

# Multinational Enterprises (E440) – course outline

Frank Stähler

Winter semester 2024/25

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This course will be taught in three blocks:

1. November 8, 13:00 – 19:00, and November 9, 8:30 – 16:15, both in E04 in Mohlstraße 36
2. November 15, 13:00 – 19:00, and November 16, 8:30 – 16:15, , both in E04 in Mohlstraße 36
3. December 6, 13:00 – 19:00, in E04 in Mohlstraße 36, and December 7, 8:30 – 16:15, in E01 in Mohlstraße 36

**Important information for the Saturday classes:** Please note that the location Mohlstraße 36 is open to the public only from Monday to Friday from 7:00 to 22:00. Since our Saturday classes will take place out of the usual opening hours, please be on time so that I can give you access to the building. I will be at the main entrance door at 8:15.

All lectures, except for the introduction, will also be offered as videos, and all material (slides, videos, etc.) will be uploaded on Ilias. **As for the videos on ILIAS: Please note that you accept the terms and conditions of this class when you register. In particular, you are allowed to download the videos only for yourself, but you are not allowed to share, forward or publish them in any form.**

For watching the videos, you will need to download the video files and use a video player like the VLC player (this is free and open source cross-platform multimedia player).

## 1 Registration

Please register under ILIAS, see <https://ovidius.uni-tuebingen.de/ilias3/>. This will allow you to access all types of course material. To register, please send me an email to me (frank.staehler@uni-tuebingen.de) with the subject line “E440” after October 1 and I will email you the password. This registration process makes sure that I will have your email

addresses and can contact you also if ILIAS is down for some reason. Registration will be open on October 1.

Students from other CIVIS universities are also asked to email me (frank.staehler@uni-tuebingen.de) for registration as you can use the videos to participate remotely. As this is a course for student in an economics Master program, please attach evidence of your background in economics or your enrollment to the email. I will open up a guest account for you so that you will be able to use ILIAS as the local students in Tübingen do.

## 2 Aims and purpose of the course

Economic integration not only occurs through international trade, but also through foreign direct investment. In fact, the aggregate sales by multinational enterprises have grown faster for a long time than aggregate exports, which themselves have grown faster than world GDP before the Global Financial Crisis. Hence, multinational enterprises carrying out foreign direct investment are a driving force of globalization. As many economic activities, however, foreign direct investment was strongly affected by the Covid-19 crisis.

This course will deal with the role of multinational enterprises in the world economy. We will explain why and when they exist, and we will discuss in detail which type of foreign direct investment we may expect, considering different market conditions and country characteristics. We will also consider how the existence of multinational firms will change local market structures and welfare. Furthermore, we will discuss the impact of foreign direct investment on fragmentation and factor prices, and we will explore the role of frictions for the organization of international activities.

This course is designed for students studying Economics at the Master level. A background in international trade is helpful, and math skills and a strong background in intermediate microeconomics is required.

## 3 Readings

This course will follow parts of the textbook by Giorgio Barba Navaretti and Anthony J. Venables, *Multinational Firms in the World Economy*, Princeton University Press. An additional useful resource is the World Investment Report that is published every year by UNCTAD (United Nations Conference on Trade and Development). The report is

free and can be downloaded from <https://unctad.org/en/Pages/publications.aspx>. Section 2(g) of the course outline will be based on Raff et al (2005), Asset Ownership and Foreign Market Entry, Cesifo Working Paper No. 1676 that can be downloaded from [https://www.cesifo.org/DocDL/cesifo1\\_wp1676.pdf](https://www.cesifo.org/DocDL/cesifo1_wp1676.pdf).

## 4 Organization

The whole course will be taught by Frank Stähler. Videos for both the lectures and the tutorials are posted on ILIAS. Note that these are pre-recorded videos that do not cover section 1. You will be able to download the videos separately or as a zip file in the respective folder on ILIAS.

## 5 Outline

1. Introduction: Multinational firms and foreign direct investment
2. Horizontal foreign direct investment
  - (a) A model of horizontal FDI
  - (b) Multinational vs national supply: greenfield investment
  - (c) Multinational vs national supply: mergers and acquisitions
  - (d) Free entry of national and multinational firms
  - (e) Demand and firm behavior
  - (f) The effect of FDI on the host country
  - (g) Oligopoly and entry modes
3. Vertical foreign direct investment
  - (a) Cost-minimizing locations
  - (b) Fragmentation and factor prices
  - (c) Fragmentation in general equilibrium
4. The multinational firm and the market

- (a) Analytical framework
- (b) The hold-up problem
- (c) Hold-up in industry equilibrium
- (d) Dissipation of intangible assets
- (e) Agency costs

## 6 Tutorials

I will offer three tutorials. The first three tutorials will deal with sections 2, 3 and 4, respectively, of the outline. The timing will be flexible such that I will do the respective tutorial once we have finished the section in class. Solutions are also available as pre-recorded videos.

## 7 Mock exam

In the final session on December 7, I will offer a mock exam. You will be able to sit this mock exam of 90 minutes, and after the mock exam, I will briefly talk you through it.

## 8 Exercises

There are two exercises I strongly recommend you to work through. The first one will help you understand models using CES utility functions, so you should do it before you deal with section 2(e) of the course outline. The second exercise will help you solving Cournot oligopoly equilibria, so you should do it before you deal with section 2(g) of the course outline or the first problem set of the tutorial.

## 9 Forum

There is a forum on ILIAS that allows you to discuss questions you may have with other students and with me. Please see the forum rules on ILIAS.

## 10 Assessment

The maximum number of marks you can earn in final 90-minute exam is 90. The final exam will take place on December 12 from 18:15 to 19:45 in room E02 in Mohlstraße 36. Please register for this exam by emailing to [frank.staehler@uni-tuebingen.de](mailto:frank.staehler@uni-tuebingen.de) your student ID number **before December 10, 14:00**. This exam will be an open book exam, meaning that you are allowed to use any resources except communicate with third parties.

The date of the resit exam will be set by the Examination Office.

## 11 Contact details

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