

# Specific Influences on Global Business

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## **1. Define the term exchange rate using examples.**

An exchange rate is simply the price of one nation's currency in terms of another currency. For example, a common exchange rate is the Australian dollar/US dollar exchange rate. If the AUD/USD exchange is 0.81, this means that one Australian dollar will buy 81 US cents.

## **2. Explain how the value of an exchange rate can change over time.**

Changes in the value of the exchange rate over time are referred to as appreciations or depreciations. A currency appreciates when its value rises, relative to another currency, and depreciates when its value falls, relative to another currency.

## **3. Briefly examine the impact of a depreciation in the Australian dollar on exporters of Australian wheat.**

Depreciation in the Australian dollar on Australian wheat exporters would mean a reduced cost in exports to foreign buyers. This would result in an increased demand for global sales of Australian wheat.

## **4. Discuss why global interest rates change and the impact of these changes on global businesses.**

Global interest rates change because governments use monetary policy (basically, altering the interest rate) to influence economic activity. A central bank will lower interest rates to stimulate spending and investment within an economy and it will increase interest rates to slow down an economy which is growing too quickly (showing inflationary tendencies). The impact of interest rate changes on global business is two-fold: An increase in interest rates encourages investment in those nations where rates have risen and, conversely, a rise in interest rates leads to reduced business borrowing in nations where rates are rising.

## **5. Explain why a business may borrow from overseas.**

One reason why a business may borrow from overseas is to gain access to lower interest rates which may exist between another country and our own. Another reason is that the business may be unable to find sufficient funds in their own country, but can find these funds in overseas markets

**6. Identify what is meant by free trade and how governments can restrict free trade in the global economy.**

Free trade is the situation where there are no artificial barriers to trade imposed by governments that restrict the free exchange of goods and services between countries. Governments can restrict free trade in the global economy by implementing methods of protection such as tariffs, subsidies, import quotas and local content rules.

**7. Outline the role played by the World Trade Organization in global trade. Discuss how the WTO could impact on a global business.**

The role of the WTO is to implement and advance global trade agreements and to resolve trade disputes between countries. One way in the WTO could impact on a global business is if it is able to effectively advance a trade agreement with a country in which the business operates, thus making it cheaper for the business to export to this country.

**8. Identify one trade agreement and briefly outline how this agreement would impact a business in a member country.**

The North American Free Trade Agreement (NAFTA) is a free trade agreement between the US, Canada, Mexico and Chile. The agreement has seen the elimination of agricultural protection and the phasing out of other tariffs. This has dramatically increased trade among its members. An impact of this agreement for many US businesses is that they have been able to shift their production facilities to Mexico where wage costs are substantially lower.

**9. Outline the legal issues surrounding global business.**

There are complex legal issues that businesses face when operating in other countries. A business needs to consider home country laws that may extend to its foreign operation, local legislation in the foreign country and any international agreements which may affect their dealings. Also, global businesses need to ensure that they protect the value of their intellectual property interests by registering trademarks, patents and website domain names in several different countries.

**10. Examine TWO cultural or social factors influencing global trade and discuss how a business might manage these influences.**

One cultural factor that influences global businesses is language differences. These differences can hinder the ability of businesses to negotiate contracts, converse with clients or even market their products. To overcome this difficulty a business must hire translators, use host nation agents and may also consider hiring local staff or teaching existing staff some basic foreign language skills.

Religion is another cultural factor which has a large influence on consumer choices and a significant influence on businesses. For example, many religions place restrictions on the type of food people can eat, when they can work or what holidays they take. A global business must be sensitive to, and adjust to, the different religions represented in its labour force and consumer base.