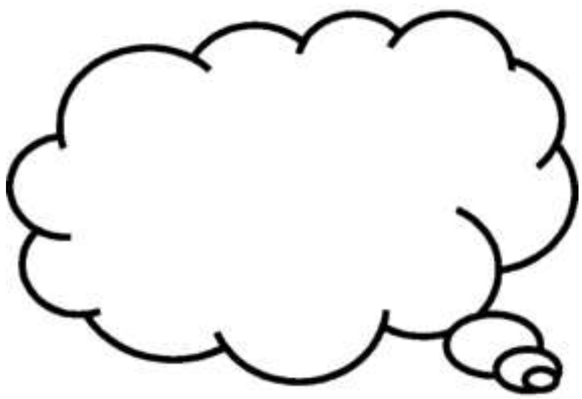
The Role of Foreign Direct Investment – 4.5

1. Please give examples of companies that you would consider to be '**multinationals**.'

2. What characteristics do these companies share?



3. Therefore, how would you **define a 'multi-national'** company?

____

____

4. "**Foreign Direct Investment**" is a term that I.B. Economics students must be able to define. It can be broken down into three components.

- *Define investment -* ____
- *Who does it? -* ____
- *Where do they do it?* ____

____

____

5. Give two examples of **Foreign Direct Investment.**

6. Why was there a significant increase in **Foreign Direct Investment** during the 1990s?

____

____

____

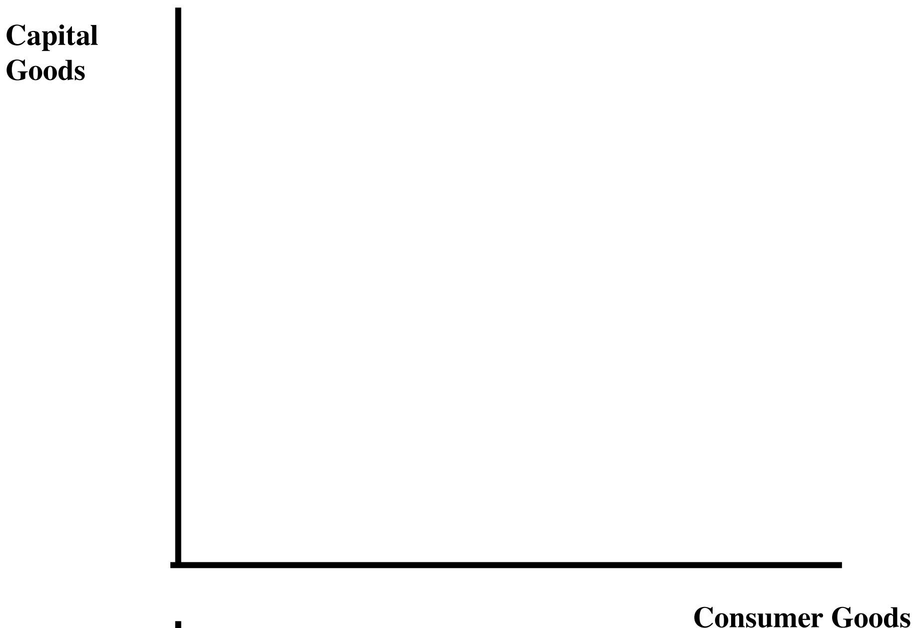
7. There are several reasons why certain LEDCs have been the recipients of increasing large flows of FDIs. Complete the table below.

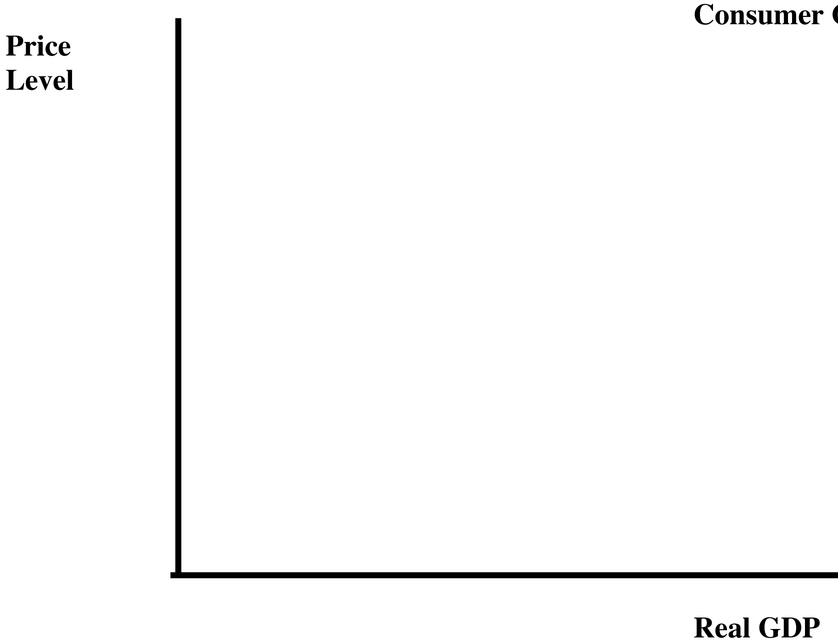
	Rich in natural resources 1 – 2 – 3 -
	Huge and growing markets. 1 – 2 – 3 -
	Cheap Labour 1 – 2 –
	Low tax rates, lax government regulations 1 – 2 -

List of countries

China	**Morocco**
India	**Oman**
Equitorial Guinea	**Bahrain**
Nigeria	**Qatar**
Angola	**Bangladesh**
Vietnam	**Morocco**

8) - On the diagrams below illustrate the impact that multinational activity **could have** on the economies of **Less Economically Developed Countries**.





- It is said that foreign direct investment by multi-nationals can "**Break crucial supply side bottlenecks in LEDC's.**"

9) - Explain what this means by using the table below.

Foreign Exchange	
Taxes	
Technology	
Saving	
Human Skills	

<u>Drawbacks of foreign direct investment by multi-nationals and their presence in LEDCs.</u>

10) What is a tax concession and how might a multi-national company gain a tax concession from a host government?

11) How might Multinational companies move profits to **avoid paying tax**?

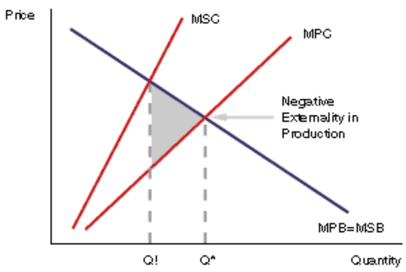
12) Why might the presence of a multi-national company in an LDC **inhibit local enterprise**?

13) - Why do many people believe that multi-national corporations exploit the workers that they employ?

14) - Why might the presence of Multinational companies in an LEDC not be beneficial in the long-term for the nation (**think natural resources**)?

15) - What often happens to the profits of multi-national companies that are located in LEDCs?

16) – Why might the presence of a multi-national company generate negative externalities?



Multinational Companies – Transfer Pricing

A multinational corporation called Farrowtech operates in the U.S.A. and Botswana. Let us assume that the rate of corporation tax in **Botswana is 40%** and the rate in the **U.S.A. is 20%**

<u>Scenario A</u>

The firm produces it products in Botswana at an average cost of $200. It then sells the products to its own company in the U.S.A. at a price of $400. This is the transfer price. In the U.S.A., the product is sold at a price of $500.

Calculate these outcomes	
Profit per unit in Botswana	
Profit per unit in the U.S.A.	
Total profit per unit	
Tax per unit in Botswana	
Tax per unit in the U.S.A.	
Total tax per unit	
After tax profit per unit	

Scenario B

Farrowtech decide to change their transfer price and to sell to its company in the USA at a price of $300.

Calculate these outcomes	
Profit per unit in Botswana	
Profit per unit in the U.S.A.	
Total profit per unit	
Tax per unit in Botswana	
Tax per unit in the U.S.A.	
Total tax per unit	
After tax profit per unit	

Scenario C

Farrowtech now set the transfer price at $250.

Calculate these outcomes	
Profit per unit in Botswana	
Profit per unit in the U.S.A.	
Total profit per unit	
Tax per unit in Botswana	
Tax per unit in the U.S.A.	
Total tax per unit	
After tax profit per unit	

17. What has happened to the amount of tax paid by Farrowtech as the transfer price has decreased?

____

____

18. Explain what has happened to the after tax profit per unit.

19. Explain how the transfer pricing affects the governments of Botswana and the U.S.A.

20) – Why might firms behave in an increasingly ethical manner in LEDCs?