Multinational Enterprises (E440) – course outline

Frank Stähler

Winter semester 2026/27

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1 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 both the Covid-19 crisis and the increase in trade and FDI policy uncertainty.

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.

2 Registration

Please register for the course both with ALMA and with ILIAS, see `https://ovidius.uni-tuebingen.de/ilias3/`. Registration with ILIAS will allow you to access all types of course material. To register with ILIAS, please send me an email to me (frank.staehler@uni-tuebingen.de) with the subject line "E440" after October 5 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 5.

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) refers to two seminal papers on Trade and FDI with heterogeneous firms:

- Melitz, Marc J. (2003), The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity, *Econometrica*, 71: 1695-1725.
- Helpman, Elhanan, Marc J. Melitz, and Stephen R. Yeaple (2004), Export versus FDI with Heterogeneous Firms, *American Economic Review,* 94: 300-316.

I will present a simplified version of these models.

Section 2(h) of the course outline will be based on

- Raff, Horst, Michael Ryan and Frank Stähler (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.

4 Organization

The whole course will be taught by Frank Stähler. This is a 3 h class, and the course will be taught on Tuesdays in E04 and Wednesdays in E01 from 10:15 – 11:45 both in Mohlstraße 36 on the following dates:

Tuesday	**Wednesday**
Oct 20: class	Oct 21: no class
Oct 27: class	Oct 28: class
Nov 4: class	Nov 4: class
Nov 10: class	Nov 11: class
Nov 17: class	Nov 18: class
Nov 24: class	Nov 25: class
Dec 1: no class	Dec 2: no class
Dec 8: class	Dec 9: class
Dec 15: no class	Dec 16: no class
Jan 12: class	Jan 13: class
Jan 19: class	Jan 20: class
Jan 26: class	Jan 27: class
Feb 2: class	Feb 3: backup class

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) Horizontal FDI with heterogeneous firms
   (h) 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.

7 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(h) of the course outline or the first problem set of the tutorial.

8 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.

9 Assessment

The maximum number of marks you can earn in final 90-minute exam is 90. 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 exam and of the resit exam will be set by the Examination Office.

10 Contact details

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