

Homework for Session 8

1. Who is Manulife’s local partner in Indonesia? Why is this partnership formed initially and what is the local partner’s initial goal? Does the local partner’s goal change? If so, why does it change?
2. When RGA offers to make Manulife’s problems disappear, how does Manulife respond? What kinds of strategies does Manulife employ? Why does it choose these strategies rather than pay RGA?
3. Does the Foreign Corrupt Practices Act (FCPA) help or hurt U.S. firms when doing business in emerging markets?
4. What are the strategic aims of Transparency International’s CPI, BPI, and Islands of Integrity initiatives?
5. If a firm elects not to pay a bribe, it may lose business to competitors who *are* willing to pay bribes. One way to combat this problem may be to form an industry association that prohibits its members from paying bribes.

Consider the following game. Daewoo and Hyundai form an agreement not to pay bribes when seeking contracts from the South Korean government. They bid on a project which will produce profits of \$10 million. The bureaucrat in charge of the project tells both Daewoo and Hyundai that a \$2 million bribe will secure the project for their firm.

If both Daewoo and Hyundai agree to pay the bribe, then the bureaucrat is indifferent to who gets the project. The bureaucrat will choose the winning company by flipping a coin and collect the \$2 million from that company. If, on the other hand, both Daewoo and Hyundai refuse to pay the bribe, then the bureaucrat is again indifferent to who gets the project and will also choose the winner of the project by flipping a coin.

In this set-up, the expected profits from the project can be written as follows:

		Hyundai	
		Pay Bribe	Be Honest
Daewoo	Pay Bribe	4,4	8,0
	Be Honest	0,8	5,5

- a. Do you understand where the payoffs come from? [Note that payoffs are written (Daewoo’s expected profit, Hyundai’s expected profit).]
- b. What is the unique Nash equilibrium of this game?
- c. Will industry agreements that prohibit bribery be sustained?
- d. How might industry anti-bribery agreements be made more robust?