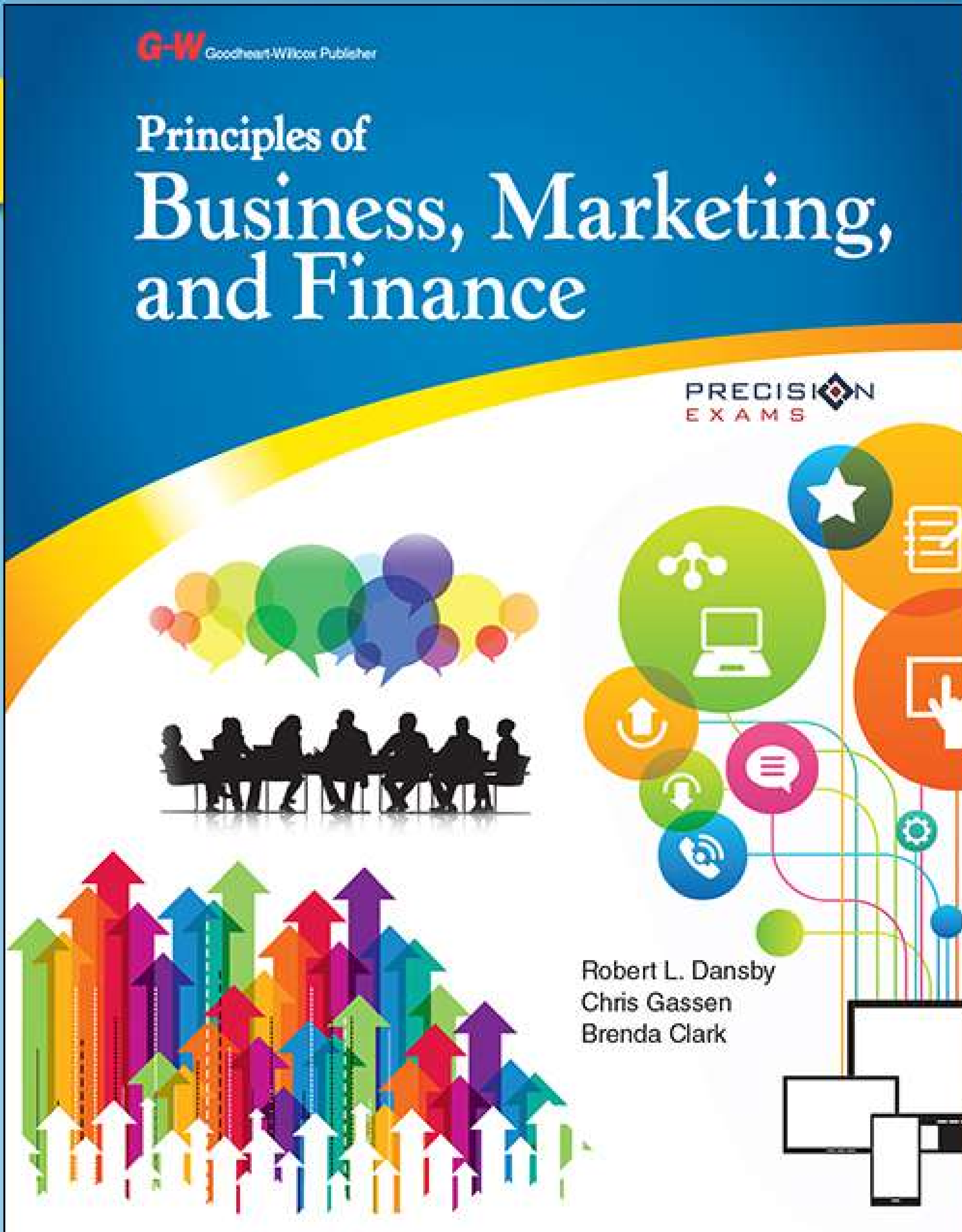

Presentations for PowerPoint

Principles of Business, Marketing, and Finance

G-W PUBLISHER

The Goodheart-Willcox Co., Inc.
Tinley Park, Illinois

5

Business in a Global Economy

Section 5.1

Exploring Global Business

Objectives

- **Describe** the impact of globalization on business.
- **Explain** the role of currency in foreign trade.
- **Discuss** trade policy.

Key Terms

- globalization
- culture
- international trade
- domestic business
- exports
- imports
- absolute advantage
- comparative advantage
- balance of trade
- balance of payments
- foreign exchange rate
- floating currency
- trade policy
- trade barrier
- embargo
- trade sanctions
- tariff
- quota
- trade agreement
- trading bloc

Essential Question

How is the government involved in the trade activities of businesses?

Globalization

- **Globalization** is the connection made among nations when economies freely move goods, labor, and money across borders
  - Creates new markets, jobs, and political relationships
- **Culture** is the shared beliefs, customs, practices, and social behavior of a particular group or nation
- **International trade** is the buying and selling of goods and services across national borders
  - *International business* or *world trade*

Globalization

- **Domestic business** is all the business activity involved in making, buying, and selling product within a nation's borders
- **Exports** are goods and services that are produced within a country's borders and sold in another country
- **Imports** are goods, services, and capital that are brought into a country from outside its borders

Globalization

US Export Totals for 2014		
Country/Region	**Export Dollar Amount**	**Percent of Total US International Exports**
Canada	$287,818,800,000	19.3%
Mexico	221,437,000,000	14.8%
China	111,792,500,000	7.5%
Japan	61,185,700,000	4.1%
United Kingdom	49,031,300,000	3.3%
Germany	45,668,000,000	3.0%
South Korea	40,720,800,000	2.7%
Netherlands	40,031,300,000	2.6%
Brazil	39,280,900,000	2.6%
Hong Kong	37,578,800,000	2.5%

Source: US Dept. of Commerce: International Trade Administration; Goodheart-Willcox Publisher

Globalization

- *Global dependency* is created when countries depend on each other for products
- **Absolute advantage** exists when a country can produce goods more efficiently and at a lower cost than another country
- **Comparative advantage** exists when a country specializes in producing a product at which it is relatively more efficient

Globalization

- **Balance of trade** is the difference between a nation's exports and its imports
  - Trade surplus
  - Trade deficit
- **Balance of payments** is the total amount of money that comes into a country, minus the total amount of money that goes out for a specific period of time
  - Positive balance of payments
  - Negative balance of payments

Currency

- **Foreign exchange rate** is the cost to convert one currency into another
- **Floating currency** means that its exchange rate is set by the market forces of the supply and demand in the *foreign exchange market (FOREX)*
- Factors influencing exchange rates:
  - Political stability
  - Changes in laws
  - Nations involved in disputes
  - Economic conditions

Currency

Currency Exchange Rates (value per USD)		
Currency	**December 31, 2013**	**December 31, 2014**
British Pound	£0.60 GBP	£0.64 GBP
Canadian Dollar	$1.06 CAD	$1.16 CAD
European Union Euro	€0.72 EUR	€0.82 EUR
Japanese Yen	¥119.76 JPY	¥119.76 JPY
Mexican Peso	$13.10 MXN	$14.74 MXN

Source: Board of Governors of the Federal Reserve System; Goodheart-Willcox Publisher

Trade Policy

- **Trade policy** is the body of laws related to the exchange of goods and services for international trade
  - Governments negotiate trade terms with one another
- Trade restrictions
  - **Trade barrier:** Government action taken to control or limit the amount of imports
  - **Embargo:** Government order that prohibits trade with a foreign country
  - **Trade sanctions:** Embargoes on certain goods
  - **Tariff:** Governmental tax on imported goods
  - **Quota:** Limit on amount of a product imported into a country during a specific period of time

Trade Policy

- **Trade agreement** is a document listing the conditions and terms for importing and exporting products between countries
- **Trading bloc** is a group of countries that has joined together to trade as if they were a single country
  - *Free-trade zone* is a group of countries that reduced or eliminated trade barriers among themselves
- *European Union (EU)* is the largest trade sector in the world; 28 countries
- *North American Free Trade Agreement (NAFTA)*
  - United States, Canada, Mexico

Section 5.1 Review

1. What benefits are created when a business exports and sells product globally?

   By exporting product, companies can realize potential new markets, increase their profits, generate jobs, and earn new tax dollars for the origin country.

2. Name the condition created when a nation has more exports than imports.

   When a nation has more exports than imports, a positive balance of trade, or a trade surplus, is created.

Section 5.1 Review

3. What are some factors that can influence the exchange rate of currency?

   The exchange rate of currency may be influenced by political stability or instability in the world, nations changing their laws, nations in dispute with other nations, and economic conditions, such as interest rates.

4. Identify three types of trade barriers used by governments.

   Three types of trade barriers are an embargo, tariff, and quota.

Section 5.1 Review

5. What is NAFTA?

   NAFTA is a trade agreement that lowered trade barriers and opened markets among Canada, Mexico, and the United States.

Section 5.2

Entering Global Business

Objectives

- **Identify** considerations that must be taken when doing business off shore.
- **Discuss** ways to enter global markets.

Key Terms

- logistics
- diversity
- intercultural communication
- English as a second language (ESL)
- multinational corporation
- licensing
- franchise
- franchisor
- franchisee
- joint venture

Essential Question

How do culture and established laws affect the operations of a multinational corporation?

Offshore Business

- Businesses may go off shore for growth opportunities
- Considerations in taking business to another country:
  - Labor laws
  - Legal documents
  - Logistics
  - Diverse workforce
  - Intercultural communication
- **Logistics** is planning and managing the flow of goods, services, and people to a destination

Offshore Business

- **Diversity** is having people from different backgrounds, cultures, or demographics come together in a group
  - Benefits an organization, but comes with challenges
- **Intercultural communication** is the process of sending and receiving messages between people of various cultures
- **English as a second language (ESL)** is the use of English by people with a different native language
  - An *interpreter* translates a conversation between individuals who do not speak the same language

Ways to Enter the Global Market

- **Multinational corporation** is a business that operates in more than one country

Global Business Options		
Type	**Pro**	**Con**
Licensing	• Licensor earns revenue for little or no extra work • Licensee gets product into the market quickly	• Potential for conflict between licensor and licensee
Franchise	• Product is already known in the market • Effective standards and procedures are provided	• Can be expensive to buy • May be difficult to maintain proper standards
Joint Venture	• Each company is independent • Profits and losses are shared • Effective way to start a business off shore	• May not be allowed in all foreign countries

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Ways to Enter the Global Market

- **Licensing** is when a business sells the right to manufacture its products or use its trademark
  - Rights sold in exchange for a fee known as a *royalty*
- Company that sells the license is the *licensor*
- Buyer of the license is the *licensee*

Ways to Enter the Global Market

- **Franchise** is the right to sell a company's goods or services in a specific area
- **Franchisor** is the parent company that owns the chain and the brand
- **Franchisee** is the person or company that buys the rights to use the brand
  - Can enter a market with a known good or service

Ways to Enter the Global Market

- **Joint venture** is a partnership of two or more companies that work together for a specific business purpose
  - May be the only way to start a business in some countries

Section 5.2 Review

1. Identify five common considerations involved in taking business to another country.

   Five common considerations are labor laws in force, legal documents required, logistics of offshore business operations, incorporating a diverse workforce, and effective intercultural communications.

2. Why is moving products internationally much more complex than domestic transport?

   When distances increase, it is more likely that many different forms of transportation will be needed.

Section 5.2 Review

3. List some of the benefits that a diverse workforce can provide to a business.

   A diverse workforce can help an organization be more creative, be receptive to customer needs, find new ways of thinking and looking at business, and create unique products and services.

4. List three ways a business can enter a global market.

   Licensing, franchising, and joint ventures are three ways a business can enter a global market.

Section 5.2 Review

5. How does licensing benefit both the licensor and licensee?

   The licensor earns revenue, often for little or no extra work. The licensee gets product to the market quickly.