

1. Basic Data on International Economics and Business
- 2. Theories of Corporate Internationalization**
 - 2.1 Theories of International Trade**
 - 2.2 Theories of Foreign Direct Investment**
3. Environment of Multinational Enterprises
 - 3.1 Economic Environment
 - 3.2 Political Environment
 - 3.3 Cultural Environment
4. International Environment and Managerial Decision

Theories of Corporate Internationalization

Aims of this unit:

- Systematic overview of internationalisation theories
- Become familiar with conclusions of different approaches
- Understand the implications of trade theory for business practice

Core literature:

- Hill, Chapter 5
- International Economics (any book)

In particular for international trade:

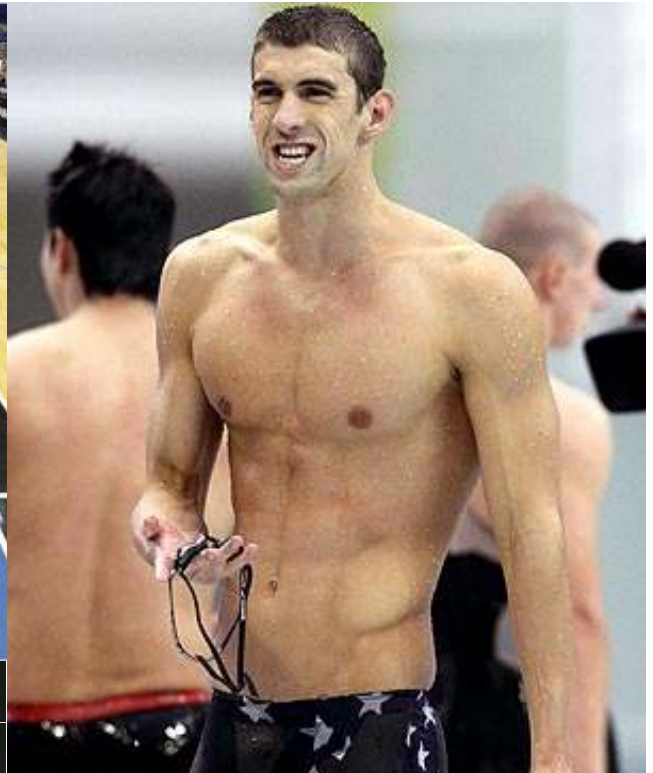
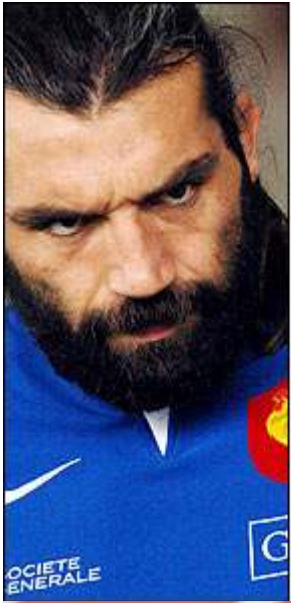
- Why do countries trade internationally?
- Why and how do countries specialize?
- What do countries gain and lose from trade?
- Why do governments protect their industries?
- What has globalization brought to developing countries?

Division of labor

- Why should we specialize?
 - E.g. Hunters and collectors
 - People have different natural skills (sports, risky jobs)
 - Education
 - Cooperation
- What are the obstacles?
 - Coordination
- How does the capitalist system solve these problems?
 - Price system

Examples of division of labor

- Sports → different positions (attack, defense)
- Academia → different subjects and professors
- Medicine → different diseases and specialists
- Electronics, software development, internet... can you think of one person doing all?
- More technology comes w/ more specialization



LIFE

Absolute advantage

“It is the maxim of every prudent master of the family, never attempt to make at home what it will cost him more to make than buy ... What is prudent in the conduct of every family can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them ...”

– Adam Smith 1776



Example: Absolute advantage

- Two countries: US and Germany
- Two goods: wine and beer
- One factor of production: labor (both endowed w/10u.)
- Two scenarios: Autarky (no trade) and free trade

Productivity:

- Labor productivity: output per unit of labor
- Unit labor requirements: labor per unit of output

Let's use the latter since they more directly reflect prices

Autarky: Absolute advantage

In autarky:

Unit labor requirements	US	Germany
Wine (hr/l)	0.01	0.02
Beer (hr/l)	0.02	0.01

Or, what is the same:

Labor productivity	US	Germany
Wine (l/hr)	100	50
Beer (l/hr)	50	100

Autarky: Absolute advantage

- Different productivities
- Absolute advantages
- With 10 workers the US can produce 1000 l/hr ($=10/0.01$) of wine or 500 l/hr ($=10/0.02$) of beer or some combination
- The opposite for Germany
- Autarky: remember, no trade

Autarky: Absolute advantage

- Let's now assume countries put 4 workers on producing the good with higher productivity and 6 on the other

Production and consumption in autarky	US	Germany
Wine (l/hr)	400	300
Beer (l/hr)	300	400

- With 4 workers the US produces 400 l/hr ($=4/0.01$) of wine AND 300 l/hr ($=6/0.02$) of beer (the opposite for Germany)

Trade: Absolute advantage

- Now suppose the two countries can trade
- Full specialization according to productivities

Production under free trade	US	Germany
Wine (l/hr)	1000	0
Beer (l/hr)	0	1000

- Suppose each exports half of its output

Consumption under free trade	US	Germany
Wine (l/hr)	500	500
Beer (l/hr)	500	500

- By specializing and trading both countries have gained, but...

Comparative advantage

"A country ... enabled to manufacture commodities with much less labour than her neighbours may, in return for such commodities, import a fraction of the corn required for its consumption, even if ... corn could be grown with much less labour than in the country from which it was imported."

— David Ricardo



Example: Comparative advantage

- A third country: “Lazyland”
- Suppose workers there are only 1/10 as productive as Germans (or, their u.l. requirements are 10 times larger)

Unit labor requirements	US	Lazyland
Wine (hr/l)	0.01	0.20
Beer (hr/l)	0.02	0.10

- With same no. of workers Lazyland would produce a lot less than Germany; to keep it simple, assume the former has ten times as many workers
- This makes up for their lower productivity

Example: Comparative advantage

- By putting 40 (of their 100) workers into producing beer they can produce 400 l/hr of beer and 300 l/hr of wine

Production and consumption in autarky	US	Lazyland
Wine (l/hr)	400	300
Beer (l/hr)	300	400

- Trade again implies:

Consumption under free trade	US	Lazyland
Wine (l/hr)	500	500
Beer (l/hr)	500	500

Example: Comparative advantage

- Absolute advantage does not really matter for trade
- “Lazyland” has an absolute *disadvantage* in both goods
- It still can gain from trade by specializing in the goods where *disadvantages* are smaller (comparative advantage)
- Notice the u.l. requirements for Lazyland compared to US:
 - US has lower u.l.r. in both industries (absolute adv.)
 - They are 1/20 of Lazyland’s u.l.r. in wine but only 1/5 of Lazyland’s u.l.r. in beer; also, US productivity in wine is 20 times that in Lazyland but only 5 times in beer
 - Thus, Lazyland has the comparative advantage in beer