Solutions

End-of-Chapter
Questions and Problems

to accompany

Multinational Finance

by Kirt C. Butler

Sixth Edition (2016)
John Wiley & Sons

PART I Overview and Background

Chapter 1 An Introduction to Multinational Finance

Answers to Conceptual Questions

1.1 List the MNC's key stakeholders and describe their stake in the firm.

Stakeholders narrowly defined include shareholders, debtholders, and management. More broadly defined, stakeholders also would include employees, suppliers, customers, host governments, and residents of host countries.

1.2 What is country risk? Describe several types of country risk.

Country risks refer to the political and financial risks of conducting business in a particular foreign country. Country risks include foreign exchange risk and political risk. Financial risk refers to unexpected events in a country's financial, economic, or business life. Political risk is the risk that a sovereign host government will unexpectedly change the rules of the game under which businesses operate. Cultural risks also can contribute to the costs and risks of international business and finance.

1.3 What is foreign exchange risk?

Foreign exchange risk is the risk of unexpected changes in foreign currency exchange rates.

1.4 What opportunities might MNCs enjoy that are not available locally?

Operating cash flows can be increased by increasing revenues or decreasing operating expenses. The text mentions revenue-enhancing opportunities such as global branding, advantages of size and scope, and flexibility in marketing and distribution; operating cost reductions through access to low-cost labor or raw materials, flexibility in sourcing or production, and economies of scale or vertical integration; and business strategies such as follow the customer, lead the customer, follow the leader, and building capacity directly in a foreign market (going local).

1.5 What are the characteristics of a perfect financial market?

In a perfect market, rational investors have equal access to prices and information in a frictionless market. If financial policy is to increase firm value, it must increase expected cash flows or decrease the discount rate in a way that cannot be replicated by investors. MNCs are in a better position than domestic firms to take advantage of financial market imperfections through financial market arbitrage, hedging policy, access to international sources of capital, and multinational tax strategy.

1.6 How is multinational financial management different from domestic financial management?

Multinational financial management is conducted in an environment that is influenced by more than one cultural, social, political, or economic environment.