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10MBA27

**Second Semester MBA Degree Examination, June / July 2013**  
**International Business Management**

Time: 3 hrs.

Max. Marks:100

**Note: 1. Answer any FOUR questions, from Q.No.1 to Q.No.7.**  
**2. Q.No. 8 is compulsory.**

- 1 a. What are the functions of WTO? (03 Marks)  
b. Differentiate between absolute and comparative advantage. (07 Marks)  
c. Explain the organization structure of MNC's with respect to any one approach. Give advantages and disadvantages. (10 Marks)
- 2 a. What is currency convertibility? (03 Marks)  
b. What are ethical issues? List the actions for improving international business ethics. (07 Marks)  
c. Discuss the head quarters and subsidiary relations in MNC's. (10 Marks)
- 3 a. Why companies engage in International Business? (03 Marks)  
b. What is Political Environment? How does it effect the International business? (07 Marks)  
c. Difference between Domestic Business and International Business. (10 Marks)
- 4 a. What do you mean by FDI? (03 Marks)  
b. Discuss the objectives of European Union. (07 Marks)  
c. Discuss the cultural diversity in the global scenario and its influence in International Business. (10 Marks)
- 5 a. Define Mercantilism. (03 Marks)  
b. Explain National competitive advantages as explained by Porter. (07 Marks)  
c. Discuss the objectives and organization structure of SAARC. (10 Marks)
- 6 a. Explain the need for formulating the International Trade Policy. (03 Marks)  
b. How WTO is different from GATT? (07 Marks)  
c. What is IMF? Explain the objectives and functions of IMF. (10 Marks)
- 7 Write short notes on :  
a. ASEAN.  
b. IBRD.  
c. Foreign exchange market.  
d. Hecksher – ohlin theory. (20 Marks)

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.  
2. Any revealing of identification, appeal to evaluator and /or equations written eg. 42+8 = 50, will be treated as malpractice.

## 8 CASE STUDY :

### Merrill Lynch in Japan

Merrill Lynch is an investment banking titan. The U.S based financial services institution is the world's largest under writer of debt and equity and the third largest mergers and acquisition adviser behind Morgan Stanley and Goldman Sachs. Merrill Lynch's investment banking operations have long had a global reach. The company has a dominant presence in London and Tokyo. However, Merrill Lynch's international presence was limited to the investment banking side of its business until recently. In contrast, its private client business, which offers banking, financial advise and stock brokerage services to individuals, has historically been concentrated in the United States. This started to change in the mid 1990's. In 1995, Merrill Lynch purchased Smith New court, the largest stock brokerage in Great Britain. This was followed in 1997 by the acquisition of Mercury Asset Management, the United Kingdom's leading manager of mutual funds. Then in 1998, Merrill Lynch acquired Midland Welwyn, Canada's last major independent stock brokerage. The Company's boldest moves however, have probably been in Japan.

Merrill Lynch started a private client business in Japan in the 1980's but met with limited success. At the time, it was the first foreign firm to enter Japan's private client investment market. The Company found it extremely difficult to attract employees talent and customers away from Japan's big four stock brokerage, which traditionally had monopolized the Japanese market. Plus, restrictive regulation made it almost impossible for Merrill Lynch to offer its Japanese private clients the range of services it offered clients in the United states. For example, foreign exchange regulations meant it was very difficult to sell non - Japanese stocks, bonds and mutual funds to Japanese investors. In 1993, Merrill Lynch admitted defeat , closed its six retail branches in Kobe and Kyoto, and withdrew from the private client market in Japan.

Over the next few years, however, things changed. In the mid - 1990's, Japan embarked on a wide ranging deregulation of its financial services industry. This led to the removal of many restrictions that had made it so difficult for Merrill Lynch to do business in Japan. For example, the relaxation of foreign exchange controls meant that by 1998, Japanese citizen could purchase foreign stocks, bonds and mutual funds. Mean while, Japan's big four stock brokerages continued to struggle with serious financial problems that resulted from the 1991 crash of that country's stock market. In November 1997, in what was a shock to many Japanese, one of these firms Yamaichi securities, declared it was bankrupt due to \$2.2 billion in accumulated "hidden losses" and that it would shut its doors. Recognizing the Country's financial system was strained and in need of fresh capital, know - how and the stimulus of greater competition, the Japanese Government signaled that it would adopt a more relaxed attitude to foreign entry into its financial services industry. This attitude underlay Japan's wholehearted endorsement of a 1997 deal brokered by the world trade organization to liberalize global financial services. Among other things, the WTO deal made it much easier for foreign firms to sell financial service products to Japanese investors.

By 1997, it has become clear to Merrill Lynch that the climate in Japan had changed significantly. The big attraction of the market was still the same. The financial assets owned by Japanese households are huge, amounting to A\$1, 220 trillion in late 1997, only 3 percent of which were then invested in mutual funds (most were invested in low - yielding bank accounts and government bonds). In mid - 1997, Merrill Lynch started to consider reentering the Japanese private client market.

The Company initially considered a joint venture with Sanwa Bank to sell Merrill Lynch's mutual fund products to Japanese consumers through Sanwa's 400 retail branches. The proposed alliance would have allowed Merrill Lynch to leverage Sanwa's existing distribution

system, rather than having to build its own distribution system. However, the long – run disadvantages of a such a strategy was that it would not have given Merrill Lynch the presence that it believed it needed to build a solid financial services business in Japan. Top executives reasoned that it was important for them to make a major commitment to the Japanese market to establish the Company's brand name as a premier provider of investment products and financial advice to individuals. This would enable Merrill Lynch to entrench itself as a major player before other foreign institution entered the market – and before Japan's own stock brokerages rose to the challenge. At the same time, given their prior experience in Japan, Merrill Lynch executives were hesitant to go down this road because of the huge costs and risks involved.

The problem of how best to enter the Japanese market was solved by the bankruptcy of Yamaichi securities. Suddenly Yamaichi's nationwide network of offices and 7000 employees were up for grabs. In late December 1997, Merrill Lynch announced it would hire 2000 of Yamaichi's employees and acquire 33 of Yamaichi's branch offices. The deal, which was enthusiastically endorsed by the Japanese Government, significantly lowered Merrill Lynch's costs of establishing a retail network in Japan.

The Company got off to a quick start. In February 1998, Merrill Lynch launched its first mutual fund in Japan and saw the value of its assets swell to \$1 billion by April. By mid – 2002, Merrill Lynch announced it had \$ 12.9 billion under management in Japan. However, the collapse in global stock markets in 2001 – 2002 hit Merrill Lynch's Japanese unit hard. After losing \$ 500 million in Japan, in January 2002 the company fired 75 percent of its Japanese work force and closed all but eight of its retail locations. Despite this costly down sizing, the company held onto almost all of the assets under management, continued to attract new accounts and by mid – 2002 was reportedly making a profit in Japan.

**Questions :**

- a. Given the changes that have occurred in the international capital markets during the past decade, does Merrill Lynch's strategy of expanding internationally make sense? Why? (05 Marks)
- b. What factors make Japan a suitable market for Merrill Lynch to enter? (05 Marks)
- c. The collapse in stock market values in 2001 – 2002 resulted in Merrill Lynch Japanese unit incurring significant losses. In retrospect, was the Japanese expansion a costly blunder or did the company simply get hit by macro economic events that were difficult to predict and avoid? (05 Marks)
- d. Do you think Merrill Lynch should continue in Japan? Why? (05 Marks)

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