

Chapter 15 Multinationals

Question 15.4

Bicfun is a bicycle producing multinational firm with three production plants in three different countries. The Bicfun assembly-plant is situated in country A, the Bicfun frame-plant in country B, and the Bicfun parts-plant in country C. The Bicfun frame-plant produces a frame and the Bicfun parts-plant a package of bicycle parts, both of which are then shipped to country A to be assembled in the Bicfun assembly-plant, resulting in a complete bicycle which is sold on the market for 700 Euro.

The production cost of producing one bicycle frame in country B is 200 Euro. The production cost of the package of parts is 300 Euro. Assembling the bicycle in country A costs 50 Euro. The transfer price (excluding taxes) of frames and parts between the Bicfun plants may not deviate more than 50 Euro from the production price and profits should not be negative, otherwise the tax authorities of the different countries will suspect that Bicfun is evading their taxes and consequently give Bicfun a large fine. Countries A, B, and C levy different taxes on profits. The assembly-plant in country A has to pay a 35% tax on its profits, compared to a 25% tax in country B, and a 20% tax in country C. Furthermore, it is given that country A imposes a 10% tariff on the value of imports coming into country A.

- 15.4A Calculate the optimal transfer price for a bicycle frame and a package of parts (the prices that the frame-plant and parts-plant demand from the assembling-plant for their products) if it is assumed that the multinational strives for maximum profits. Denote only the local prices (without the tariffs).
- 15.4B What are the profits for every separate plant and what are the profits for the multinational as a whole?

Suppose that country A increases the import tariff to 20%.

15.4C What are the optimal transfer prices in this case? Denote only the local price.

15.4D What is the profit of every separate plant and what is the profit of the multinational as a whole?

Question 15.5

Determine for every merger listed below if it is a horizontal, vertical or conglomerate merger. Search the internet for information if necessary.

15.5A Procter & Gamble and Gillette

15.5B America Online and Time Warner

15.5C Microsoft and Winternals software

15.5D Mittal Steel and Arcelor

15.5E Vivendi and Seagram

15.5F Air France and KLM Royal Dutch Airlines

Question 15.6

The [datafile of question 15.6](#) gives the full top one hundred multinational list from the World Investment Report 2005 of UNCTAD. This dataset allows us not only to analyze the Transnationality index as described in the main text, but also the so called Internationalization index. This is an index which describes the geographic spread of multinationals by dividing the number of affiliates abroad by the total number of affiliates.

15.6A Calculate the Transnationality index for every one of the top one hundred multinationals. Check whether the assertion in the main text, that most international oriented companies are to be found in smaller countries, also holds in the extended list of companies.

15.6B Calculate the Internationalization index for every company. Describe this statistic. So for example indicate what the minimum, maximum and average value is. What does this tell

you about the geographic spread of multinationals?

15.6C Are companies that are located in small countries in general also the ones that are geographically most spread?