

CHAPTER

5

Business in a Global Economy

Section 5.1

Exploring Global Business



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

Objectives

After completing this section, you will be able to:

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

Section 5.1 Review

Check Your Understanding

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

Answer: 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.

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

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

Answer: 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.

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

5. What is NAFTA?

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

Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

globalization

Answer: Connections made among nations when economies freely move goods, labor, and money across borders.

culture

Answer: Shared beliefs, customs, practices, and social behavior of a particular group or nation.

international trade

Answer: Buying and selling of goods and services across national borders. Also known as *world trade* and *international business*.

domestic business

Answer: All the business activity involved in making, buying, and selling product within a nation's borders.

exports

Answer: Goods and services that are produced within a country's borders and sold in another country.

imports

Answer: Goods, services, and capital that are brought into a country from outside its borders.

absolute advantage

Answer: When a country can produce goods more efficiently and at a lower cost than another country.

comparative advantage

Answer: When a country specializes in producing a product at which it is relatively more efficient.

balance of trade

Answer: Difference between a nation's exports and its imports.

balance of payments

Answer: Total amount of money that comes into a country, minus the total amount of money that goes out for a specific period of time.

foreign exchange rate

Answer: Cost to convert one currency into another.

floating currency

Answer: Currency with an exchange rate that is set by the market forces of supply and demand in the foreign exchange market.

trade policy

Answer: Body of laws related to the exchange of goods and services for international trade.

trade barrier

Answer: Any government action taken to control or limit the amount of imports.

embargo

Answer: Government order that prohibits trade with a foreign country.

trade sanction

Answer: Embargo that affects only certain goods.

tariff

Answer: Governmental tax on imported goods.

quota

Answer: Limit on the amount of a product imported into a country during a specific period of time.

trade agreement

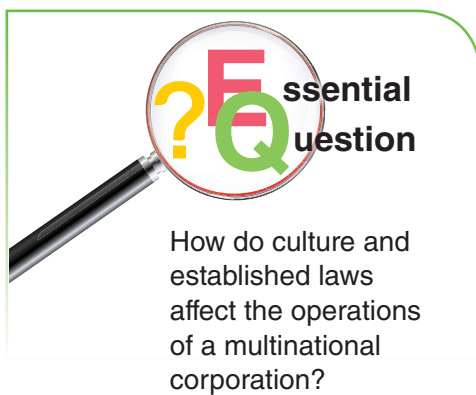
Answer: Document listing the conditions and terms for importing and exporting products between countries.

trading bloc

Answer: Group of countries that join together to trade as if they are a single country.

Section 5.2

Entering Global Business



Objectives

After completing this section, you will be able to:

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

Section 5.2 Review

Check Your Understanding

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

Answer: 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?

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

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

Answer: 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.

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

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

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

Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

logistics

Answer: Planning and managing the flow of goods, services, and people to a destination.

diversity

Answer: Having people from different backgrounds, cultures, or demographics coming together in a group.

intercultural communication

Answer: Process of sending and receiving messages between people of various cultures.

English as a second language (ESL)

Answer: Use of English by people with a different native language.

multinational corporation

Answer: Business that operates in more than one country.

licensing

Answer: When a business sells the right to manufacture its products or use its trademark.

franchise

Answer: Right to sell a company's goods or services in a specific area.

franchisor

Answer: Parent company that owns the chain or the brand.

franchisee

Answer: Person or company that buys the rights to use the brand.

joint venture

Answer: Partnership of two or more companies that work together for a specific business purpose.

Chapter Summary

Section 5.1 Exploring Global Business

- Globalization is the connection made among nations when economies freely move goods, labor, and money across borders. International trade is the buying and selling of goods and services across national borders. Nations trade with each other because most countries do not have the factors of production needed to produce all the goods and services needed by their population. By trading with other countries, the needs and wants of consumers are more likely to be met.
- Most countries have their own currencies and typically only accept their own currency for business exchanges. The foreign exchange rate is the cost to convert one currency into another.

When buying and selling products in countries that use different currencies, it is important to understand the value of the foreign currencies.

- Trade policy is the body of laws related to the exchange of goods and services for international trade. It includes trade restrictions and trade agreements. Many forms of trade restrictions are used to prevent or limit the amount of certain products from entering the country. The goal of trade agreements is to create economic benefits and opportunities for all participating nations.

Section 5.2 Entering Global Business

- Many businesses looking for growth opportunities consider going offshore. However, there are considerations that should be addressed before taking business into another country. Common considerations involved in taking business to another country include labor laws in force, legal documents required, logistics of offshore business operations, incorporating a diverse workforce, and effective intercultural communications.
- A business can enter the global market in various ways. They can import and export goods and services internationally. Businesses can also expand into a foreign country to produce and sell goods. Some ways to start a business in a foreign country include licensing, franchising, and joint ventures.

Review Your Knowledge

1. Explain the role of business in a global society.

Answer: Nations trade with each other because most countries do not have the factors of production needed to produce all the goods and services needed by their population. The available land, labor, capital, and entrepreneurship vary by country. Trading the goods and services produced by each country's businesses allows more needs and wants of the consumers to be met. This has created a *global dependency* in which countries depend on each other.

2. Compare the activities involved in world trade with the activities involved in domestic business.

Answer: World trade involves buying and selling goods and services across national borders. World trade takes place among people, businesses, and governments in different nations. In comparison, domestic business involves making, buying, and selling product within the borders of a single nation. There are no foreign countries or companies involved in domestic business.

3. Explain why currency makes global trade complex.

Answer: Currency is money, and it makes global trade complex. Most countries have their own currencies and typically accept only their own for business exchange. A business in the US that buys from Europe will need to exchange dollars for euros. This can become complicated, as each country has different currency values relative to each other.

4. Describe three types of trade barriers.

Answer: An embargo is a government order that prohibits trade with a foreign country. A trade sanction is an embargo that affects only certain goods. A tariff is a government tax on imported goods. Tariffs generate revenue for the government and protect domestic businesses. A quota is a limit on the amount of a product imported into a country during a specific period. Import quotas are meant to protect domestic producers by limiting foreign competition.

5. What is the purpose and goal of a trade agreement?

Answer: A trade agreement is a document listing the conditions and terms for importing and exporting goods between countries. The goal of trade agreements is to create economic benefits and opportunities for all participating nations by allowing free trade and investing across their borders.

6. What is a free-trade zone?

Answer: A free-trade zone is a group of countries that have reduced or eliminated trade barriers among themselves.

7. How do US labor laws affect business conducted in another country?

Answer: Labor laws must be considered when doing business offshore. US businesses with overseas operations must make sure that US labor laws are applied. In addition, they must make sure the local labor laws of the offshore country are also followed.

8. Explain why logistics is a consideration when taking business to another country.

Answer: Logistics is planning and managing the flow of goods, services, and people to a destination. When a business expands offshore, products must be moved over at least one border by plane, train, boat, or truck. Moving products internationally is much more complex than domestic transport. When distances increase, it is more likely that a combination of forms of transport will be needed. For example, moving products and supplies overseas often requires air or ocean freight. It might also require rail or trucking to reach the final destination. Using several forms of transportation usually results in longer shipping times and greater expense.

9. Explain the importance of effective intercultural communication for business.

Answer: Intercultural communication is the process of sending and receiving messages between people of various cultures. To communicate successfully, businesses must understand the culture of their employees. Not understanding another person's culture may result in misinterpreting verbal and nonverbal communication.

10. Discuss three ways to enter global markets.

Answer: Three ways to start a business in a foreign country include licensing, which is when a business sells the right to manufacture its products or use its trademark; franchising, which is the right to sell a company's goods or services in a specific area; and joint ventures, which are partnerships of two or more companies that work together for a specific business purpose.

Apply Your Knowledge

1. Explain the impact of imports and exports on the United States economy. How does the population benefit? Are there negative aspects to participating in import and export activities? Write several paragraphs to support your opinion.

Answer: Student answers will vary. Evaluate each response individually.

2. How does the foreign exchange rate affect the buying power of the US dollar?

Answer: Student answers will vary. Evaluate each response individually.

3. Consider the logistics of moving product to be sold overseas. Create an illustration that depicts the movement of goods produced in Cincinnati, Ohio, to a distributor in London, England. How many different forms of transportation are involved? Who is responsible for the product in each step of the transport? Write a brief summary of the process to accompany your illustration.

Answer: Student answers will vary. Evaluate each response individually.

4. Communication includes verbal, nonverbal, and written forms of expression. Describe the communication barriers that can be involved in carrying out international business. What forms of communication are commonly used for business? How can a business prepare itself for intercultural communication?

Answer: Student answers will vary. Evaluate each response individually.

5. Describe the benefits and importance of international business for workers, consumers, and citizens.

Answer: Student answers will vary. Evaluate each response individually.



You Do the Math

Measurement Reasoning

Different systems of measurement are used throughout the world. The United States uses a system called the US Customary system that consists of feet, pounds, and degrees Fahrenheit. However, most of the world uses a variation of the metric system called the *Système International d'Unités* (SI), or International System of Units. The SI system consists of meters, grams, and degrees Celsius. The following are some common conversions:

- To convert degrees Fahrenheit to degrees Celsius, subtract 32, multiply by 5, and divide by 9.
- One inch is equal to 25.4 millimeters.
- One pound is equal to 0.45 kilograms.

Solve the following problems.

1. If a carton ready for shipping weighs 18.7 kilograms, how many pounds does it weigh?

Answer: kilograms $\times 2.2$ = pounds

$$18.7 \text{ kilograms} \times 2.2 = 41.14 \text{ pounds}$$

The carton weighs 41.14 pounds.

2. Marion must ship a temperature-sensitive good to a country that uses the metric system. The product cannot be exposed to temperatures below 0 degrees Fahrenheit. She must place a label on the package indicating this temperature in Celsius. What temperature must she write on the label?

Answer: Celsius = $((\text{Fahrenheit} - 32) \times 5) \div 9$

$$\text{Celsius} = ((0^\circ - 32) \times 5) \div 9$$

$$\text{Celsius} = ((-32^\circ) \times 5) \div 9$$

$$\text{Celsius} = -160^\circ \div 9$$

$$\text{Celsius} = -17.8^\circ$$

3. Luis must order a length of specialized steel rod from a company in Germany. He needs 0.3 feet of the rod. However, the rod must be ordered in increments of 10 millimeters. What length of rod must be ordered?

Answer: 1 inch = 25.4 millimeters

$.3 \text{ feet} \times 12 \text{ inches/foot} = 3.6 \text{ inches}$

$3.6 \text{ inches} \times 25.4 \text{ millimeters/inch} = 91.44 \text{ millimeters}$

Luis should order 100 millimeters of rod.