Note: This is the text-only version of this week's lecture.

All media (i.e. videos, flash presentations, and PowerPoints) and learning activities (i.e. assigned readings, assignments, and discussions) are accessible only through the online course.

Week 3: Environmental Forces (Uncontrollable), Part 1

Week 3 Overview

Log in to the course to view video and alternative version.

Click the link below to access a transcript of the video.

[Video Transcript](#)

Week 3 Overview

Week 3 introduces the environmental forces that are not controllable by the business such as economic and financial forces that are covered in lessons 1 and 2. In lesson 3, you will learn about methods to manage currency risk and other financial management issues.

- First, you will learn the economic dimensions and socioeconomic dimensions of a targeted location that are very important to building an understanding of the opportunities and risks this market represents. The assessment and forecasting of economic conditions is a regular activity for most firms. When a firm enters foreign markets, the task is more complex because of the number of economies involved. Managers of all the functional areas in the firm are interested in the size and rate of change of various economic and socioeconomic factors. Some of the economic dimensions are GNI, GNI/capita, income distribution, personal consumption expenditures, and amount of private investment and unit labor costs. The principal socioeconomic dimensions are total population, population density, and age distribution and population distribution.
- Then we will explore the international monetary system and financial forces. Financial forces such as currency exchange rate fluctuation, exchange controls, tariffs, taxation and inflation greatly affect the costs of doing business, the value of earnings and their repatriation. You will learn about causes of currency exchange rate movements and methods to predict these at least in the long-run.
- Finally, you will also learn that accounting practices and standards vary across borders influencing greatly reporting of data in the balance sheet and income statement of the multinational firms. You will learn about methods such as hedging that firms use to manage currency risk while making investment decisions and decisions regarding the acquisition of capital. The other issue that has direct impact on the financial management of the firm is taxation.

Week 3 consists of three lessons:

Lesson 1: Economic and Socioeconomic Forces

Lesson 2: The International Monetary System and Financial Forces
Lesson 3: International Accounting and Financial Management

Week 3 Learning Activities

Learning Activity	Description	Due Date	Points
Lesson 1	**Economic and Socioeconomic forces**		~
Week 3 Reading 1	Read the Chapter posted on Blackboard	Complete by end of Day 1	~
Week 3 Activity 1	Research Activity: Economic Outlook	Complete by end of Day 6 (Suggested end of Day 2)	20
Lesson 2	**The International Monetary System and Financial Forces**		~
Week 3 Reading 2	Read Chapter 8 of your textbook	Complete by end of Day 3	~
Week 3 Activity 2	Research Activity: Labor Cost, Productivity, and Exchange Rates	Optional	~
Lesson 3	**International Accounting and Financial Management**		~
Week 3 Reading 3	Read Chapter 18 of your textbook	Complete by end of Day 5	~
Week 3 Activity 3	Research Activity: Business Taxation	Complete by end of Day 6	10
Week 3 Discussion 1	"Sterling Marking Products"	Post by end of Day 3 Respond by end of Day 5	30
Week 3 Quiz 2	This examination lasts 90 minutes and has 2 quantitative problems in multiple choice format and several questions from Espresso Lane to Global Markets case study of the week	Opens 9:00AM ET Day 7 and Closes 9:00AM ET of Day 1 of following week	150
Total			**210**

Note: All assignments are to be submitted through the **Assignments** area of the course. Similarly, class discussions can be accessed in the **Discussions** area. Groups may use both the **Groups** area and their own Live Session located in the **Live Sessions** area.

Please note that there are several practice activities and practice questions in each lesson. Please make sure to complete each item.

A Note on Research Activities

The purpose of the research activities this week is to get you acquainted with more resources that you will need for successful completion of the course group project. While in previous weeks the focus was on general indicators of market potential, this week we start by examining specific indicators of the economic, socioeconomic, and financial conditions of the potential markets. In terms of your project, at this stage you should have identified a select few countries for market entry (and of course your product) and for each of these countries you should examine the environmental forces introduced this week.

While the details of each research activity are presented in the following pages, I would like to provide you with a short summary:

- In the first research activity you are asked to identify indicators of economic policy and external debt, education, and infrastructure of India from the World Bank, as you considering selling to India low-cost computers.
    - Thinking ahead about your project: you will need several of these indicators for your project analysis. So it would be a good idea to identify the appropriate indicators for your product and market(s) and save them for later investigation.
- In the second activity you are presented with the task of examining market entry mode in several countries and you want information about hourly compensation, labor unit costs, productivity, and exchange rates.
    - This is an optional activity but thinking ahead about your project you will need to at minimum try to examine exchange rate stability over time for the countries you are considering for entry (e.g., last 6-10 years). Differences in productivity, hourly compensation, and labor unit costs should also be taken into account.
- In the third activity you are asked to investigate the tax policies of Denmark as well as the investment climate and operating conditions.
    - Thinking ahead about your project: Maybe you can create an index of favorable taxation for your selected countries. This could be a simple ranking of the countries in your analysis, based on your judgment and the information provided in the tax reports.

Each research activity is an individual assignment and no collaboration is allowed among students. You should spend no longer than 30 minutes completing each research activity. Further, you are provided with detailed hints in each research activity and you will receive full points for each submitted assignment (Turnitin). As such, you will not receive feedback by your instructor, unless you explicitly request it. **However, cheating of any form or plagiarism will result in receiving zero** for the corresponding assignment and you must address to the best of your abilities what the research task is asking for. If you submit something irrelevant to the assignment you will receive a zero. The quality of your report will be assessed by your instructor.

Lesson 1: Economic and Socioeconomic Forces

Learning Objectives

As a result of participating in this lesson, you will be able to:

- Learn the purpose of an economic analysis and the kind of information it provides.
- Present the important economic and socioeconomic dimensions that management uses to compare markets.

Week 3 Reading 1

Ball, D., Geringer, M., Minor, M., McNett, J. (2010). Economic and socioeconomic forces. In *International business: The challenge of global competition* (12th ed) (pp. 210-240). McGraw Hill.

Click here for the downloadable file.

Important!

Before you proceed, read the attachment linked above. Please do not continue until you have done so.

Lesson 1 Lecture

Log in to the course to view presentation and alternative version.

Note: This presentation does not contain audio.

Click the links below for the lecture content. Use the controls at the bottom-left of the screen to navigate the presentations.

Week 3 Lesson 1 Presentation

Click the link below for an alternate version of Lesson 1: Economic and Socioeconomic Forces

Alternate version

Lesson 1 Practice: End of Chapter Questions

Week 3 Activity 1: Research Activity: Economic Outlook
(Submit by end of Day 6, Suggested Day 2)
Value: 20 Points

You work at a company that manufactures low-cost computers and is currently considering entering India. Use the World Development Indicators (WDI) – the World Bank's premier data compilation of data on development – to gather information on this country. Prepare a short report focusing on the economic policy and external debt, education, and infrastructure of India as it applies to your company's product. Make sure you examine the trends India may have been experiencing over the past few years in your selected variables. **Your report should be a maximum of 1 page, double-spaced, Word or PDF document. However, you can have unlimited number of exhibits that should be put in an Appendix in the same file.**

Hint:

- http://globaledge.msu.edu
- Go to Resource Desk: http://globaledge.msu.edu/ResourceDesk/
- Search Phrase: "World Development Indicators"
- Resource Name: World Bank: World Development Indicators globalEDGE™
- Category: "News & Periodicals: Publications"
- Website: http://data.worldbank.org/indicator

On the World Bank website, click on the "By Country" tab and select India. Then, go to the corresponding indicators.

Extended Hints:

A. Economic policy and external debt

Gross National Income (GNI)

- Income generated by a nation's residents from domestic and foreign activity.
- Preferred over GDP which measures in addition income from nonresidents.

GNI/capita:

- reveals purchasing power of the country.
- Compare to other countries, e.g., high values and advanced economies.

Growth Rate in GNI/Capita

- o Important since high values indicate a high growth market.
- o As GNI or GNI/capita it is affected by underground economy (ideally we need an estimate for this).
- o Managers usually will prefer a fast-growing market, all else constant. If a choice has to be made between (1) high GNI/capita but low growth rate country and (2) lower GNI/capita but much higher growth rate country, then management will usually opt for option 2.
- Research Activity:

  - We want to see the growth rate of GNI/capita over the past say 6-10 years.
  - Given that we compare values across time we must account for inflation.
  - Therefore, we need to obtain the GNI/capita in constant currency and then calculate the growth rate.
  - Get inflation separately to see trends in prices over time.
  - In this task we don't compare the GNI/capita of India to other countries so no need to obtain GNI in PPP or at US$ terms. If we want to get some sense on how these values compare to US then we should use the GNI in US$ or PPP terms.
  - So get the GNI/Capita in constant US$.

Income Distribution

- o Even or uneven distribution of income in a country may present opportunity depending on the type of product and population.
- o Your book has a nice example on this.
- o In the online notes, a similar example is presented:
- o In 2010, Paraguay had
  - a population of 6.5 million,
  - a GNI of $33 billion in PPP terms, and
  - Income distribution: 20% of the population received >56% of the country income. This indicates that a sizable group of people are potential customers for low-volume, high-priced luxury products.
  - On the other hand, the market is rather small (6.5 million population) for low-priced goods requiring a high sales volume.
  - Given these conditions Paraguay may not be a good market for entry in low-priced goods while for high-priced goods the returns from entering the market might not be higher than the cost of entry.
  - These 3 measures can be potentially used to eliminate a market without further analysis.
- Research Activity
  - o Obtain the income distribution, population, and GNI. How India compares to the above example?

Private Consumption

- o If your results from the previous step are promising then gather the private consumption data.
- o **Disposable income** is total personal income minus personal current taxes.
- o **Discretionary income** is total income minus personal current taxes and necessity goods (food, rent, mortgage, utilities, etc.).
- o As such, manufacturers of, say, household durables will be interested in disposable income.
- o While producers of nonessential goods will be interested in the discretionary income.
- o Read the book, especially the **Relevance for Managers** section under **Private Consumption**.
- Research Activity

  - Which one you would need if you are selling low-costs computers in India?

Unit Labor Costs

- Defined as total direct labor costs over units produced.
- Firms will make an investment opportunity if lower than currently available to the firm, everything else constant.
- Firms prefer slower-rising unit labor costs. Please read the relevant section in your book.
- Need to monitor over time for rates of increases. For instance, the recent increase in wages in China along with tax breaks in US has resulted in several firms bringing back manufacturing (or thinking about it) in the US. Wall Street Journal has a special section with firms doing exactly that. It is called "Remade in the US."

- Research Activity

  - We are not given in which country the production takes place. We can skip this but for your project you should definitely provide some estimates of labor costs.

External Debt

- If becomes too large to be sustainable then governments may impose price controls, cut government spending, impose wage controls, and impose capital controls to keep cash in the country. It can also cause a shift from imports to local production of goods.
- "debt service difficulties" become increasingly likely when the **ratio of the present value of debt to exports reaches 200 to 250 percent** and the **debt-service ratio** (amount of export earnings needed to meet annual interest and principal payments on a country's external debts) exceeds **20 to 25 percent** (see your textbook).

- Research Activity

  - Are there any external debt issues in India? Obtain these indicators.

Population

- Usually as input in calculations of other indicators (X/capita).

- Research Activity

  - Obtain this indicator.

Age Distribution

- Older people might not buy laptops.

- Research Activity

  - Obtain this indicator.

<u>Population Density and Distribution</u>

- o Densely populated nations make product distribution and communication simpler and less costly.
- Research Activity
  - Obtain this indicator.

B. Education

Here we don't have much theory in the textbook to go on. How would education play a role in the market for laptops?

- Think about uses of laptops (educational, entertainment in some cases, work, etc.).
- Do you think that literacy or school enrollments would be positively correlated with use of laptops? If yes, then gather this measure.
- Here is an article (theory) on this topic (click it):

<p align="center"><u>Computers and Schools</u></p>

- Research Activity
  - o Obtain an indicator.

C. Infrastructure

Revisit the MPI calculations from last week. Under infrastructure you have:

- Main telephone lines (in several countries around the world telephone lines are used for high-speed internet).
- Cellular mobile subscribers (potential consumers).
- Secure Internet servers (the higher denotes increasing use of computers).
- Other?
- Research Task.
- Obtain these indicators.

D. Sum up

- Growth Rate in GNI/Capita.
- Population.
- GNI in constant US$ or constant PPP terms (whichever available).
- Income distribution.
- Private Consumption (pick the one that is more appropriate for the research task).
- Present value of debt to exports (ratio).
- Debt-service ratio.
- Age Distribution.
- Population Density.
- School Enrollments.
- Main telephone lines.
- Cellular mobile subscribers.
- Secure Internet servers.
- OTHER – guide your selection with **THEORY** from the book, online notes, or any academic article?

Location of Indicators in World Bank

- **Growth Rate in GNI/Capita**
  - From Economic Policy & Debt → National Accounts → select GNI (constant 2000 US$)
  - From Health → Population → select Population, Total
  - Calculate in your excel the ratio of the 2 in order to get GNI/capita and then find the growth rate using the formula from online notes.
- **Income distribution**
  - From Poverty → Income distribution → select all of the Income share held by….
  - For India, data exist for 2005. Use those data.
- **Disposable Income**
  - A proxy for this is the GDP per capita (PPP)
  - From Economic Policy & Debt → Purchasing Power Parity → select GDP per capita, PPP (constant 2005 international $).
- **Discretionary Income**
  - Not available, but we can use a second best that includes expenditures on both necessities and household durables.
  - From Economic Policy & Debt → National Accounts → select Final Consumption expenditure, etc (constant 2000 US$).
- **Inflation**
  - From Financial Sector → Exchange rates & prices → select inflation, consumer price (annual %).
  - From Financial Sector → Exchange rates & prices → select inflation, GDP deflator (annual %).
  - The first reason we use it to see price levels, the second is to deflate (remove inflation) from GNI, GDP when they are listed in current (not constant) terms.
- **Exchange Rates** (another source, you need it for Research Activity 2)
  - From Financial Sector → Exchange rates & prices → select official exchange rate (LCU per US$), period average.
  - LCU stands for Local Currency Units.
- **External Debt Ratios**
  - From Economic Policy & Debt → External Debt → Debt ratios & other items → select Present value of external debt (% of exports of goods, services and income).
  - Debt-Service ratio: From Economic Policy & Debt → External Debt → Debt ratios & other items → select Public and publicly guaranteed debt service (% of exports, excluding workers' remittances).
- **Population Density**
  - From Environment → Density & urbanization → select Population density (people per sq. km of land area).
- **Age Distribution**
  - From Health → Population → select Population 0-14 (% of total), Population 15-64 (% of total), Population 65 and above (% of total).

- **Education**
  - From Education → select one of the school enrollment variables (whichever you think is more appropriate). You need total numbers.
- **Infrastructure**
  - From Infrastructure → select the appropriate variables (see previous slides).

Definition of any indicator can be found here:
http://data.worldbank.org/indicator

Screenshots of the World Bank Database

STEP 1: Go to the following link and click on **World Development Indicators**:

http://databank.worldbank.org/data/databases.aspx

STEP 2: Under Country tab select India.

STEP 3: Under Series select Economic Policy & Debt, Education, and Infrastructure and then select the indicators (selected indicators are shown on the right-hand side of the screen below):

STEP 4: Under Time select at least 6 years of data:

STEP 5: After you make all of your selections click on the DOWNLOAD button at the upper right of the above screen or if you press TABLE you have the option to configure the way the data are presented. I clicked on TABLE and then on Table Options button at the upper right of the screen. Under FORMAT NUMBERS I increased the Precision to 3 decimal points. Under ORIENTATION I chose Custom and then given that we get data for only one country I selected Country on Page, Series to be on Column, and Time to be on Row. Click on Apply Changes to get your data (table below is before changes were applied).

THE WORLD BANK   🏠   ⟲ Go Back   ⏻ Sign In

This page is in English Español Français عر 中文

World DataBank   World Development Indicators

| ▦ TABLE | ⅰⅼ CHART | 🌐 MAP | ⬇ DOWNLOAD | ▦ | ⚙ | 🖫 | ◈ | ⟨ |

India ▾ ⊙

TABLE OPTIONS

Apply Changes

	2011	2010
GNI (constant 2000 US$)	..	..
Population, total	1,241,491,960.0	1,224,614,327.0
Income share held by fourth 20%	..	20.8
Income share held by highest 10%	..	28.8
Income share held by highest 20%	..	42.8
Income share held by lowest 10%	..	3.7
Income share held by lowest 20%	..	8.5
Income share held by second 20%	..	12.1
Income share held by third 20%	..	15.7
GDP per capita, PPP (constant 2005 international $)	3,223.3	3,073.2
Final consumption expenditure (constant 2000 US$)	766,703,513,170.0	709,487,081,007.3
Official exchange rate (LCU per US$, period average)	46.7	45.7
Present value of external debt (% of exports of goods, services and primary income)	78.7	..
Public and publicly guaranteed debt service (% of exports of goods, services and primary income)	1.8	1.7
Population density (people per sq. km of land area)	417.6	411.9
Population ages 0-14 (% of total)	30.2	30.6
Population ages 15-64 (% of total)	64.8	64.5
Population ages 65 and above (% of total)	5.0	4.9

▾ ORIENTATION

Popular   Custom

Country
Page ▾
Series
Column ▾
Time
Row ▾

▸ DISPLAY

▸ FORMAT NUMBERS

▸ TABLE HEADER & FOOTER

Source: World Development Indicators. Click on a metadata icon for original source information.

Submit your completed research task through the Turnitin drop box located within the Assignments area by no later than end of Day 6.

Please note that the Turnitin drop box will be available on Day 1 at 12:00 a.m. E.T.

Accessing Grademark Commentary for Individual Turnitin Assignments

- Select the **View/Complete** link in the assignment drop box, or select your grade in the **My Grades** area.
- Next, select the title of the assignment in the Turnitin Assignment and Portfolio Inbox.
- Once the document view loads, select the **GradeMark** button, located at the top left of the screen.
- To view individual comments, hover the mouse over the blue comment bubbles.

Lesson 2: The International Monetary System and Financial Forces

Learning Objectives

As a result of participating in this lesson, you will be able to:

- Describe the international monetary system's evolution.
- Explain the Triffin paradox.
- Describe the floating currency exchange rate system, including the IMF currency arrangements.
- Discuss the purpose of the Bank for International Settlements.
- Explain the impact of fluctuating currency values.
- Discuss how foreign exchange is quoted.
- Describe the factors that influence exchange rate movement.
- Outline the approaches to exchange rate forecasting.
- Discuss the influence of currency exchange controls on international business.
- Summarize the influences of differences in taxation and inflation rates on international business.
- Explain the significance of the balance of payments (BOP) to international business decisions.

Week 3 Reading 2

Textbook: *International Business: The Challenge of Global Competition*, 13th Edition, by Ball, D. A., Geringer, J. M., McNett, J. M., Minor, M. S., 2012, New York, N.Y.: McGraw-Hill Irwin. ISBN-10: 0077606124, ISBN-13: 978-0077606121.

- Chapter 8, "The International Monetary System and Financial Forces"

Important!

Before you proceed, read Chapter 8 of our textbook. Please do not continue until you have done so.

Lesson 2: Overview

Today's international monetary system consists of institutions, agreements, rules, and processes that allow for the payments, currency exchange, and movements of capital required by international transactions. The main institutions are the International Monetary Fund (IMF) and the World Bank (International Bank for Reconstruction and Development—IBRD). Here we look more closely at one of them, the IMF, because the IMF sets the rules for the international monetary system, so its role is central. We look at the evolution of the monetary system starting approximately 1200 A.D. through the 21st Century, with information on The Gold Standard, Bretton Woods, and how floating currency exchange rates came into being with the demise of The Gold Standard in 1971.

We look at external financial forces with which managers need to contend. These forces include fluctuating currency values, currency exchange controls, taxation, and inflation and interest rates. BOP positions can be seen as a useful guide for managers trying to negotiate these forces.

Trading in the foreign exchange (FX) currency markets can be for investment, or speculation. For example, if you believe that the Japanese yen (¥) will weaken in terms of the U.S. dollar (U.S. $) over the next six months, you might sell the (¥) short in the six months forward market. You are obliged to deliver the agreed-upon number of yen in return for the agreed-upon number of U. S. $s in six months at the exchange rate at the date of the agreement. If you are correct, and the (¥) is weaker in six months, it will cost you less in U.S.$ to buy the agreed upon number of (¥) than it would have cost you at the agreement date. The difference is your profit. Of course, as with any investment, there is some risk. The ¥ and U.S.$ exchange rate may not change or, even worse, from your point of view, the ¥ may strengthen against the U.S. It is fundamental that students understand FX quotations and their relevance.

Lastly we present information on factors that cause exchange rate movement, currency exchange controls, and the Balance of Payments and how BOP accounts work.

Lesson 2 Lecture

Click the links below for the lecture content. Use the controls at the bottom-left of the screen to navigate the presentations.

[Week 3, Lesson 2 Lecture](#)

Click the link below for an alternate version of Lesson 2: The International Monetary System and Financial Forces

[Alternate version](#)

Lesson 2: Practice: History of International Monetary System

Log in to the course to access interactive course content and alternative version.

Click the link below to access the Alternate Version of this activity.

[Alternate Version](#)

Lesson 2 Practice Questions: Exchange Rates

The following practice problems will test your understanding of the concepts introduced in chapter 8 of your textbook and the previous examples.

[Lesson 2 Practice Quiz Answers](#)

* It is highly recommended that you complete the practice problems on your own *before* reviewing the answers. *

Week 3 Activity 2: Research Activity: Labor Cost, Productivity, and Exchange Rates
Optional Activity (Submit by end of Day 6, suggested by Day 4)
Value: 0 points

You are working at a manufacturing company that is planning to set up a factory in either Australia, Germany, Japan, Sweden, or the United Kingdom. Top management has informed you that labor costs, productivity, and stability in exchange rate with the US dollar will be decisive factors in evaluating these investment opportunities. Visit the Foreign Labor Statistics (FLS) site which provides international comparisons of variables such as hourly compensation costs, productivity, and unit labor costs and any website such as fxstreet.com or xe.com that provide data on exchange rates. Prepare a brief report recommending which country your company should invest in based on these variables. Make sure you examine the trends the countries have been experiencing over the past few years. **Your report should be a maximum of 1 page, double-spaced, Word or PDF document. However, you can have unlimited number of exhibits that should be put in an Appendix in the same file.**

Hint:

- http://globaledge.msu.edu
- Search Phrase: "Foreign Labor Statistics"
- Resource Name: U.S. Department of Labor: Foreign Labor Statistics
- globalEDGE Category: "Research: Statistical Data Sources"
- Website: http://www.bls.gov/fls/

Submit your completed research task through the Turnitin drop box located within the Assignments area by no later than end of Day 6.

Please note that the Turnitin drop box will be available on Day 1 at 12:00 a.m. E.T.

Accessing Grademark Commentary for Individual Turnitin Assignments

- Select the **View/Complete** link in the assignment drop box, or select your grade in the **My Grades** area.
- Next, select the title of the assignment in the Turnitin Assignment and Portfolio Inbox.
- Once the document view loads, select the **GradeMark** button, located at the top left of the screen.
- To view individual comments, hover the mouse over the blue comment bubbles.

Lesson 3: The International Accounting and Financial Management

Learning Objectives

As a result of participating in this lesson, you will be able to:

- Identify the major international accounting issues that international firms face, operating in foreign currencies.
- Describe the relationship between accounting and culture
- Describe the international accounting standards' convergence process and its importance to international firms.
- Outline the arguments for and against 3BL
- Explain the capital structure choices open to international firms and their significance.
- Describe why ICs move funds.
- Explain the utility of an international finance center
- Describe multilateral netting and its benefits
- Categorize foreign exchange risks faced by the international firm into transaction exposure, translation exposure, and economic exposure.
- Describe ways to hedge transaction exposure

Week 3 Reading 3

Textbook: *International Business: The Challenge of Global Competition*, 13th Edition, by Ball, D. A., Geringer, J. M., McNett, J. M., Minor, M. S., 2012, New York, N.Y.: McGraw-Hill Irwin. ISBN-10: 0077606124, ISBN-13: 978-0077606121.

- Chapter 18, "International Accounting and Financial Management"

Important!

Before you proceed, read Chapter 18 of our textbook. Please do not continue until you have done so.

Lesson 3: Overview

Accounting is a fundamental tool of financial management. Because accounting practices and standards vary across national borders, these differences and the move toward convergence of standards in international accounting must be examined. Your textbook uses the U.S. MNC for the sake of simplicity, remembering that MNCs can be any nationality and increasingly are headquartered in emerging market economies such as India and China.

After accounting, topics such as how the company's capital is structured, cash management, including techniques such as multilateral netting and approaches to managing currency fluctuations are covered.

The lack of a global currency creates foreign exchange risk for international companies. International businesses have contracts, investments, assets and liabilities in more than one currency, many of which fluctuate in terms of each other. It is this fluctuation that causes risk. Due to this risk the companies may gain or lose depending on what currencies they hold.

Finance and accounting managers have tools to help mitigate various risks associated with transaction or translation risk. Some of the tools available to management include hedging, exposure netting price adjustment, balance sheet neutralizing, and swaps.

Management must manage currency risk while making investment decisions and decisions regarding the acquisition of capital. Financial management must determine what currency to use, the relative strength or weakness of that currency, whether to use equity or debt, sources of capital, where to source capital, how much money and for how long and if there are other capital sources like governmental program or joint ventures. The other financial management issue that has direct impact on the financial management of the firm is taxation.

Your textbook has a great coverage on all of the above topics. Instead of repeating these we will expand on some of the concepts of Foreign Exchange Risk Management.

Lesson 3 Lecture

Click the links below for the lecture content. Use the controls at the bottom-left of the screen to navigate the presentations.

Week 3, Lesson 3 Presentation

Click the link below for an alternate version of Lesson 3: The International Accounting and Financial Management

Alternate version

Lesson 3: Practice Examples

The following exercises test your knowledge on the previous concepts and, in addition, a new concept (Eurocurrency) is introduced in one of the problems.

Lesson 3 Practice Quiz Answers

* It is highly recommended that you complete the practice problems on your own *before* reviewing the answers. *

Week 3 Activity 3: Research Activity: Business Taxation
(Submit by end of Day 6)
Value: 10 Points

The top management of your company has requested information on the tax policies of Denmark. Using the Denmark business guide on Deloitte International Tax and Business Guides, a resource that provides information on the investment climate, operating conditions, and tax system of the major trading countries, prepare a short report summarizing your findings on Denmark's business taxation. **Your report should be a maximum of 1 page, double-spaced, Word or PDF document. However, you can have unlimited number of exhibits that should be put in an Appendix in the same file.**

Hint:

- http://globaledge.msu.edu
- Go to Resource Desk: http://globaledge.msu.edu/ResourceDesk/
- Search Phrase: "Deloitte International Tax and Business Guides"
- Resource Name: "Deloitte International Tax and Business Guides"
- globalEDGE™ Category: "Research: Multi-Country"
- Website: http://www.deloitte.com/taxguides

On the website, go to the "Jurisdiction selector" and select Denmark. Once on the Denmark page, click on "Download the Guide". The information requested can be found in the "Business taxation" section of the guide.

Submit your completed research task through the Turnitin drop box located within the Assignments area by no later than end of Day 6.

Please note that the Turnitin drop box will be available on Day 1 at 12 a.m. E.T.

Accessing Grademark Commentary for Individual Turnitin Assignments

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- Once the document view loads, select the **GradeMark** button, located at the top left of the screen.
- To view individual comments, hover the mouse over the blue comment bubbles.

Week 3 Discussion 1: Case Discussion Question
(Initial post Day 3; Respond to a classmate's post by Day 5)
Value: 30 points

Revisit the Sterling Marking Products case. Would it be possible with the information given in the case to estimate the demand for embossers in any of the countries presented in the case? If yes, then discuss your estimates and how you arrived to them. If not, then what additional information do you need?

Further, what would you consider differently than Jan if you had a similar situation today and given the concepts introduced in the class this week?

To shorten the list of countries, consider only the following: Canada, United States, United Kingdom, Australia, France, Germany, Italy, and Japan.

Click here to review how and where to post notes to the discussion area.

Click the link below for the discussion rubric.

Discussion Rubric

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Important: Quiz/Exam Advisory

If you are using the Microsoft Internet Explorer 8 browser, you will need to change your browser settings to "Compatibility View" before taking your exam/quiz.

Click the link below for instructions on how to change compatibility view.

Compatibility View

Alternatively, you can use the Mozilla Firefox browser to take your exam/quiz. Click the link below to download Mozilla Firefox.

http://www.mozilla.com/en-US/firefox/ie.html
If you require further assistance, please contact the Help Desk: **1-866-291-8058**

Week 3 Quiz 2: Preview

Value: 150 Points, 15% of Final Grade
Due Date: Opens Day 7 for 24 hrs
Length: 90 minutes
Format: Two quantitative problems in multiple choice format with several parts;
Questions from this week's case study

Preparation

- Please review Lessons 1, 2, and 3 concepts from your book, notes, and the online materials we have covered this week in preparation for the Week 3 Quiz.
- Also read the case: "The Espresso Lane to Global Markets."

Directions

This examination assesses the degree to which you comprehend the Week 3 content. The quiz consists of two components:

- Two quantitive problems in multiple choice format worth 45 points each, for a total of 90 points. These problems are similar to the practice problems on the online material and are presented in multiple choice format.
- One question with three parts each worth 20 points for a total of 60 points. These are questions from the case study "The Espresso Lane to Global Markets." Some of the following questions will be included in the quiz:
  - Compare the economic and socioeconomic indicators of the various listed countries using only data from the case. Which country seems to have a better potential based on these indicators?
  - Which variables from the case are the most important in Reale's decision-making?
  - How should Reale prioritize the foreign markets? Which markets Reale should consider first? Why?
  - What mode of entry should Reale consider? Should it be different based on the market selected? What are the relevant environmental and organizational variables that should impact the decision?

The quiz must be completed in a single, 90-minute session within the Blackboard environment. A timer begins running as soon as you commence the first question, and it does not stop until it reaches 90 minutes (Note: The timer continues running even if you navigate away from the page)

Before you begin, have your working tools easily accessible, such as your book, calculator, a pen, and some paper. This quiz is open book.

Finally, please note that concepts from prior weeks in addition to this week's readings might be needed to fully analyze some case questions.