

## Chapter 13 Global Business

### Page 339 Business insight

**Why do you think BMW decided to enter a joint venture with Great Wall Motors rather than produce on its own?**

- Chinese regulation may have required a local partner
- Access to experience and links with local suppliers

### Page 340 Business insight

**1. Why does Apple use suppliers from all over the world?**

Apple uses the best suppliers it can find wherever they are; different business based around the world may have different expertise

**2. The profit margin of Apple suppliers is far lower than Apple's profit margin. Why do you think this is?**

Apple uses its power to negotiate relatively low supplier prices; at the same time for its brand and design it can charge customers relatively high prices meaning it has high profit margins.

### Page 342 Business insight

**What do you think the challenges of managing a food supply chain might be?**

The challenges of managing a supply chain include:

- Managing costs
- Maintaining quality
- Being sure of how supplies have been produced

### Page 342 Business insight

**1. Why does an outsourced model help McDonald's?**

Outsourcing enables the business to use the expertise of others; should lead to better quality and lower costs

**2. What is the difference between the McDonald's approach and the typical value exchanging relationship between most businesses and their suppliers?**

McDonald's cooperates with suppliers and sees them as partners. This means it will share information and support suppliers whereas in the traditional model a business will focus on getting suppliers to compete against each other to get input prices down.

### Page 345 Doing the business maths

**1. Which country has a comparative advantage in the production of good A? Which has a comparative advantage in the production of good B?**

Country 1     $1A = 2B$ .     $1B = \frac{1}{2} A$

Country 2     $1A = \frac{3}{2}B$      $1B = \frac{2}{3} A$

**2. What are the possible terms of trade which would be beneficial for both countries?**

Country 1 has comparative advantage in B; lower opportunity cost

Country 2 has comparative advantage in A; lower opportunity cost

Terms of trade might be:  $3/2B < 1A < 2B$

**Page 348 Quick Check**

- a. Comparative advantage occurs when a country has a lower opportunity cost in the production of an item. TRUE
- b. Free trade occurs when there are no barriers to trade. TRUE
- c. According to comparative advantage if the opportunity cost of 1A is 2B in country X and 3B in country Y then country X has a comparative advantage. TRUE
- d. Free trade can be mutually beneficial. TRUE

**Page 347 Doing the business maths**

Complete the table.

Change in demand and supply of the currency	Possible cause of change	Impact on the exchange rate (increase or decrease)
Increase in demand	higher UK interest rates.	rises
Decrease in demand	lower UK interest rates	falls
Increase in supply	more competitive products abroad	falls
Decrease in supply	Decrease in supply	rises

**Page 348 Analysing the data**

1. Explain the currency changes shown in the table.

- Chinese currency: stronger
- Japanese currency: stronger
- Russian currency: weaker
- Venezuelan currency: weaker

3. Discuss the significance of these changes for businesses.

All things being equal a stronger currency means exports are more expensive abroad which is likely to reduce sales; import prices are lower which may make inputs cheaper but will also make foreign competition cheaper.

**Page 348 Analysing the data**

1. An exchange rate may rise if demand for the currency increases and/or supply decreases
2. All things being equal a stronger currency means exports are more expensive abroad which is likely to reduce sales; import prices are lower which may make inputs cheaper but will also make foreign competition cheaper.

**Page 348 Quick Check**

- a. If the value of an exchange rate changes from £1:\$1 to £1:\$2, the pound has appreciated. TRUE
- b. A strong pound is worth more in foreign currency than a weak pound. TRUE

- c. If a country's exchange rate increases, this makes its goods more expensive in foreign currency, all other factors unchanged. TRUE
- d. If a country's exchange rate increases, this makes its goods more expensive in domestic currency, all other factors unchanged. FALSE

**Page 351 Quick Check**

- a. How much does domestic output increase?  
50m
- b. How much does the quantity demanded increase?  
Quantity demanded falls by 40m
- c. What is the new level of imports?  
120 m
- d. How much revenue does the government collect?  
 $£5 * 120m = £600m$

**Page 352 Quick Check**

For each of the following statements, say whether it is true or false.

- a. A tariff limits the quantity of foreign products allowed into a country. FALSE
- b. Protectionism tends to reduce the prices of goods domestically. FALSE
- c. Protectionism puts pressure on domestic businesses to be efficient. FALSE

**Page 352 Quick Check**

To what extent do you think UK businesses would be affected by sanctions against North Korea?

Depends on how much UK firms export to or buy from North Korea; probably not much

**Page 353 Business insight**

Depends on perspective

May depend on whether you are considering political or economic reasons

Consider:

- Impact on jobs
- Impact on trade generally
- Actions taken by Canadian and UK government

**Page 355 Business insight**

1. Why do you think Jaguar Land Rover is reconsidering its investment decisions?  
Uncertainty due to Brexit
2. What do you think the impact of less investment by Jaguar Land Rover would be on UK-based businesses?  
Less demand for supplies; may affect growth and jobs