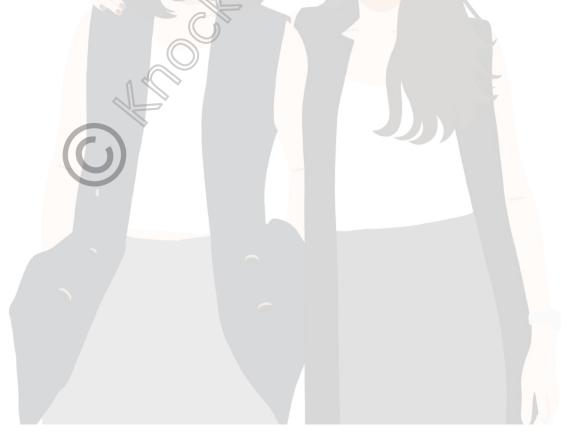
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# Key terms

1. Globalisation: the term now widely used to describe increases in worldwide trade and movement of people and capital between countries.

**Chapter 28 Business and International economy** 

- 2. Free trade agreements: exist when countries agree to trade imports/exports with no barriers such as tariffs and quotas.
- 3. Import quota: a restriction on the quality of a product that can be imported.
- 4. Protectionism: when a government protects domestic firms from foreign competition using tariffs and quotas.
- 5. Multinational businesses(transnational businesses): those with factories, production, or service operations in more than one country.
- 6. Exchange rate: the price of one currency in terms of another, for example 1\$=38\$
- 7. Currency depreciation: the fall in the value of a currency it buys less of another currency.
- 8. Currency appreciation: the rise in the value of a currency it buys more of another currency.



#### 1. Globalization: increase worldwide trade between countries

#### **Opportunities**

- Exporting good and services
- Increasing market share
- · Gaining cheap labour cost

#### **Threats**

- Losing jobs for local people
- Domestic firms cannot compete with MNCs
- Labours leaving to countries with high wage

### 2. Why governments might introduce import tariffs and import quotas

- 2.1 Tariff: is tax on imported goods.
- ⇒ It increases the price of imported goods.
- ⇒ Consumers switch to consume domestic goods rather than imports.
- **2.2 Import guota:** a restriction on the quality of a product that can be imported.
- ⇒ Reducing import quota decreases the consumption of imported goods.
- ⇒ Consumers are likely to consume domestic goods rather than imports.

# 3. Multinational company

<u>Multinational business</u>: businesses which operate in more one countries e.g. Toyota/ Exxon/Mc.

Advantages	Disadvantages
<ul> <li>More jobs created which reduces unemployment.</li> <li>MNCs bring new technology and create outputs in the country</li> <li>More outputs available to consumers.</li> <li>Tax revenue paid by MNCs</li> </ul>	<ul> <li>Resource depletion and environmental damage</li> <li>Profits are transferred back to their home countries rather than reinvested in the host country.</li> <li>Employing only low skilled workers in the country</li> </ul>

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### 4. The impact of exchange rate

**Exchange rate**: price one currency in term of another e.g. 1£ = 1.5\$

- Appreciated currency: value a currency rise in term of another currency
- Depreciated currency: value a currency reduce in term of another currency

## How exchange rate changes can affect businesses

### A fall in exchange rate or currency depreciated

- Export price will be cheaper in foreigner's | Import price will be expensive in
- Demand for export increases
- Exporting businesses gain higher revenue and profit
- domestic's view
- Importing businesses face higher cost of imported raw material
- They gain lower profit

### A rise in exchange rate or currency appreciated

- Export price will be higher in foreigner's view
- Demand for export decreases
- Exporting businesses gain lower revenue and profit
- Import price will be cheaper in domestic's view
- Importing businesses have lower cost of imported raw material
- They gain higher profit

### 5. Privatisation: Sell some/all public ownership to the private sector.

#### **Advantages Disadvantages** - Privatisation increases competition in Private firms might reduce cost of the market production by laying off some workers, - Private firms have profit motives and resulting in higher unemployment. Private sector can better control the cost | - Private firms aim for profit might lower quality and set higher price of production.