Economics of multinational enterprise

Literature, Russian Literature

The difference in the relative prices of commodities between any given two different countries depicts the difference that exists in terms of comparative advantage between the two countries. This will form the basis for a mutual benefit of trade between two. From such findings the countries with lower relative prices have a comparative advantage in that commodity and a comparative disadvantage in the other commodity as compared to the second nation (Beg & Manoj pg34-9).

Gains made by a country with higher comparative prices as compared to that with lower vary depending on the terms of trade and pre-trade price ratio. If the terms of trade of a country are much closer to one country pre-trade price ratio the greater the gains than the other country hence such a country is likely to specialize in the production of such a commodity. Increase in production will employ a large labor force hence a rise in real income of the favored country's citizens making them raise their consumption as a result (Beg & Manoj pg41-3).

2.

Perfect competition model produces products which are naturally homogenous and identical by definition having no brand name or trademarks hence consumers only choose on the basis of price. The industry has infinite number of firms hence the fewer the firms the larger is each firm. Firms can freely enter and exit the market since there are no legal or artificial barriers. All the participants in the market have perfect knowledge or complete information about the market hence farmers are aware of the demand and supply changes conditions. The firms are in return able to predict the future prices, demand and supply conditions. Such a market is not dwelt on much

by economists as it is not realistic.

In between PC and monopoly lies the oligopoly which means few sellers hence each firm is relatively large or giant in size. The degree of oligopoly is actually measured by the percentage of industry output. Products here are differentiated hence can be easily distinguished. Though they are open markets but they can at times be closed by some government regulation (Beg & Manoj pg 174-8).

Graphically:- For PC we have;

For oligopoly we have;

3.

(a) Price elasticity demand is the extent to which demand can change with reference to the changes in prices, depending on the type of elasticity change in demand may be high or low. If changes in price do not affect demand negatively then demand may increase to an extent that multinationalization is realized.

(b) Trade costs are additions to the overall costs of operations while market shares depend on the ability of firm to sell at the market place. Non-controlled costs are a burden to the organization hence no horizontal multinationalization.

(c) Short-run production costs are warranted and if handled well so that the firm starts making profits after covering such costs then actualized multinationalization of a firm can be made to occur.

(d) Fixed costs are a must for every organization and are therefore always planned for before operations begin. With well planned coverage of fixed

costs multinationalization would occur.

(e) “ OLI” or non-quantifiable considerations are non quantifiable per say hence would not have any impacts negative or positive in the operations of the business to nationalize.

(Beg & Manoj pg46-74)

5.

The value of the project is $10m and the cost of capital is 15%. Therefore,

(15%*$10, 000, 000)*30+$10, 000, 000=$55, 000, 000

$500, 000*10= $ 5, 000, 000

$1, 000, 000*10=$10, 000, 000

$15, 000, 000

$55, 000, 000

$70, 000, 000

Current costs are= (10%*$15, 000, 000)*30+$15, 000, 000= $60, 000, 000

Maintenance and staffing costs=$1, 000, 000*30= $30, 000, 000

$90, 000, 000

The company should therefore go ahead and establish a production plant as a FDI in a foreign country since the overall cost that will be required to establish the firm is only $70m as compared to the costs incurred by the home firm which is $90m, a difference of $20m. The costs to be incurred in sales revenue abroad 10% for transport and 10% on tariff are also well covered in the selling price hence the firm would not make any losses. What the firm will need to do is to do thorough sales and promotion to ensure that their sales revenue is busted (Beg & Manoj pg246-54).

Works cited

Beg, M. A., and Manoj Kumar Dash. Managerial economics. Cranbrook, U. K.: Global Professional Pub., 2010. Print.