

Econ 556 / IS 556  
Final Exam, Summer 2007

Your Name:  
Due on Carmen by August 23 at 5:18p.m.

- 1.) (8 points) “Traditionally, FDI has focused on manufacturing. This emphasis has shifted dramatically over time, with services now accounting for almost \_\_\_\_\_ of FDI.” (Spulber, 2007, p. \_\_\_\_\_ )
- 2.) (8 points) Describe how the concepts of consumer surplus and customer value are related, and how we used them in this course.
- 3.) (8 points) Explain how FDI can help a country that has a deficit in the current account reach balance of payments.
- 4.) (8 points) What is the main difference between an M-form organization and a U-form organization? List and describe two benefits of each organizational form.
- 5.) (8 points) In the outsourcing model we discussed in class (see page 43 of lecture notes), describe the intuition for why we should not expect to see outsourcing when high levels of quality are required. What is the intuition for why we should expect to see outsourcing when quality concerns are not too great?
- 6.) (8 points) Compare and contrast the functional, geographic and product-based firm structure. Which of the three cannot be market-based and why? Discuss the importance of delegating significant authority to geographic subunits in a global business; use an example from Danone to illustrate your answer.
- 7.) (8 points) IBM initially maintained a PC division that served both home and business customers. Discuss how this structure was product-based but not market-based. (Hint: there is a distinction between whether the “product” is characterized by its production technology versus customer class.)
- 8.) (8 points) What does the increased use of outsourcing over the last decade imply about whether transaction or coordination costs have fallen faster in recent years? What do the problems revealed by the Mattel toy recall of a few weeks ago imply about whether outsourcing to China will likely increase, decrease, or stay the same? What does the Mattel recall imply for the value of the outsourcing/FDI ratio? (this ratio describes the *source* of U.S. dollars coming into China).
- 9.) (36 points) Discuss the five gains for trade and provide a formal demonstration of two of them (this can be a model or a formal example that clearly illustrates the precise source of the gains from trade.) While you are only required to provide the formal demonstration of two, be sure to discuss all five. Compare and contrast them in as much detail as possible, but do not exceed 500 words.