Code No: 13MBA2033

ADITYA INSTITUTE OF TECHNOLOGY AND MANAGEMENT, TEKKALI
(AUTONOMOUS)
MBA IV Semester Regular Examinations, May/June – 2015

STRATEGIC INVESTMENT AND FINANCING DECISIONS

Time: 3 Hours **Max. Marks: 60**

Answer any FIVE questions
All questions carry equal marks
Question No.8 is Compulsory.
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1. What is Investment Decision? Explain about traditional methods of appraisal.

2. Explain about Risk Analysis in Investment Decisions.

3. What is modified IRR? Explain it briefly.

4. Explain about Discounted Pay Back Period.

5. Write about Hire Purchase and Installment Purchase.

6. Explain about Hamada Model of Market Risk.

7. What is Financial Distress? Explain it briefly.

8. CASE STUDY:

A company is considering the following investment projects:

Projects	Cash Flows (Rs.)			
	C_0 (Rs.)	C_1 (Rs.)	C_2 (Rs.)	C_3 (Rs.)
A	-10,000	10,000		
B	-10,000	17,500	7,500	
C	-10,000	12,000	4,000	12,000
D	-10,000	10,000	3,000	13,000

Rank the project according to each of the following methods:

i. Payback
ii. ARR
iii. IRR
iv. NPV

Assuming discount rates of 10 and 30 per cent.

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STRATEGIC HUMAN RESOURCE MANAGEMENT

Time: 3 Hours **Max. Marks: 60**

Answer any FIVE questions
All questions carry equal marks
Question No.8 is Compulsory.

1. Discuss the importance of the strategic role of HRM.
2. Elaborate upon the investment considerations of Human Resource Planning as part of strategy.
3. Explain the need for and advantages of Total Quality Management Programmers.
4. Explain the rationality behind pricing the Managerial and Professional Jobs.
5. Examine the role of HRM in the context of internationalization of business.
6. Discuss the issues in Repatriation Process.
7. Explain the strategic advantages of Flexible Work Arrangement.
8. **CASE STUDY:**

U.S. Automobile Manufacturing in the Twenty-First Century

In 1989, economists John Rutledge and Deborah Allen predicted a resurgence of U.S. manufacturing before the new century. They predicted that resurgence would be stimulated by increased investment in the capital base of machinery and tools by which products are manufactured. When they made their prediction, many U.S. manufacturers were using outdated tools and machines, compared with those of global competitors. As a result, some U.S. products were not competitive in price or quality.

Factors expected to drive the resurgence of manufacturing included a low rate of inflation and the demographic influences associated with the baby boom. U.S. manufacturing investment stagnated during earlier periods of high inflation, which reached 14 percent in 1980. High inflation caused investors to purchase tangible assets, such as hotels and office buildings, as inflation hedges. Since stocks and bonds do not provide this same hedge, they became less attractive investments and funding for the plant and equipment needed for production of goods became more difficult to obtain. The attack on inflation during the 1980s and tax reform made tangible assets less attractive as inflation hedges and tax shields. Stocks and bonds then became relatively more attractive.

One foundation for the economists' prediction was aging of the baby boomers. When the economists made their predictions, the baby boomers had reached their mid-forties and were predicted to start to save more. The savings of this huge age cohort were expected to serve as major sources of funding for the new plant and equipment needed to make U.S. manufacturing competitive in world markets. The oldest of the baby boomers were in their mid-fifties in 2000 and will be in their mid-sixties in 2010. This is a huge age cohort and is expected to push the median age of the U.S. labor force to 45 in 2008.As a result of the baby boomers and past layoffs based on inverse seniority, some U.S. manufacturing firms in the year 2000 had workforces with an average age in the mid-fifties.

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Employment in manufacturing was fairly stable in the 1990s while manufacturing productivity increased. With increased productivity, fewer workers were needed to manufacture the same amount of goods. (The health of the industry is not necessarily indicated by whether there is a growing or declining level of employment.) Furthermore, some manufacturing employment shifted to the services sector as a result of outsourcing. (Employees of firms supplying services, such as information services, for manufacturing companies are not counted in manufacturing employment.) Interestingly, in automobile manufacturing the capital requirements for assembly plants has declined as indicated in the following:

We could be seeing a radical transformation in where and how cars are built, predicts David Cole, director of the Office for the Study of Automotive Transportation at the University of Michigan in Ann Arbor. But will we? Assembly plants can now be built for around US$400 million, instead of the $1 billion they historically cost. These "disposable plants" could, at least in theory, be readily written off, making site selection decisions extremely flexible and short-term. "We've learned a lot about plant design and about designing with less redundancy," explains Cole.

In addition, experts on the automobile industry say that labor costs are increasing in Mexico and that it actually costs more to build a plant in Mexico.

"Mexico is still generally a cheaper place to do business, but not as cheap as it used to be. Labor, for example, is getting more expensive . . . The labor force in northern Mexico is getting increasingly sophisticated, and wages have gone up." . . . Building a plant in Mexico also entails a number of unexpected costs . . . "Simple materials like concrete may be cheaper, but overall, I can build a plant cheaper in South Carolina than I can in Mexico" . . . That's because there are few to no local suppliers for more sophisticated building systems like air conditioning, and because the energy and water constraints mean the plant has to be built for greater efficiencies than would be necessary in the United States.

Interestingly, the labor costs of producing automobiles in Canada are lower than in the United States and productivity is substantially higher. Additional developments in the automobile industry are that the manufacturers would like to sell automobiles over the Internet, which they predict would reduce the average price of automobiles by approximately $1,000. However, there is stiff resistance from the dealers who have been able to obtain legal restrictions making direct sales more difficult for manufacturers. Finally, the United Auto Workers (UAW) has lifetime employment agreements with the automobile manufacturers.

Questions

i. Consider all of the information presented in this case and you knowledge of current economic and business conditions. What human resource issues should managers in the automobile industry be prepared for in the future?

ii. How might the employee skills, management practices, and automobile manufacturing companies change in the future? How would you expect managerial trends to affect human resource practices and policies in future automobile manufacturing?