Questions and Applications

3. **Imperfect Markets**
    a. Explain how the existence of imperfect markets has led to the establishment of subsidiaries in foreign markets. If each country's markets were closed to all other countries, then there would be no international business. At the other extreme, if markets were perfect and thus the factors of production (such as labor) easily transferable, then labor and other resources would flow wherever they were in demand. Such unrestricted mobility of factors would create equality in both costs and returns and thus would remove the comparative cost advantage, which is the rationale for international trade and investment (Madura, J., 2018)
    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? More similar. Why? Under perfect market conditions companies would be able to easily transfer laborers / production and resources to other countries removing the comparative cost advantage.

7. **Benefits and Risks of International Business** As an overall review of this chapter, identify possible reasons for growth in international business. Then list the various disadvantages that may discourage international business. Possible reasons for growth international business could be cheaper labor, or lower cost of goods; savings from logistics (import / export of goods); broader customer base; and access to foreign markets. The disadvantages could be large capital expenditure commitment; foreign governments / politics; and foreign exchange rates.

11. **Exposure to Exchange Rates** McCanna Corp., a U.S. firm, has a French subsidiary that produces wine and exports to various European countries. All of the countries where it sells its wine use the euro as their currency, which is the same currency used in France. Is McCanna Corp. exposed to exchange rate risk? The French subsidiary would not be exposed to exchange rates as they are using the same currency as its' customers. If McCanna Corp. did not have a French subsidiary it would be exposed to exchange rate risk.

13. **Methods Used to Conduct International Business** Duve, Inc., desires to penetrate a foreign market with either a licensing agreement with a foreign firm or by acquiring a foreign firm. Explain the differences in potential risk and return between a licensing agreement with a foreign firm and the acquisition of a foreign firm. The differences between acquiring a foreign firm and licensing agreement with a foreign firm is 1) acquiring a foreign firm will require a large capital expenditure. Obviously with any CapEx there is inherent risk. Likewise, your goal is to get a return on your investment in a timely manner; and 2) a licensing agreement with a foreign firm does not generate as much of a return as an acquisition might. In a licensing agreement the bulk of the revenue would go to the foreign firm.

1. **Balance of Payments**

    a. What are the main components of the current account? The main components of the current account are payments between two countries for (1) merchandise (goods)