

18. Title: General Motors Chief Joins Euro Debate

Abstract: This video examines a recent investment by General Motors in Great Britain, and the issue of whether Great Britain should adopt the euro.

Key Concepts: euro, global capital markets, global economy, globalization, currency fluctuations, exchange rates

Notes: General Motors recently spent £80 million on its factory in Great Britain to produce the new Vauxhall Astra, and now Chairman and CEO Rick Wagner is defending his company's decision. Some people have argued that in order to continue to attract investments like the one made by General Motors, Great Britain needs to become part of the euro-zone. Wagner though, disagrees.

Wagner believes that in addition to considering currency valuations when making investment decisions, it is also important to look at economic growth. Wagner notes that in recent years, the economy in the United Kingdom has actually outperformed the economy in continental Europe suggesting that the euro zone is not as attractive as was once thought. Wagner does agree though that if Great Britain did eventually join the euro zone, it would remove some uncertainty from the business world, but notes that doing so is not of critical importance. At the same time though, Ford is pushing the prime minister to keep the option of joining the euro zone on the table. Ford claims that having the British pound moving up and down in value makes it difficult for companies to manage and plan for the future.

According to Ford, planning for the future is a nightmare when a currency is fluctuating up and down as the pound has done in over the last two years. In fact, the British pound has fluctuated between 10 and 15 percent during the last two years which is making it difficult for Ford to develop its long term strategy. Wagner agrees that if Great Britain joined the euro zone some uncertainty in the business environment would be removed, but also suggests that such a move is not critical. Instead, Wagner argues that it is more important to consider the overall health of the economy when making investment decisions.

Discussion Questions:

1. What is the foreign exchange market? How do companies like General Motors and Ford use it? Why are some automakers pushing Great Britain to adopt the euro?
2. What is foreign exchange risk? How would the foreign exchange risk change for companies that do business in Great Britain like General Motors if the country adopted the euro?
3. What is transaction exposure? How does it apply to General Motors? How can General Motors manage its transaction exposure?

4. How can General Motors and other automakers with investments in Great Britain manage their economic risk?
5. Explain the idea of translation exposure. If the value of the British pound drops relative to the U.S. dollar, what happens to the value of General Motor's recent investment in Great Britain? What happens to the value of the investment if the British pound appreciates relative to the U.S. dollar?
6. Suppose Great Britain made the decision to join the euro zone. How would this decision benefit companies doing business in the country?
7. Discuss how firms manage foreign exchange risk. What are the three types of foreign exchange exposure? Which types of exposure is General Motors likely to face as a result of its recent investment in Great Britain?
8. Why do you think that the CEO and Chairman of General Motors focused on the economic situation in Great Britain when making the decision to invest in the country?
9. What is foreign exchange management? Why is it important to General Motors and other car makers? How would foreign exchange management be facilitated if Great Britain adopted the euro?
10. Why is Britain reluctant to join the euro zone? What are the disadvantages of participating in the common currency?