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Q1. Discuss the key differences among the comparative advantage theory, the product life cycle theory and the transaction cost theory.

Introduction

The theories of comparative advantage, product life cycle and transaction cost are some of the widely used economic principles in the international trade. Since the beginning of international trade regime and removal of trade barriers, these theories are used to assess the viability and profitability of different products in the lucrative markets throughout the world.

Comparative Advantage Theory

This theory highlights the potential relative gains and advantages that an individual, a firm or a nation can get by trading in a particular product or commodity due to reduced factor costs and technological knowledge etc (Maneschi, 1998). So a producer will said to have comparative cost advantage in manufacturing a product if it can be produced at a lower opportunity cost or relative marginal cost compared to other manufacturers of the same product. For example, if a country has labour skilled in the production of a cloth, it can get the cotton raw material at cheap price from internal sources and the machinery can be acquired locally at reasonable prices, the country would encourage the domestic textile industries as it can produce more of it at lower costs compared to other countries. Likewise if all countries/firms would advance in the production of goods in which they possess special skills or comparative cost advantage, the global production would increase in aggregate.

Theory of comparative advantage highlights the potential benefits that specialization and international trade would bring to the overall economy; it doesn’t aim to predict the actual behavior of the market. It was developed by David Ricardo in 1817 to explain why international trade takes place in the world economy. Ricardo explains in his model that the different technological expertise in the countries results in differences in labour efficiencies and productivity which in turn gives rise to the comparative advantage in the production of a good (Baumol and Blinder, 1979). This basic principle determines what a country should be exporting and what it should be importing from other countries.

Transaction Cost Theory

Transaction cost is an economic principle that aims to predict the costs of exchanging goods and services with the external environment. The term transaction cost broadly includes: (1) search and information costs, (2) bargaining and decision costs, (3) policing and enforcement costs (Dahlman, 1979). A firm looking to provide for a product or service from the external environment will have to essentially incur these costs. The purpose of predicting these costs is so that companies and economies can minimize the cost of exchanging products with the external environment while at the same time reduce the bureaucratic costs of exchanging internally.

Transaction cost enables the companies to weigh the costs of outsourcing the activities and providing for resources from outside environment against the bureaucratic costs of performing those activities internally. If the former costs are higher than the latter, company will grow and perform those activities cheaply in-house, whereas if the bureaucratic costs are higher than external transaction costs, the company would downsize and outsource those functions to the outside world.

Product Life-Cycle Theory

This theory presents an in-depth analysis of the product life-cycle and goes on to explain the behavior of the firms and economies in trading that product in its life-cycle classified as: Introduction, Growth, Maturity, Saturation, Decline. Developed by Raymond Vernon, this theory suggests that early in the product's life-cycle the labour, raw material and essentially other elements in the production of a good come from its point of origin, however, as the product matures the market becomes diversified and productions shifts from the point of origin to other firms/countries (Hill, 2005).

Conclusion

While all three theories discussed above aim to economize the production behavior, they evaluate different components and stages of the production process. Comparative advantage theory focuses on the relative costs of production of goods against other firms and economies and help decide what to produce and how much to produce. While a firm may be comparative advantage in the production of a particular commodity, its transaction cost may still be higher and discourage a firm from in-house production. Finally the product life-cycle approach helps in establishing for how much time firm/economy should completely manufacture a new product domestically and when it should pass the knowledge or the technology to the outside world while keeping a good share of profits to itself.

Q2. Demonstrate your local currency fluctuations against the US Dollar and national export-import value (in the US Dollar) of your country for the last five years (at least) in the forms of tables and figures. Explain the relationship between currency fluctuation, and export and import value of your country, and draw managerial conclusions.

Australian Dollar against US Dollar

Currency fluctuations of the Australian Dollar against US Dollar for the last 5 years are demonstrated in the table below (X-rates.com, 2014).

Date	Australian Dollar per 1 US Dollar
Jan 1, 2010	1.1198
Jan 1, 2011	0.9940
Jan 1, 2012	.9738
Jan 1, 2013	.9584
Jan 1, 2014	1.1188
Dec 1, 2014	1.1872

The table shows that Australian Dollar has remained stronger against the US Dollar in the years 2011, 2012 and 2013. Australian Dollar has appreciated in value against the US Dollar during these years particularly because Australia's exports to US remained higher than its imports from US during those years, which goes on to give an indication about the country's good economic performance in those years. Whereas in 2010 and current the Australian Dollar is trading below the US Dollar. Currently it is trading at 1.20 at the international foreign exchange market compared with 1.1 at the beginning of the year.

National export-import value of Australia

The table below highlights the national export-import values of Australia, in US Dollar, for the last 5 years (Tradingeconomics.com, 2014).

Date	Australia Exports (USD million)	Australia Imports (USD million)	Export-Import Ratio
Jan 1, 2010	18750	18333	1.02272
Jan 1, 2011	20000	19167	1.04347
Jan 1, 2012	21875	22500	0.97222
Jan 1, 2013	20417	22292	0.91588
Jan 1, 2014	24167	24000	1.00694
Dec 1, 2014	22500	23417	0.96085

Relationship between Currency Fluctuations and Export-Import Value

The expenditures method of calculating the GDP incorporates the value of exports and imports and takes into account the net exports (Exports minus imports). If the net exports are positive they are going to contribute positively to the nation's GDP and economic growth, whereas if it is negative, the economy has trade deficit. Greater exports are going o bring positive inflow of money in the economy which in turn will increase the consumption of goods and services and contribute to the economic growth. The relationship between exchange rates and the import and export value of the country is complicated, as both are inter-dependent on each other for the reasons explained below.

The exports of the country essentially represent the demand for that country's currency as the buyer or the imported is going to pay for that product in the local currency. Conversely imports represent the demand of foreign country's currency by that currency. This has an effect on the exchange rates. However there is a feedback loop between currency rates and import-exports as foreign exchange rates also determine the export or import in a particular currency. A weaker domestic currency discourages imports (as the imports will now seem more expensive) and stimulates domestic production and exports. On the other hand, a strong domestic currency will make imports seem much cheaper and encourage import of goods and services (Furstenberg and Dornbusch, 1990).

Conclusion

It can be seen from the tables that the Australian Dollar has slightly weakened against the US Dollar in the years 2011 – 2013 which has stimulated the exports and increased export value of the country. When the exports have increased to a reasonable degree at the start of 2014, the currency value has appreciated and Australian dollar has increased in value against US dollar, which has again resulted in decrease in exports, in the feedback system, in the current year 2014.

Q3. Use the "country risk assessment criteria" table, and assess the political and legal risks of your country from an international marketer's viewpoint.

Introduction

Although free trade policies and the lifting of international trade barriers has removed the cross-country boundaries and made exporting simpler, more convenient and advantageous, the risks surrounding the international trade have essentially always remained there. The risk that a business entrepreneur faces when exporting goods and services to another country needs to be closely checked and managed with a sound risk management policies and procedures. Country risk is a broad term that encompasses several types of political, economic, legal, institutional, infrastructure and financial risks surrounding the country in which business is being conducted. These risks may affect the way in which business and may result in financial and legal repercussions if not dealt with properly. Therefore, in order to conduct business efficiently it is important to make an assessment of the country risks, incorporating these risks in the business strategy and processes, to minimize the risk of failure at a later stage.

Political Risks

Political risks include adverse effects of political decisions, government policies affecting the economic climate of the country and many other risks due to presence in the foreign country. It includes:

- Risk that the assets may be expropriated or nationalized by the government of host country.
- Risk of sovereign default by the host country

- Domestic instability – including instable government, risk of revolution, subversion, internal conflicts and government crisis, as well as civil disorder.
- Foreign conflict – it pertains to the extent of good/adverse relation of the host country with other states and institution of the world.
- Political climate – includes the government type. Government which is elected by the people and enjoys the support of its citizen would provide continuity and consistency to the economic and financial policies of the country which would be beneficial for conducting business. The political climate is stable in Australia with uncertainties surrounding the election period and the resulting changes in government policies. Political issues in Australia and affecting the business climate are the ones relating to economic management, such as many people fear the rising level of public and private debt and the oppositions makes an issue out of it (Marshall, 2014).
- Economic culture – Shifts and changes in government policies affecting the economic climate including foreign exchange regulations, free international trade, trade embargoes, repatriation of capital and dividend, regulation of financial and capital markets and prices of essential raw material inputs all effect the business dealings in the host country. With respect to Australia a prospective international marketer would be interested in the issue facing the monetary policy. The reserve Bank of Australia has increased the interest rates in the past and this risk is expected for future as well.
- Corruption – It pertains to the extent of corruption in government institutions and the extent to which various institutions are perceived by the potential investors to

be untrustworthy, open to bribes and involved in fraudulent practices affecting the trade and business practices. The risk of corruption is low in Australia. Laws governing all major business areas ensure transparency of commercial and prudent business practices.

All these factors should be thoroughly considered and included in the risk assessment criteria by the international marketer and potential investors.

Legal Risks

Legal risks may be present if the country does not have adequate legal framework to support necessary business activities, for example:

- Absence of laws governing protection of intellectual property protection, or disclosure of confidential and classified information.
- Business would not want to disclose its trade secrets and other valuable commercial assets for free use by the state, so it must be given careful consideration by the marketers.
- Likewise absence of financial reporting framework may also give rise to a high level of risk. Generally accepted accounting principles are present in Australia for last many years.
- Furthermore an assessment of the laws and regulations affecting the business should also be considered and whether the business will be able to comply with them to avoid high legal costs at later stage.

- Taxation and revenue laws. In the past there has been tight rises in the taxation rates in Australia and the businesses must be ready to face the consequences of such stringent government fiscal policies.
- Access to courts, arbitration and other dispute resolution mechanisms.

Q4. Why is Hofstede's cultural classification scheme important in designing the international marketing mix elements?

Introduction

For an international business to succeed in another region, it is essential that the business maintains a high degree of acclimatisation with the cultures of the regions where they conduct their operations. Multiple factors play an important role in the success of cross-cultural management in an organisation where the managers and employees may not belong to the same culture. One of the most significant factors is getting the information pertaining to the different dimensions of the culture. For understanding the cross-cultural management, it is highly important to recognise the overall environment of the region where the cross-cultural management will be implemented. The environment includes a number of different aspects which are also collectively known as ‘PEST’. These include: economic environment, social environment, technological environment, and political environment.

Importance of Hofstede’s Cultural Classification Scheme

Different countries in the world have different cultures, and these countries can be compared by evaluating them in accordance with the cultural dimensions that have been presented by Hofstede (1980). These cultural dimensions include: power distance, uncertainty avoidance, masculinity vs. femininity, and collectivism vs. individualism. Along with some similarities, some significant differences have been observed in the cultural dimensions in different regions all around the globe. It is essential that the strategic core and line managers in a cross-cultural organisation recognise the differences between cultures of all the countries involved and their influences on the culture prevailing within the organisation. This cultural classification led towards the understanding of the ways in which a nation or region’s culture influences the business environment and other factors in the country such as; perception of people towards leadership, management, organisational behaviour, organisational culture, human resource, decision making and a number of other organisational activities.

The reason why polycentric organizations focus on the philosophy that their branches and subsidiary companies in the host countries should be managed and staffed by the local individuals to the maximum extent is because of the reason because the local individuals are expected to understand the local culture and their work methods and processes more closely. From the marketing context it is important to develop an understanding of the cross-cultural dimensions and classifications because it will enable the company to market its product according to the specific needs and tastes of the customers residing in that culture. Consequently subsidiaries and branches of multinational corporations in various countries are frequently operated under the directions of local managers who are controlled by their parent entities through well conceived financial reporting systems.

Multi-domestic or adaptive business strategy

Multi-domestic strategy is a marketing approach whereby companies focus on each target market, operating in different cultural classification, separately. This means that the companies will develop the product and marketing strategies which will appeal to the varying tastes, norms, customs and traditions of these national markets. When a product seems to be from the national culture its acceptability in the national market increases, consequently the consumers perceive the product to be produced locally and develop a better brand and quality image. Adaptive strategy thus helps international marketers in developing products that cater to the unique requirements of different target markets.

Values and Globalization

Different countries have different religions which influence the way individuals think, act, and behave in social situations. The ethical values of the organization are embedded with the culture in such a way that the employees of the organization should not find it hard to observe all the ethical values of the organization in their day to day operations. The workplace values may include; real time facilitation of the patients without any bias or prejudice, observation of the confidentiality of information disclosed by the patients, consultation on difficult or contentious matters, fairness in decision making, encouragement of the employees on good performance and cooperation between the staff of the organization (Kline, 2010).

Australian business environment is open to globalisation and it will not be difficult for foreign marketers to carry out their responsibilities in the Australian business environment. The only factors that need to be taken care of are the cultural differences and once the marketer understands the differences, the job should not be difficult. International marketers should therefore bear in mind that the Australian business values are inspired by the national culture and they may be slightly different from the business values prevailing in other countries. This knowledge is important for the development of a successful cross-cultural management technique (Jackson, 2011).

Q4. Although the online consumer surveys are popular nowadays, it has been criticized widely. Discuss the major challenges of the online consumer surveys in market size assessment from an international marketer's viewpoint.

Introduction

Online surveys and social media surveys are nowadays one of the most easy-to-use technique for gathering information about the consumer behavior and conducting market research. They are easy to develop and perhaps most cost-effective method of collecting information about different demographic segments of the market. Moreover, the numerous questions that surveys may address from the consumer give the marketer extreme flexibility in data analysis and reporting. However, there are numerous challenges associated with the correct and accurate use of online surveys. Marketers should be aware of these challenges and limitations if they wish to derive maximum benefit from the online consumer surveys.

Challenges associated with online consumer surveys

The validity and reliability of data collected from surveys to the large extent depends on the survey types, collection methods, respondents' knowledge about the subject and their willingness to contribute to the survey purpose. Besides the questions need to be carefully designed to address each and every aspect of the problem or study in question. Bias for any particular purpose or result when designing survey is strongly discouraged and should be avoided at all costs. Following are some of the limitations and challenges associated with the use of online surveys and how they can be minimized.

- Respondents may not be encouraged to provide the answers or take part in the surveys. They may perceive the survey to be time-consuming and wasteful formalities with no outcome. So the purpose of survey should be communicated to the respondents and they should be asked to answer the question in the most unbiased way. Online surveys should not be viewed as advertisements or violation of personal information of consumers.
- Respondents may not feel comfortable in giving responses which may place them in the unfavorable position, so these type of questions should be avoided and if extremely necessary to contribute to the survey, it should be communicated to the respondents that their information will be kept as classified and confidential.
- Respondents may be unaware of the question asked or may not have the desired information at that given time. So survey should be presented to the accurate audience who will be most likely to possess knowledge about the subject matter rather than dispensing it to the people at large.
- Online surveys with close-ended question may have very low validity as respondents may simple check mark or select the options viewing the survey as unnecessary time-consuming activity.
- Options such as “somewhat agree” or “not sure” may mean different things to different types of respondents.
- Controls over the respondents of online survey and who may participate in the information is difficult in online and social media surveys.
- Ensuring security of the collected information is important.

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