

DURHAM INDUSTRIES, INC.®

You are the financial vice-president of Durham Industries, Inc., a large manufacturer of consumer durables that is considering expanding into two developing countries. Eastasia and Oceana recently split off from the former Soviet Union and may provide opportunities for both manufacturing and sales for your company. While the two countries have similar backgrounds and current GDPs, they differ substantially in economic policies. Because of limited resources, your company can only expand into one country. You would like to invest in a country that will be growing rapidly so that the citizens will be able to afford to buy your products. Your job is to assess the prospects for investing in the two countries.

In making your decisions, you have met with the Minister of Commerce for Oceana, Ms. Coranish, and the Minister for Development for Eastasia, Mr. Aliel. Your company has also sent a number of representatives to the two countries to gather data to help you make your decision.

Eastasia

Eastasia has had a democratic and populist tradition. This has resulted in the people enjoying substantial civil rights after independence, including free speech and popular elections. However, the government has an inefficient civil service and a mixed record of enforcing property rights. Investment in education and physical capital is low even though public spending and the federal deficit are high.

Oceana

Oceana is run by a generally peaceful one-party government. The government budget has been balanced, with taxes and tariffs at a level typical for a developing country. Government spending has focused on education with the goal of universal primary education. The legal system is well developed and has been effective in supporting property rights (although less effective for political rights). Corruption is low.

Unlike Eastasia, Oceana is more restrictive in terms of civil rights and democracy. There are no prospects for elections in the near future and a number of opposition leaders have been jailed. All television and radio is run by the government. Newspapers have a close relationship with the government and generally follow a pro-government line.

Required:

You have been asked by the president of your firm to report on the expansion possibilities of Eastasia and Oceana. Write a report using the report guidelines found on the course web site.

In answering your questions you may wish to review macroeconomics concepts 2 and 3 and statistics concepts 1, 2, 6, and 8.