

Knockout.Economics by Kru P'Eve & Kru P'Da

IGCSE -Business studies

The importance of globalisation 🔍

- Executive summary IGCSE Business studies
- Series of exam questions each chapter
- Exam Strategies and exclusive tips to achieve A* from Knockout.Economics
- Exclusive Key Terms for IGCSE Business studies exam



Overviews

1. Globalization
2. Reasons for globalization
3. Opportunities and threats of globalization to businesses
4. Why governments might introduce import tariffs and import quotas



1. Globalization

Globalization: an increase worldwide trade and movement of people and capital between countries



2. Reasons for globalization

Reasons for Globalization

(Increase in global trade, movement of people and capital between countries)

1. Increasing numbers of free trade agreement

2. Industrialisation in emerging market countries such as China and India

3. Improving in communication and transportation

3. Opportunities and threats of globalization to businesses

Opportunities of globalization to businesses

1. Businesses can sell exports to other countries
2. Businesses can locate factories in the country with cheap labour
3. Businesses can import products to sell to customers in home country
4. Businesses can import cheaper raw materials.

Threats of globalization to businesses

1. Local firms' products may have lower quality or higher price than imported goods.
2. Domestic firms cannot compete with MNCs.
3. Employees may leave domestic firms and work for an international business which offers higher wage.
4. Insufficient labour in some countries causes high cost of recruitment and training for domestic businesses.

4. Why governments might introduce import tariffs and import quotas

Why governments might introduce import tariffs and import quotas

Tariff: is tax on imported goods

- ⇒ It increases the price of imported goods.
- ⇒ Consumers switch to consume domestic goods rather than imports.
- ⇒ It helps protecting domestic firms foreign competition and also protect domestic employment.

Import quota: a restriction on the quantity of a product that can be imported

- ⇒ Reducing import quota decreases the amount of the consumption of imported goods.
- ⇒ Consumers are likely to consume domestic goods rather than imports.
- ⇒ It helps protecting domestic firms foreign competition and also protect domestic employment.

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Reasons for the importance and growth of multinational companies (MNCs)



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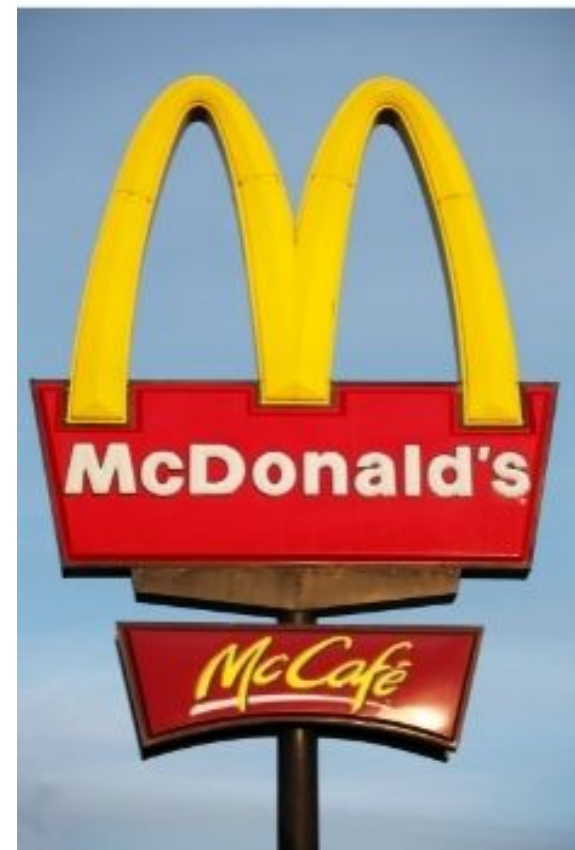
Overviews

1. Multinational companies
2. Benefits to a business of becoming a multinational companies
3. Advantages and disadvantages of MNCs operating in a country



1. Multinational companies

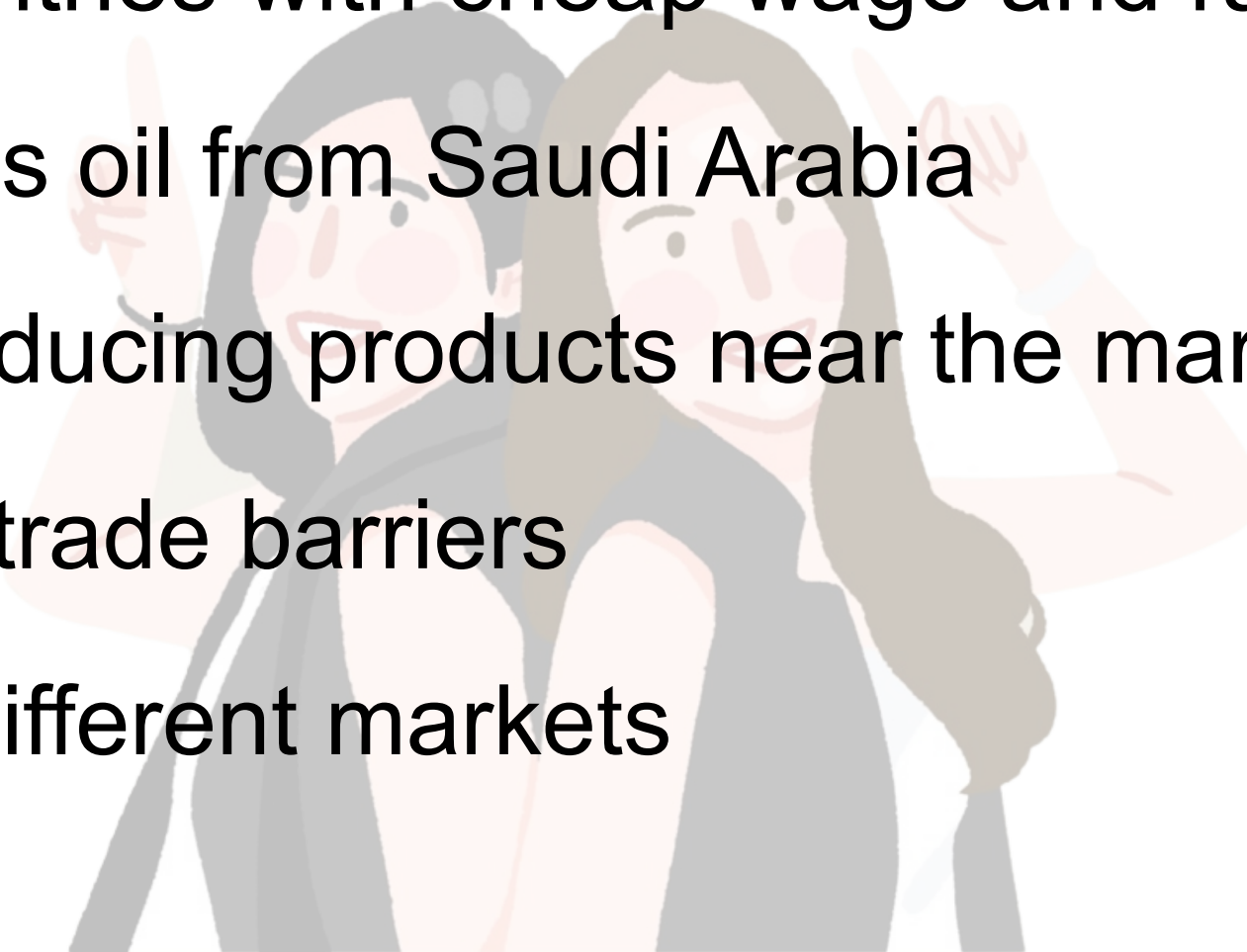
Multinational companies or transnational companies: those businesses which have factories, productions, or service production in more than one country.



2. Benefits to a business of becoming a multinational companies

Why do firms become multinational companies?

- To produce products in the countries with cheap wage and raw materials
- To access raw materials such as oil from Saudi Arabia
- To reduce transport cost by producing products near the market
- To avoid tariff, quote and other trade barriers
- To spread risk by operating in different markets



3. Advantages and disadvantages of MNCs operating in a country

Advantages of MNCs operating in a country

1. More jobs created which reduces unemployment in the host country.
2. MNCs bring new technology and create a variety of goods and services available to consumers.
3. MNCs produce products for exports which contribute export revenue to the country.
4. MNCs also generate tax revenue to government which can be spent on country development.

Disadvantages of MNCs operating in a country

1. MNCs may cause resource depletion and environmental damage
2. MNCs may transfer profits back to their home countries rather than reinvested in the host country.
3. MNCs may employ only low skilled workers in the country.
4. Domestic firms may not be able to compete with MNCs and they may go bankrupt.

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The impact of exchange rate changes 🔍

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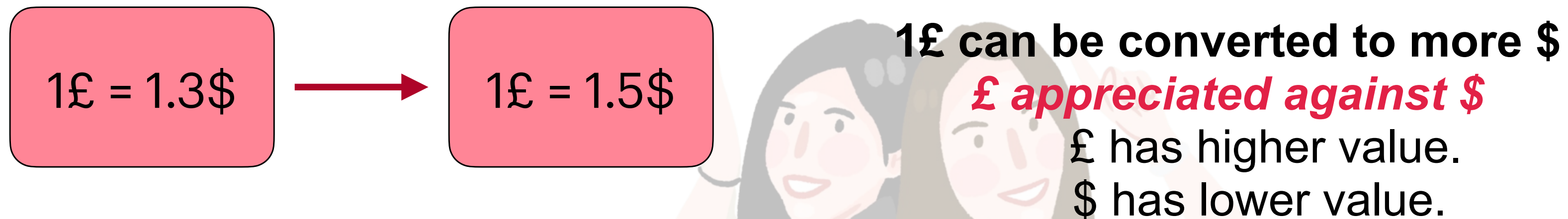
Overviews

1. Depreciation and appreciation of an exchange rate
2. How exchange rate changes can affect businesses as importers and exporters

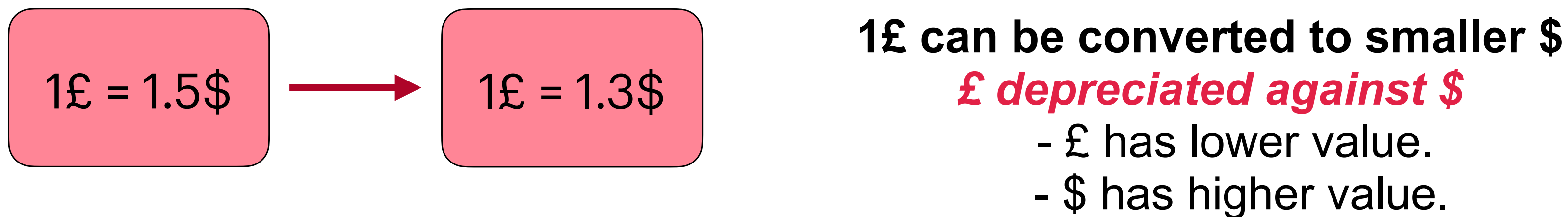


1. Appreciation and depreciation of an exchange rate

Appreciated currency: value of a currency rises in term of another currency



Depreciated currency: value of a currency falls in term of another currency



2. How exchange rate changes can affect businesses as importers and exporters

A Rise in Exchange Rate or Currency Appreciation

Benefiting importing businesses

- ⇒ Price of imports ↓ in domestic's view
- ⇒ Importing businesses face lower cost of imported raw materials.
- ⇒ They gain higher profit.

Harming exporting businesses

- ⇒ Price of export ↑ in foreigners' view
- ⇒ Demand for export ↓
- ⇒ Exporting businesses gain lower revenue and profit.

2. How exchange rate changes can affect businesses as importers and exporters

A Fall in Exchange Rate or Currency Depreciation

Benefiting exporting businesses

- ⇒ Price of export ↓ in foreigners 'view
- ⇒ Demand for export ↑
- ⇒ Exporting businesses gain higher revenue and profit.

Harming importing businesses

- ⇒ Price of import ↑ in domestic's view
- ⇒ Importing businesses face higher cost of imported raw materials.
- ⇒ They gain lower profit.

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Exercise: Business and international economy



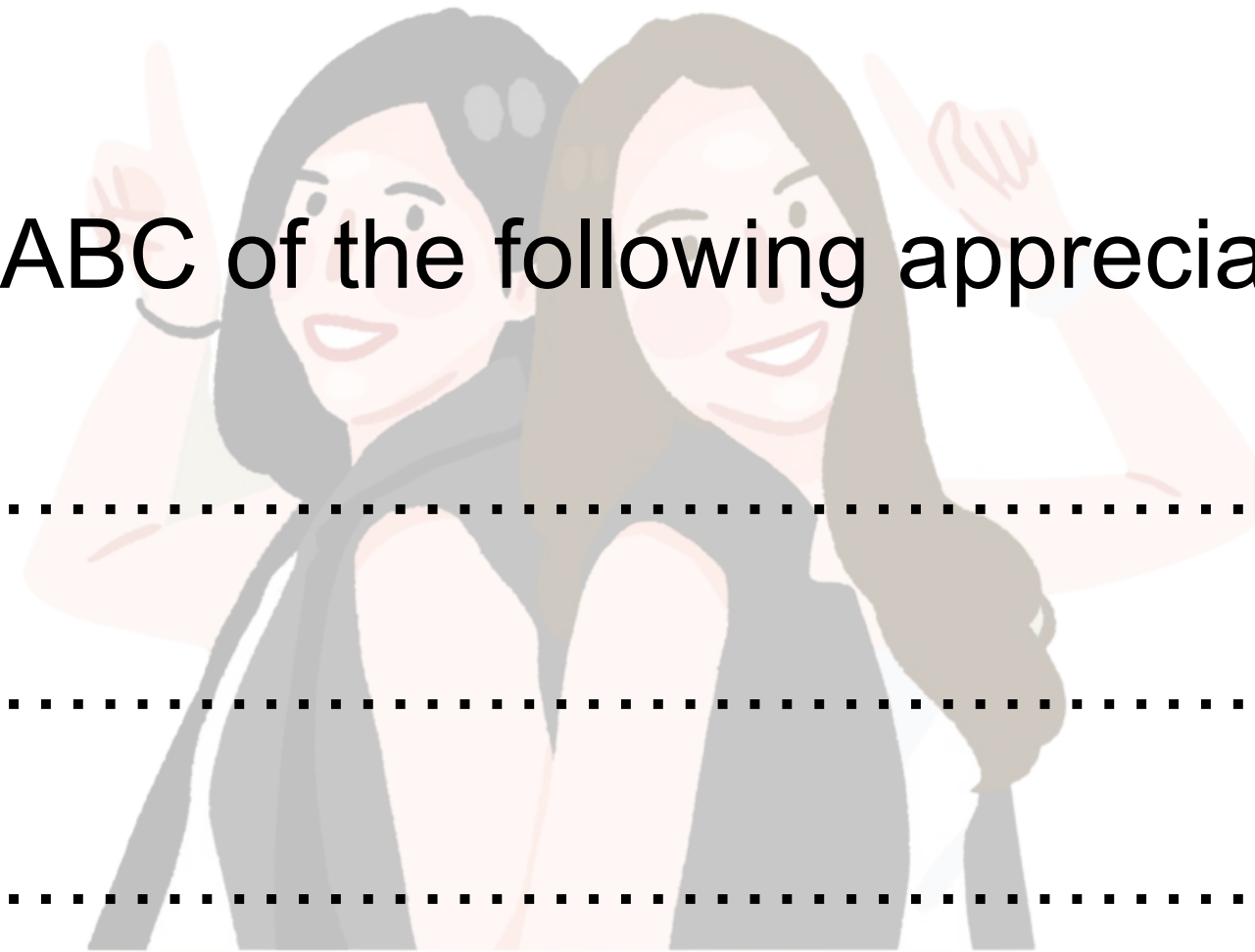
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Exercise

1 ABC is a car producer based in Thailand. The company also exports car to ASEAN countries. The company is planning to operate a new factory in Vietnam with cheap cost of production. A board of director of ABC is concerned about problems of becoming a multinational company.

- (a) Consider a possible effect on ABC of the following appreciation of Thailand's currency [2]



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Exercise

1 ABC is a car producer based in Thailand. The company also exports car to ASEAN countries. The company is planning to operate a new factory in Vietnam with cheap cost of production. A board of director of ABC is concerned about problems of becoming a multinational company.

- (a) Consider a possible effect on ABC of the following appreciation of Thailand's currency [2]

Price of exported car becomes more expensive in foreigners' view.

=>

Exercise

1 ABC is a car producer based in Thailand. The company also exports car to ASEAN countries. The company is planning to operate a new factory in Vietnam with cheap cost of production. A board of director of ABC is concerned about problems of becoming a multinational company.

(b) Identify and explain **two** advantages to ABC of being a multinational company. [4]

Advantage 1:

Explanation:.....

.....

Advantage 2:

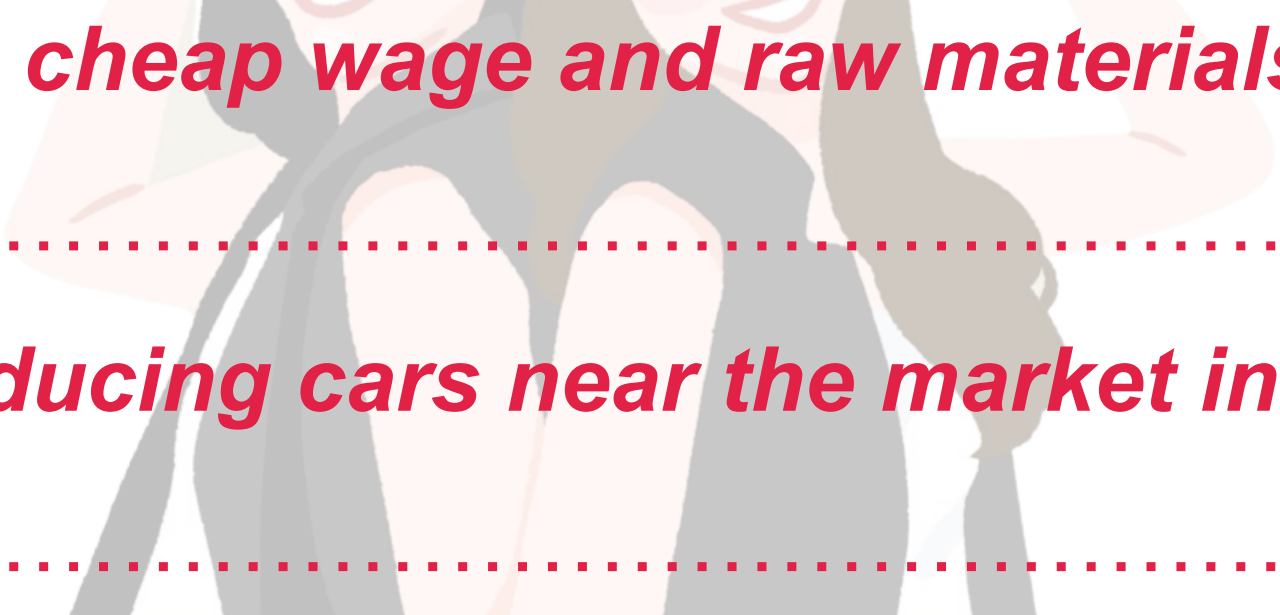
Explanation:.....

.....

Exercise

1 ABC is a car producer based in Thailand. The company also exports car to ASEAN countries. The company is planning to operate a new factory in Vietnam with cheap cost of production. A board of director of ABC is concerned about problems of becoming a multinational company.

(b) Identify and explain **two** advantages to ABC of being a multinational company. [4]

- 
- *To produce cars in Vietnam with cheap wage and raw materials*

 - *To reduce transport cost by producing cars near the market in Vietnam*

 - *To avoid tariff, quota and other trade barriers from exporting cars to Vietnam*

 - *To spread risk by operating in different markets*

Exercise

1 ABC is a car producer based in Thailand. The company also exports car to ASEAN countries. The company is planning to operate a new factory in Vietnam with cheap cost of production. A board of director of ABC is concerned about problems of becoming a multinational company.

(c) Consider **two** possible benefits to Vietnam if ABC operates the factory in the country. [4]

Benefit 1:

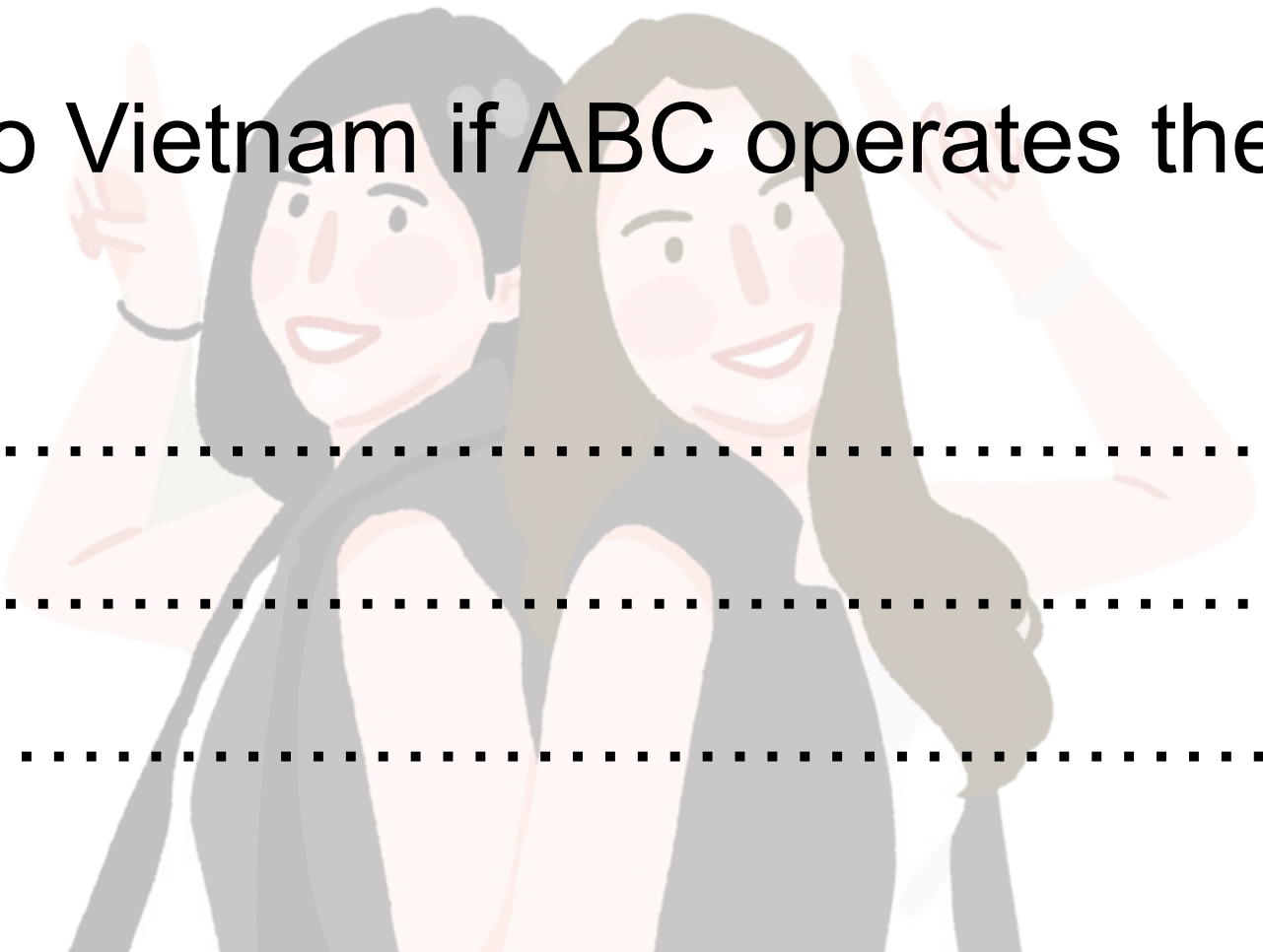
Explanation:.....

.....

Benefit 2:

Explanation:.....

.....



Exercise

1 ABC is a car producer based in Thailand. The company also exports car to ASEAN countries. The company is planning to operate a new factory in Vietnam with cheap cost of production. A board of director of ABC is concerned about problems of becoming a multinational company.

(c) Consider **two** possible benefits to Vietnam if ABC operates the factory in the country. [4]

- *ABC can generate jobs for local people in Vietnam.*

- *ABC can creates a variety of cars to people in Vietnam*

- *ABC can contribute export revenue for Vietnam*

- *ABC can generate tax revenue to Vietnam government*

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