

received from China. Assume that the two types of country risk are mutually exclusive. That is, the Chinese government will adjust only one of its taxes (the income tax or the withholding tax), if any.

Questions

1. Determine Gandor's cost of capital. Also, determine Gandor's required rate of return for the joint venture in China.
2. Determine the probability distribution of Gandor's net present values for the joint venture. Capital budgeting analyses should be conducted for these three scenarios:
 - *Scenario 1.* Based on original assumptions
 - *Scenario 2.* Based on an increase in the corporate income tax by the Chinese government
 - *Scenario 3.* Based on the imposition of a withholding tax by the Chinese government
3. Would you recommend that Gandor participate in the joint venture? Explain.
4. What do you think would be the key underlying factor that would have the most influence on the profits earned in China as a result of the joint venture?
5. Is there any reason for Gandor to revise the composition of its capital (debt and equity) obtained from the United States when financing joint ventures like this?
6. When Gandor was assessing this proposed joint venture, some of its managers recommended that Gandor borrow the Chinese currency rather than dollars to obtain some of the necessary capital for its initial investment. They suggested that such a strategy could reduce Gandor's exchange rate risk. Do you agree? Explain.