# Module 6

[Finance](Finance)

Question Benefits That Walt Disney Derived From France Theme Parks Walt Disney Co. is an American multinational company that specializes in film studio products. Their last expansion saw Disney establish two theme parks in France. The motivating benefits behind this strategic move are debatable. However, as multinational company, Disney's has since then increased their revenue significantly, hence making France a best choice.

With the population and economic status, France was a new source of demand. Disney had many parks in USA and hence low customer potential and thus not a good place to expand. Given that Any US citizen can easily access the park already established parks in California and Florida and therefore Europe became a better option.

Having built their reputation, Disney expected that it can easily penetrate the European market. Although there were other theme parks in Europe, the company's reputation makes customer's lack close substitutes. As matter of fact, Disney entrance in France, not only deployed the monopolistic advantages that existing companies but also increased competition in the region hence improving quality.

Tourism industry in USA is always negatively impacted by the strengthening of the dollar. Reduction in number of tourist reduces Disney's revenue significantly. To counter this, Disney opted to enter the European market. Research has shown that the euro and dollar strengths counter each other hence Disney can still capture their customers during dollar peaks. In a nutshell, Disney aimed at capturing tourists who are not willing to visit USA. Another motivating factor might be reduced costs of production. Although the cost French labor may not differ to US labor, capital is relatively cheaper. Moreover, France ought to be the best European country of their choice due

to the availability of government subsidies on land.

In accordance with the above, it can be concluded that Disney's choice of France as an expansionary strategy increased its sales as well as customer base. However, Disney maintained its reputation by equally treating the new parks and not jesting on quality deliverance and customer satisfaction.

Question 2

a. By using the spot rate, the firm converts the initial capital outlay to pesos,;

$1 = 14 MXP

Thus $ 300000 = 300000 *14 = 4, 200, 000 MXP

Since Blustream Inc. is risk averse, it hedges the initial capital in the forward contract.

Suppose the firm gets the contract, then it will convert MXP to dollars:

Hence capital at hand: which implies earnings of $50000

Total cash inflows (in $) = 50, 000 + = $ 434615. 38

= $ 68318. 12

b. The company is endowed with the initial capital of $ 300, 000. If the company hedges it with the forward contract, it will have $ 350, 000 (calculated in a. above)

The excess, is $50, 000 = 50, 000 * 13 = 650, 000 MXP

Hence total cash inflow = 650, 000 + 3, 000, 000 = 3650, 000 MXP

PV of cash inflow = MXP

Net cash outlay = 300000* 13 = 390000

NPV = -806779. 66

Question 3

In an effort to reduce US imports from japan, the US government threatened

to impose a quota. The aim was to discourage Japanese from exporting to US and in response invest directly into the US economy, inform of FDI. In contrary, japan decided to withdraw their imports instead, hence making the US economy suffer.

By 1981, there was great demand for cars in US. For that reason demand exceeded supply hence need for importation. After Japan's withdrawal, US experienced a shortage in car supply that made the prices to rise. Given that US economy was not in a capacity to produce a level that curbs demand, their economic growth was altered.

US expectations was that japans company's would suffer from reduced demand and thus consider FDI's to US as an option. However, given the high production costs in US, (especially cost of labor), Japanese companies were better off without USA' s market, as compared to FDI's. Although japan suffered some loss in sales, the companies could also cut productions and maintain profits with other markets. US represented proportion of their market base.

In a nutshell, US strategy was aimed at reducing imports and boosting economic production at the expense of Japanese car companies.

References

Swank, D. (2008). Global capital, political institutions, and policy change in developed welfare states. Camgridge: Cambridge University Press.