Chapter 28 Business and International economy

Key terms

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

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

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

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 view - Demand for export increases - Exporting businesses gain higher revenue and profit	- Import price will be expensive in 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 the market - Private firms have profit motives and Private sector can better control the cost of production.	- Private firms might reduce cost of production by laying off some workers, resulting in higher unemployment. - Private firms aim for profit might lower quality and set higher price