How mnes budget in a global context

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Discuss how Multi National Enterprises carry out capital budgeting in a global context, and explain aspects which are unique to foreign project assessment.

In this chapter, discussion on how Multinational Enterprises carry out budgeting globally is discussed. Various factors that are influenced by these MNCs are demonstrated. Capital budgeting and why it’s implemented is discussed. Companies that decide in doing business abroad and those which are already dealing in abroad have a multiple sources through which they can learn the cultures of foreign countries. Some sources are general talk with employees who worked abroad, managers who travelled abroad, training programmers and consulting with other firms as well. Gaspar, J., et al., (2013). The volume of international transactions has grown rapidly over the past 60 years. National capital markets have changed to unified capital markets followed by international securities. Therefore investors are realizing the huge ability of international portfolio type of investment. The risk found here is more than domestic budgeting as the company’s stock is affected by the riskiness of capital budgeting and the level of earnings stream. Kim, S., & Kim, S. (2009).

Multinational companies depend on capital budgeting methods for the evaluation of foreign investment projects. Capital budgeting is a method or issue for adopting stockholders and increasing the wealth as an objective action. There are confusions and complicated situations for capital budgeting in a multinational corporation. Multinational capital budgeting is an issue of foreign direct investment agreements. Foreign investment aims include- Strategic aims, behavioral aims and economic aims. Strategic aims include, Market seekers who produce in foreign and just meet local demands and exports to markets, Raw material seekers who are responsible to collect sources from available places, Production skill seekers who produce goods at countries that are low of manufacturing costs, Knowledge seekers who pay handsome money to developed countries inorder to get their technologies and Political safety seekers who invest in interfering countries related to their business. Behavioral aims are developing a market for goods and other products, bringing into usage of old machinery, research spreading and expansion, reinvesting on countries that has lost its link in a particular territory. Economic motives are based on the theory of imperfection on products, financial properties and factors of production. Riahi-Belkaoui, A. (2001).

There are four elements of major importance which can be said as the managerial conclusion for capital budgeting as they help in the critical positioning of the Multi National Enterprises compared to that of domestic companies. Firstly investment Oppurtunities are present at a larger scale in MNEs. Secondly they are provided with good information on the input and output benefits of a specific investment strategy. Thirdly risks are reduced due to international changes. Fourthly exploiting international differences in market defects or imperfections are present. In Rugman’s view the capital budgeting process in MNEs characterizes the increasing importance of firm specific action management considerations. This replaces the traditional financing or portal capital elements, specifically in cases of multinational global competition. Capital budgeting in functionally organized MNEs results in less efficiency due to various reasons. A functional structure would encourage opportunistic behavior by functional managers, even by corporate levels. This would cause difficult situations to separate strategic plans such as operational decisions and capital budgeting. Focusing on the much higher complexity of capital budgeting effective control and sanctioned systems designed a monitoring outcome of the investments that has been undergone. Rugman, A. M. (1996).

Global companies with compact operations are at best in being able to design and manufacture regulated products in a few high volume facilities inorder to take advantage of economies of scale. These products are adaptable to the local markets and are sold around the world. The approaches of multinational enterprises are in a decentralized manner where in different regions were held responsible for both production and marketing. The development of a business plan and finalizing its capital expenses are placed in the hands of local managers as they are aware of the global expenditures and expectations. Feist, W. R. (Ed.). (1999).

Multinational companies are constantly achieving and showing their assets globally in the course of business. The investments that are made by the company determines their competitiveness in the marketplace and their long-run survival. Capital budgeting for foreign projects focuses on the cash flow of expected long-term investment projects and on constructing retail stores in other countries. There are complexities in multinational capital budgeting such as foreign currency fluctuations, Long-term inflation rates. The parent money invested flows globally to other countries and their value is obtained by the fluctuations in the currency rate within a given period of time. So it is necessary to estimate the future exchange rates under various scenarios. Long term inflation rates affect the competitiveness of the enterprise globally. It affects the cash flow both in terms of prices of inputs and outputs. It will affect the finance between domestic and foreign sources. Saudagaran, S. M. (2009).

Foreign investments are unique to domestic investments as they require many formalities to take place before the investment. Foreign investors must prepare an application to the Foreign Investment Committee that contains all the details of the foreign investor. This Foreign Investment Committee has the advocate in favor of the foreign investors. They also give a period of six months to the foreign investors for the approval of the application and executing the contract. Here the income tax rate has a time limit of 10 years and a maximum up to 20 years in case of large projects. Campbell, C. (2007)

Capital expenditures decisions regarding permanent and irreversible commitment of funds to projects whose benefits are to be obtained over a long period of time than that of the current year is the most important financial agreement as it affects directly the value of the firm. A distinguish between the present cash flow and the investment expenditures of the projects gives an idea to the firm of what decision is to be made about the project. Capital budgeting for foreign projects is same as that of domestic projects where in the view of the parent firm should be undertaken when the cash flow values exceeds the initial expenditure spent. However there are other situations that make the foreign projects more complicated. Several surveys have suggested that Multi National Enterprises tend to consider foreign projects on both the parent and project viewpoints. These MNCs should forecast a projects true profitability which regulates the minimum revenue and minimum cost associated with the project. Incremental cash flows to the parent can be confirmed only when subtracting worldwide parent company cash flows without considering the post-investment done by the parent cash flows. The tax issue for the multinational capital budgeting reasons is complicated due to the fact that they have to pay both the home country as well as host country including other factors as well. First the tax is applied in the host country and then when getting the profits it is again taxed in the home country. Thus investments on foreign projects fall under the tax net. Shapiro, A. C. (2008).

MNCs use a major principle behind each method they use is to increase their information sources and use them effectively when while reducing inconsistent cash flow and the cost of capital alterations. Generally in practice, the methods used are usually involving the adjustments of cash flows rather than the cost of the capital. This is because the risks are mainly involved in the regular cash flows than the cost of capital. There is nothing in increasing the capital cost of the project and showing its incremental risks as there is a constant change in the cash flows. Stonehill, A. I., et al., (1993).

Thus the discussion of Multinational Budgeting is successfully discussed. The reason for investing a huge sum of capital investment in foreign projects has been illustrated. There exist various political, global issues that are all responsible for the MNCs success and failure. By proper analyzing of these above discussed theories in financial markets, financial price developments can be made. Globally many MNCs struggle in the beginning to capitalize them as there would be more of direct investments without any cash flow till a period of time.

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Evaluate the UK government response to the budget deficit and the post-2008 recession.

This chapter deals about the UK government response to the budget deficit in the 2008 recession. List of factors that had caused this failure are discussed. The United Kingdom's great recession refers to the period of economic decline between 2008 and 2013. The recession started after the 2007/2008 credit crisis globally and has led to a long-term period of minimum growth and less employment. There were reasons for the bankruptcy of Britain and they were, Export failures due to the global bankruptcy, sudden fall of housing markets which led to unfavorable wealth effects, fall in bank lending's and credit crisis, due to financial helplessness the confidentiality had been lost, single currency in Europe created extra problems because of higher exchange rates and high bong earnings. The causes of the credit crisis were that in the period of 2000-2007 was a time of good economic growth, less expansion and reduction of unemployment. Even Central Banks were successful in following low expansion and ensuring economic standard. But however under the big economic standard there were lot of problems which became transparent later. Pettinger, T., (2013).

The UKs deficit in trade of goods was found to be six quarter per cent of GDP in 2007. The goods trade deficit was a bit changed as there was a small decline in the loss of manufactured goods. These goods were offset by increase in oil and fuel pricings. Overall the United Kingdom's deficit was about three fourth more than three percent of GDP in the year 2007. It then temporarily reduced to one and a half percent in the beginning of 2008 and again increased to three percent in the second quarter. Great Britain, Treasury. (2008).

The key economic developments that has shaped the public finances are, the weakness of simple GDP, high consumer price inflation firmly, productivity puzzle, weak interest rates and asset markets, down turn of real wages, an excessive hit to the financial sector. The economical cash size (nominal GDP) fell far below the expectations in between 2007-2008 and 2009-2010. This simple GDP kept increasing even when the actual GDP i. e., the quantity of the goods and services produced in the economy fell. Consumer price kept raising rapidly more than expected. The earnings were incremented very slowly due to the weakness of productivity. High consume price inflation had also been a cause for the incremental of wages. Fair pricings fell apart and short term policy rates along with government financing costs fell badly and remained in a low position. Riley, J and Chote, R.,(2014).

Capitalist system of UK has suffered a great crisis in 2008. A great depression has been threatening the whole of economy as there was pressure in the political justice and ideal shift in political economy. It was totally finance driven and was considered as the end of the age of greed. In politics a majority of people thought that by shifting the politics to the left-wing side and by redistribution was acceptable. They thought that new ideas and policies were intelligent approach by dealing them in a new way and implementing them. The government had then realized it was not just the failure of the financial system but also the way it had been regulated by a set of economic theories. It was then decided that the simplicities of illiberal and ill economics as well as an overall mathematical economical view should be rejected. The intuition of the past was to be looked upon inorder to get the clear view of the problem. Recovery had been very slow and new financial pressures have arose which had lead to future setbacks. Political economy had become complicated. The left-wing parties have not yet advanced from the crisis of capitalism. It was then in 2010, an alliance of balanced marketing people took over from a binding party on the left which had a grasp of the market ideology and language. Turner, A. (2012).

It was suggested by some evidence that the Treasury’s budget remained up-most even though there were downward revisions. In an average, individual economists forecasted that the GDP growth was 1. 6% in 2008 and 1. 8% in 2009 which were much lower than the lower border of the Treasury’s forecast. The Treasury’s confidence in the capacity of UK economy in weathering the market flows from accessing the flexibility of the economy. According to the 2008 budget, the growth of underlying gains had been “ rigid” and “ subdued”, although there was crisis and crisis expectations. England’s bank in their 2008 inflation report stated that, “ the pay growth of private sector was muted in late 2007” which rose by 4. 2% comparing with a year before. McFall, J. (2008).

The macroeconomic adjustments had become more difficult after august 2007. The United Kingdom was struck by two new shocks, the interruptions to global financing markets and high increase in the pieces of food and fuel in recent months. These shocks had heightened the uncertainties about export marketing and output growth plan, disturbed money markets, fused the ongoing correction in the domestic housing market and had increased the rise of risks on both sides. The policies that were implemented then had faced several new challenges. The estimation of the correct posture was very complicated, the communication mechanism had kept demonstrating repeated shocks as the financial markets confusion had played out. Fiscal side had become increasingly difficult to resolve total usage of automatic stabilizers with attachment to the fiscal rules. Due to the confusions, current account rates have been lowered. In prospect of output weakness the bank rate reductions have been started and advanced. They had lowered 75bp and markets had been reducing further rate cuts over 2008. Although there were divided payments by the U. K. banks in 2007, the discharge of value from foreign banks were rejected as their market status was currently low in the global aspects. This had added to the current account loss. International Monetary fund. (2008).

There had been deficit of goods and services not only from 2008 but had started ever since 1987. The shortfall had a reached a peak of £50 billion in the year 2007. These deficits were caused because they remained constant, formed a huge share of GDP, Central bank had less number of resources, the economy had a poor record of repaying debt and no compensating inward flow of investment income or the flow of inward capital account. In UK there was a strong bond between the growing economy and trade deficits. When the economy went into bankruptcy in 1990, the trade loss began to fall quickly. This bankruptcy was overcome in 1993 but the trade deficit had begun to rise quickly and had carried out over the next 15 years. The recent collapse however that took over in 2008 had caused the loss to be reduced in between 2008-2009. The main factors that lead to recession include, excessive growth, high export rates, less productivity, low levels of investment in human and real capital. The UK economy had grown too quickly than the trend rate around 2. 5% which as discussed led to failure. Higson, G. (2011).

UK had developed its economical, political and market forces shaping its business environment in a successive way since the 2008 recession. Although there had been crisis and trade deficit since 1987, it started to recover only when the deficit had reached its peak. The factors that had led to recession have been discussed above.

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