

12.7: End-of-Chapter Questions and Exercises

These exercises are designed to ensure that the knowledge you gain from this book about international business meets the learning standards set out by the international Association to Advance Collegiate Schools of Business (AACSB International). Association to Advance Collegiate Schools of Business website, accessed January 26, 2010, www.aacsb.edu. AACSB is the premier accrediting agency of collegiate business schools and accounting programs worldwide. It expects that you will gain knowledge in the areas of communication, ethical reasoning, analytical skills, use of information technology, multiculturalism and diversity, and reflective thinking.

EXPERIENTIAL EXERCISES

(AACSB: Communication, Use of Information Technology, Analytical Skills)

1. You've been tasked with obtaining financing for your subsidiary in Brazil. Of all the sources of financing you've learned about in this chapter, which sources of financing would you explore? Would you consider equity financing in the Brazilian stock exchange? What factors would you research before making this financing decision?
2. Go to <http://www.oanda.com> to check the current value of the US dollar relative to the euro. Compare this exchange rate to the exchange rate one year ago. Imagine that you are an executive in a multinational firm that will be manufacturing components at a Chinese subsidiary and selling those components to a US subsidiary that will assemble the components into finished goods and then sell them to a Portuguese subsidiary to sell to European markets. What actions would you take to mitigate currency risk?
3. You are the treasury operations manager for a multinational company. You've been tasked with recommending a cash-investment strategy that will maximize a return on the cash and maintain the liquidity needed for emergencies. Using what you've learned about centralized depositories, multilateral netting, fronting loans, tax havens, and transnational investment, what recommendations would you make?

Ethical Dilemmas

(AACSB: Ethical Reasoning, Multiculturalism, Reflective Thinking, Analytical Skills)

1. Coca-Cola operates thirty-nine bottling plants in China. "Coca-Cola on the Yangtze: A Corporate Campaign for Clean Water in China," *Knowledge@Wharton*, August 18, 2010, accessed August 25, 2010, <http://knowledge.wharton.upenn.edu/article.cfm?articleid=2568>. China is an important market for Coca-Cola. The company's sales in volume grew 19 percent in China in 2009 while declining 1 percent in the United States. Coca-Cola also hopes to expand its business into the juice, dairy, and ready-to-drink markets. It had offered \$2.3 billion to buy Chinese company China Huiyuan Juice to get a strong (20 percent) share in China's juice market. Chinese regulators, however, rejected the deal. In 2004, Coca-Cola was forced to shut down one of its bottling plants in south India after community organizers blamed it for causing water shortages there. (A year earlier PepsiCo's plant in the same state also lost its operating license for similar reasons.) Coca-Cola is now partnered with the World Wildlife Fund (WWF) to improve the water quality of the Yangtze River, which is the longest river in Asia and supplies 35 percent of China's water but is now the most threatened river in the world due to pollution. Coca-Cola is working with rural farmers, for example, to reduce runoff from animal waste into the river by turning it into biogas for cooking and heating instead. The company has pledged \$24 million over seven years to support fresh-water programs globally. It's also striving to be "water neutral" by making its "waste" water pure enough for agricultural irrigation and completely offsetting the amount of water it uses in its soft-drink products by funding clean-water projects and watershed preservation efforts around the world. What do you think of these moves by Coca-Cola? On the one hand, as the world's largest beverage company, its water-neutral plan could make a big difference, and its clout brings attention to the world water issue. On the other hand, bringing attention to the issue could put the spotlight on the company itself, which uses 2.5 liters of water to make a liter of Coke. In fact, when looking across the whole supply chain, 200 liters of water go into making a single liter of Coke (due to water-intensive sugar cane crops). However, looked at from an entire-chain perspective, it takes 140 liters of water to make a cup of coffee and 800 to 1,000 gallons of water to get a single gallon of milk. Peter M. Senge, *The Necessary Revolution* (New York: Doubleday, 2008), 77–92. If you were a Chinese consumer, would you be more likely to buy Coca-Cola products given the company's efforts to clean up the Yangtze River? If you were an executive at Coca-Cola, what actions or programs would you recommend or support?
2. As you learned in [Section 15.5](#), transfer pricing is legal, and firms can manipulate transfer prices to avoid taxes. The practice, however, violates the spirit of the law in some countries. Should firms engage in this practice? On the other hand, by not taking advantage of these opportunities, would firms be shortchanging their investors?

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