

# International finance assignment

Business



NC tend to experience greater agency problems than domestic firms because managers of foreign subsidiaries might be tempted to focus on making decisions to serve their subsidiaries rather than serving the overall NC. Proper Incentives and communication from the parent may help to ensure that subsidiary managers focus on serving the overall NC. B. Why might agency costs be larger for an NC than for a purely domestic firm? . International business is the most common method firms conduct business. Mans incur large agency costs in monitoring managers of assistant foreign subsidiaries. Second, foreign subsidiary managers raised in different cultures may not follow uniform goals. Third, the sheer size of the Mans would also create large agency problems. 2. Comparative Advantage a. Explain how the theory of comparative advantage relates to the need for international business. L.

It suggests that each country should use it's comparative advantage to specialize In Its production and rely on other countries to meet other needs. Therefore all countries would need to trade with each other competitively for the products that they are not able to produce. B. Explain how the product cycle theory relates to the growth of an NC. L. The product cycle suggests that after firms are established in their home countries, they commonly expand their product specialization in foreign countries, leading to the growth of the NC. . Imperfect Markets a. Explain how the existence of imperfect markets has led to the establishment of subsidiaries in foreign markets. I. Establishment of subsidiaries in foreign markets was due to the cost of transferring labor and other resources used for production and the cost of production in foreign factories being significantly less than local

stories. B. If perfect markets existed, would wages, prices, and interest rates among countries be more similar or less similar than under conditions of imperfect markets? Why? L.

If markets were perfect, the resources of any country could be transferred over to where a company needs them without transaction costs. Transaction costs and taxes involved in business transactions cause “frictions” and sometimes cause a firm to establish subsidiaries, without it they would be “perfect”.

6. Impact of Exchange Rate Movements

a. Play Co. Of Chicago has several European subsidiaries that remit earnings to it ACH year. Explain how appreciation of the Euro (the currency used in many European countries) would affect Play; s valuation. Plans valuation should increase because the appreciation of the Euro will increase the dollar value of the cash flows remitted by the European subsidiaries.

7. Benefits and Risks of International Business

a. Ass an overall review of this chapter, Identify possible reasons for growth In International business. Then, list the various disadvantages that may discourage International business. ; Growth in international business can be stimulated by access to foreign avenues. International business it also subject to risks of exchange rate fluctuations and political risks. . Valuation of an NC

a. Hudson Co. , a U. S. Firm, has a subsidiary in Mexico, where political risk has recently increased. Hudson best guess of its future peso cash flows to be received has not changed. However its valuation has declined as a result of its increase in political risk. Explain. -

The valuation of the NC is the present value of expected cash flows. The increase in risk results in a higher expected return, which reduces the present value of the expected future cash flows.