
MANAGING GLOBAL BUSINESS



Multiple choice

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|------|-------|-------|
| 1. D | 6. C | 11. B |
| 2. C | 7. C | 12. D |
| 3. A | 8. C | 13. B |
| 4. C | 9. C | 14. B |
| 5. B | 10. B | 15. A |

Short answer questions

Question 1

- (a) Tax havens are countries that have very low corporate tax rates, or tax exemptions on certain types of business activities.
- (b) Otam's decision to move its business activity to a tax haven will result in lower tax revenue in the country where it previously operated. This means that the government in that country will have less revenue from which to fund essential public services, which if repeated by numerous businesses, could result in a lower standard of living. Citizens of Otam's new home country are also likely to be disadvantaged by the loss of their fresh water supply following Otam's arrival. By acting in an ecologically unsustainable manner, Otam is causing lasting damage to the community in which it operates.

Question 2

- (a) Australian employees are likely to be unhappy that they will be losing their jobs following Timeway's relocation of production. Australian managers forced to relocate to Bangladesh may also be unhappy with the proposed move, possibly causing.
- (b) Timeway should consider its ethical responsibility to its Australian employees and other stakeholders. Relocating production to a low wage country is beneficial to shareholders, but may cause immense damage to employees and the broader community. Timeway's shift also raises concerns about possible violations to labour laws from operating in a low wage country. In many instances, employees in these countries also face poor working conditions and workplace discrimination.

- (c) **Timeway's decision to implement an ethnocentric staffing model may be understandable if there are the enormous skill differentials between Australian and Bangladeshi workers in this industry. In this instance, the strategy would lower the risk of the move and thus lower possibly damaging costs associated with a new workforce. However, the decision has the potential to cause workplace tension, particularly if the Australian managers do not fully appreciate the social and cultural differences between Australian and Bangladeshi workplaces. In order to alleviate these tensions, Timeway should introduce training programs in its new production facilities. These will enable Timeway to switch to a more culturally sensitive geocentric or polycentric strategy in the future.**

Question 3

- (a) **The Australian dollar, relative to the New Zealand dollar, depreciated from \$1.25 to just \$1.00 during 2002. This was a gradual depreciation over the entire year.**
- (b) **An appreciation in the value of the Australian dollar will increase the price of GalaptoSniff products in New Zealand. This will lower demand for these products in New Zealand, leading to lower sales.**
- (c) **GalaptoSniff should hedge against adverse movements in the exchange rate. The best method of doing this would be through the purchase of options that would eliminate exchange rate risk from GalaptoSniff's portfolio. GalaptoSniff would also be wise to enter into forward contracts to guarantee the sale and price of its pharmaceutical products against adverse exchange rate movements that could lower demand. Finally, GalaptoSniff should purchase insurance on all goods that it exports to New Zealand. This will ensure that the business will receive compensation if the goods are lost in transit.**

Question 4

- (a) **Dumping occurs when a business sells its goods or services on foreign markets at artificially low prices, hoping to put domestic competitors out of business. Large companies can often afford to make short term losses if it eliminates competition and allows them to achieve greater profitability in the future.**
- (b) **Australian businesses would be adversely affected by Dro Ping's presence in the Australian market. Many of these businesses would be unable to match Dro Ping's low prices and would therefore lose customers. Australian consumers, however, are likely to benefit from Dro Ping's presence in the Australian market as they are able to purchase merchandise for less than they would otherwise be able to. Dro Ping's shareholders are likely to benefit from the business's expansion into the Australian market as it is leading to increased sales and, presumably, profits.**
- (c) **Dro Ping's competitors could lower their prices. This action would make their products more appealing to consumers and so increase their market share. It may, however, lower their profitability. Alternatively, these businesses could differentiate**

their products from Dro Ping's merchandise. By appealing to a different target market, these businesses could increase their sales and market share whilst maintaining their profit margins.