reduced government spending are always appropriate for developing nations experiencing a currency crisis? How might the IMF change its approach? What would the implications be for international businesses? Critics argue that the tight macroeconomic policies imposed by the IMF in the recent Asian crisis were not well suited to countries that were not suffering from excessive government spending and inflation, but instead from a private-sector debt crisis with inflationary undertones.

Anti-inflationary monetary policies and reductions in government spending usually result in a sharp contraction of demand, at least in the short run. In the longer term, the policies can promote economic growth and expansion of demand, which creates opportunities for international business CHAPTER 11 CLOSING CASE 1. Why did China Mobile feel it was necessary to issue equity in markets outside of its home base in Hong Kong? What are the advantages

of such a move? Maybe it’s because China Mobile wanted to take advantage of international exchange rates.

Since the company wanted to achieve maximum competitive advantage, one way of assuring itself that it will always have adequate capital funding is by seeking external currencies as sources for tapping and hedging against any local market conditions that may have a negative impact on its local stocks. The advantages of such a move are the fact that other major world currencies such as the U. S. dollar tend to be more stable against most world currencies and the fact that being cross listed easily can be a use of additional funding to the company in the future should the need arise. 2.

Why did China Mobile price the bond issue in U. S. dollars instead of Hong Kong dollars? Pricing the bond issue in U. S. dollars instead of Hong Kong dollars is to safeguard the stability of the price of its bond. Since the capital markets within the American market is also the most vibrant in the world, pricing the bond in U. S. dollars will ensure that for purposes of trading, there is a more vibrant, ready and willing market that can assure China mobile's bond to have a fair value and upon expiration, market values will most likely be much higher than those of the local market. . Can you see any downside to China Mobile's international equity and bond issue? I don’t see any downside issues that should discourage China Mobile's international equity and bond issue. Probably, there would be more of a challenge in the socialistcultureof China. By pricing its equity and bond internationally, the local market may shun from the company on their capital markets since it’s

perceived to be more attractive in international players. Although China Mobile’s international...