



CHAPTER 4: Economics and Politics

Chapter Objectives

By the time you finish this chapter, you should be able to:

- Evaluate the advantages and disadvantages, in both developed countries and developing countries, with regard to business opportunities
- Analyze the rationale for, and the impact of, Canadian government initiatives and policies relating to international trade
- Assess the ways in which political, economic, and geographic factors influence international business methods and operations
- Describe the roles corporations can play in setting international and domestic policy

Economic and Political Systems

Economic system

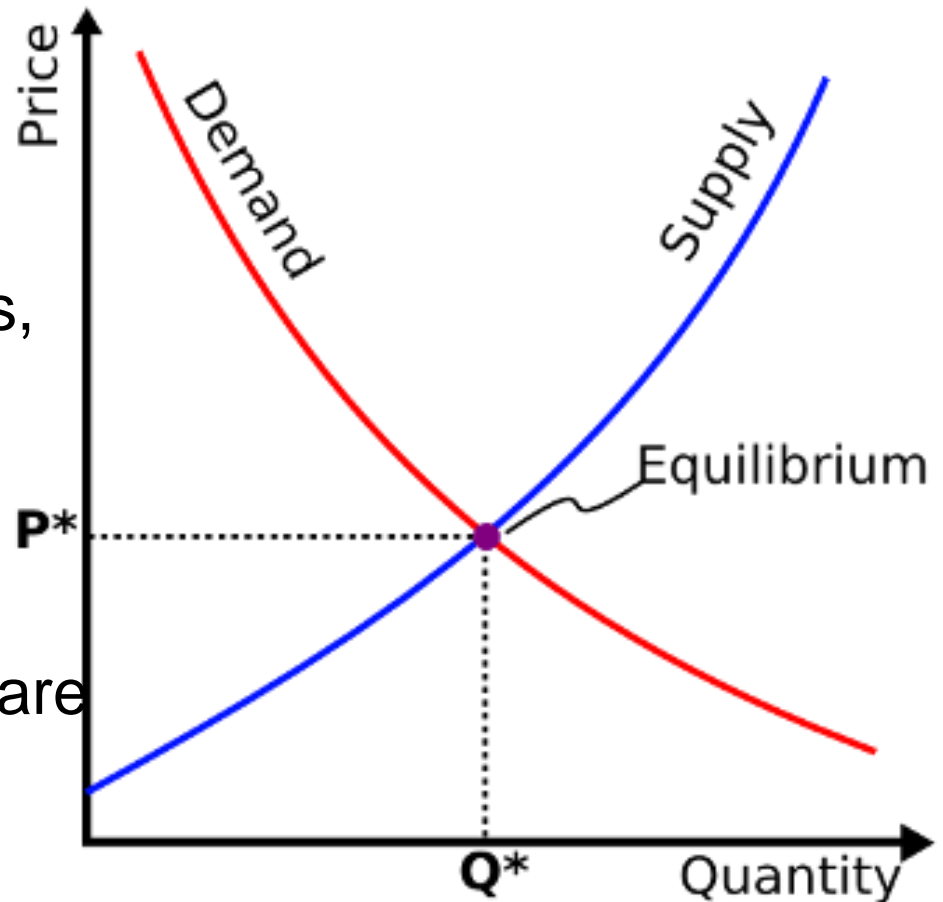
The way a country organizes its resources and distributes goods and services to its citizens.



Economic and Political Systems

Market economy

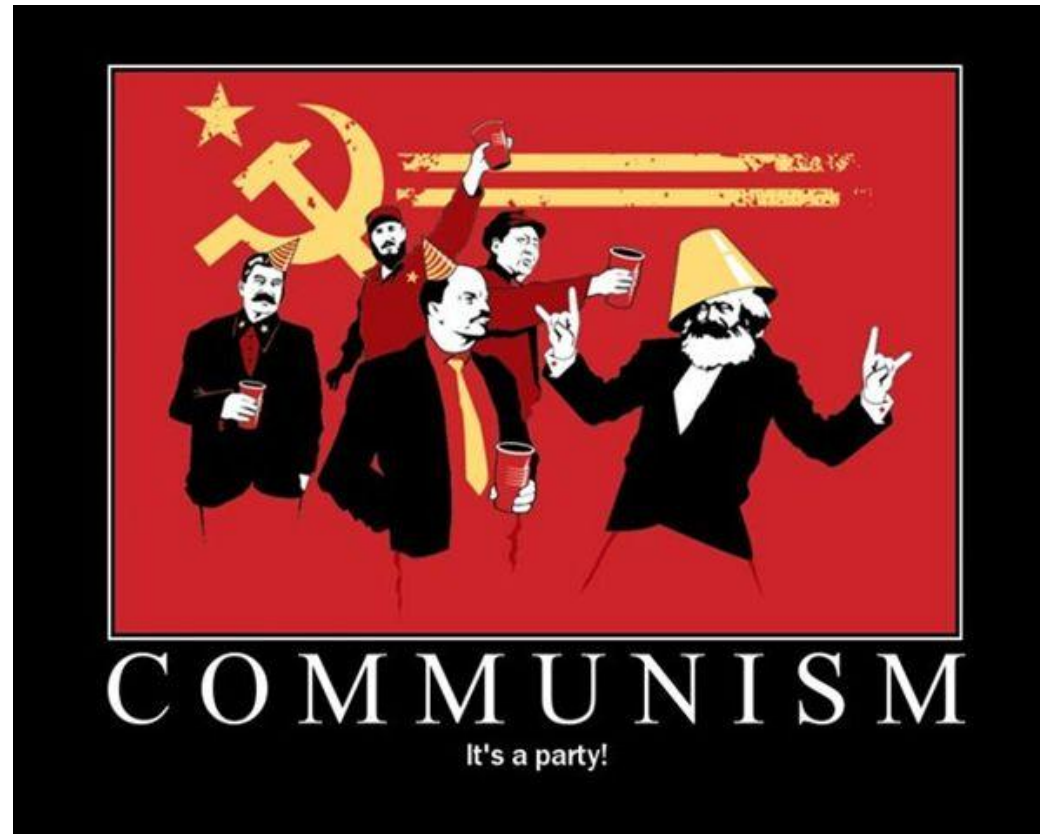
An economic system determined by free competition, in which businesses, consumers, and government act independently of one another, and market forces and self-interest determine what goods are created and sold.



Economic and Political Systems

Centrally planned economy

An economic system in which the government controls all elements of the economy, including prices, wages, and production.



Economic and Political Systems

Mixed economy

An economic system that sits between a market economy and a centrally planned economy, combining government intervention and private enterprise.



Economic System	Advantages	Disadvantages
<p>Market Economy</p> 	<ul style="list-style-type: none"> • Freedom of speech, religion, assembly • Efficient use of resources • New products • Economic growth • Good quality products • Low price 	<ul style="list-style-type: none"> • Gap between rich and poor expands • Lack of consumer education • Unhealthy products
<p>Centrally Planned Economy</p> 	<ul style="list-style-type: none"> • All citizen are assured a minimum standard of living • Health, education and other social programs are free • No unemployment • Long term stability 	<ul style="list-style-type: none"> • Restriction of individual freedoms • Little motivation to work hard • Large military presence • Lack of innovation • corruption
<p>Mixed Economy</p> 	<ul style="list-style-type: none"> • Individual incentive • Basic social services • Consumer protection 	<ul style="list-style-type: none"> • Higher taxation • Individual have influences over taxation rates • Government intervention stifles growth • Less motivation to work hard

What do you think?

If you had your business what economy would you prefer to operate in and why?



Economic and Political Systems

Political system

The type of government by which a country is run.



Economic and Political Systems

Democracy

A state governed by all eligible members of the population through elected representatives.

- Characterized by free and fair elections, the rule of law, free speech and press, the right to assembly, and freedom of religion
- Politicians may be more concerned with re-election than the good of the country



Economic and Political Systems

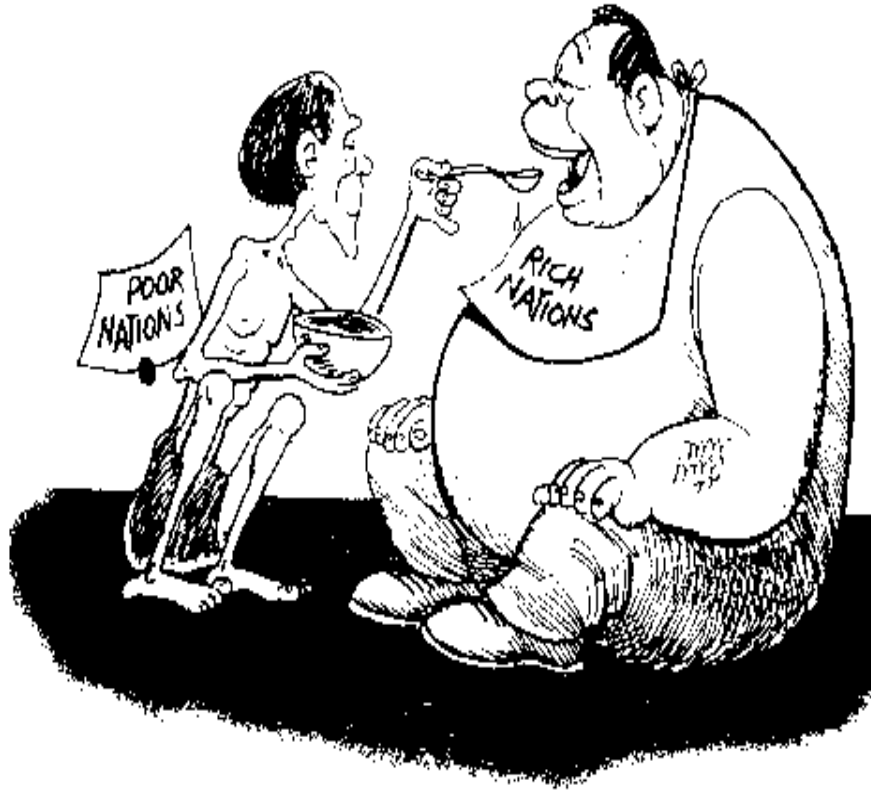
Autocracy

A state governed by a single individual or a small group of people with unlimited power.

- Usually has strong military presence
- Strives to control all aspects of citizens' lives
- Citizens have no influence on government



Group Discussion in groups of 5 please analyze the characters -What is the underlying message



"IT GOES IN CYCLES, JUNIOR. SOMETIMES, THE RICH GET RICHER AND THE POOR GET POORER. SOMETIMES, THE RICH GET RICHER AND THE POOR STAY THE SAME."

Classifications of Economic Development

Underdeveloped countries

Also referred to as the least-developed or third-world countries, nations that are at the lowest level of the world's economies.



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Classifications of Economic Development

Underdeveloped countries are characterized by:

- Severe poverty
- Lack of social services
- Poor infrastructure
- Low levels of literacy
- Limited access to technology
- Agriculture- or resource-based economies
- Long-term political issues, such as dictatorships and war

Classifications of Economic Development

Developing countries

Also known as emerging or second-world countries, nations in transition from a poor economy to a prosperous one.



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Classifications of Economic Development

Developing countries are characterized by:

- Improved literacy rates
- Increased access to health care and other social services, and technological advancement
- A move away from a resource-based economy to a manufacturing base
- Population moving from rural areas to cities

Classifications of Economic Development

Developed countries

Also known as industrialized or first-world countries, nations that are characterized by a high per capita income or strong gross domestic product.

Classifications of Economic Development

Developed countries are characterized by:

- A reliance on secondary and predominantly tertiary industries, rather than primary industries
- High standards of living
- High literacy rates
- Major advancements in health care and technology



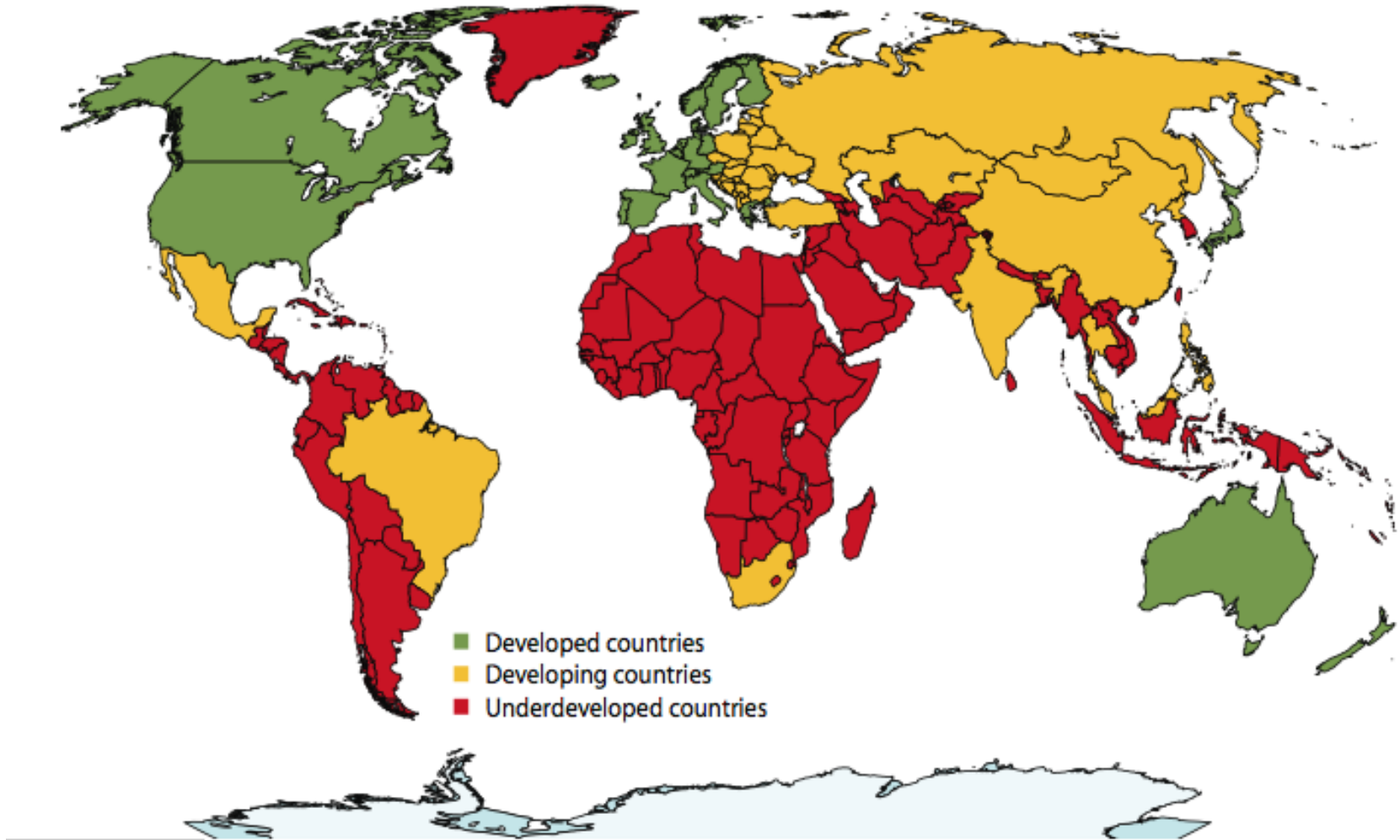
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Classifications of Economic Development

Gross domestic product (GDP)

The total goods and services produced in one country in one year.

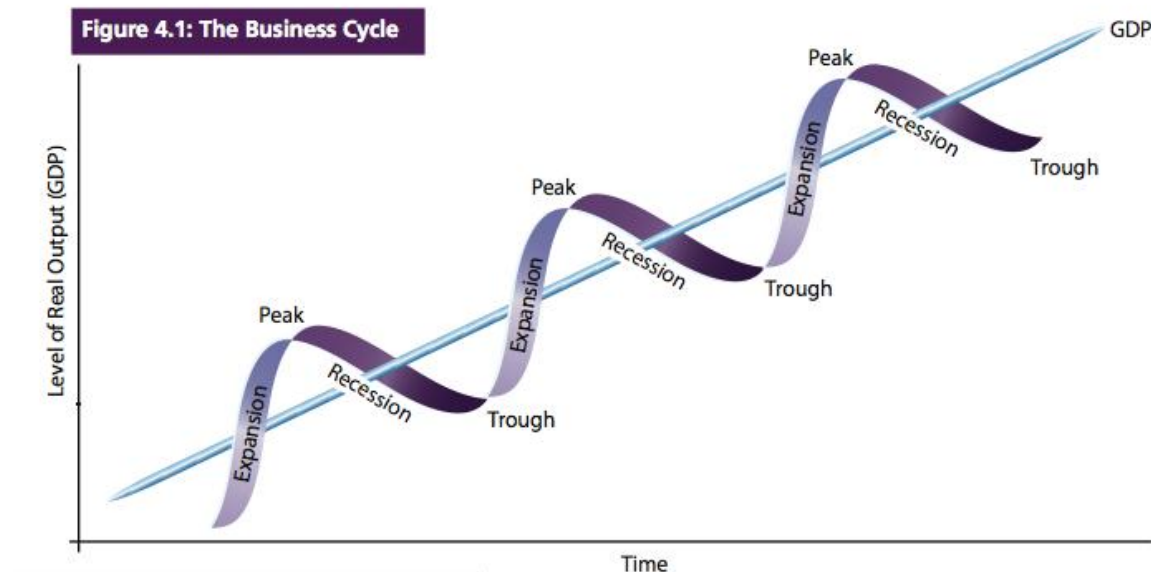
Classifications of Economic Development



The Business Cycle

Business cycle

Recurring periods of increased and decreased economic activity, or expansions and contractions. The business cycle is characterized by four stages: recession, trough, expansion, and peak.



The Business Cycle

The four stages of the business cycle:

- ***Recession*** (two consecutive quarters of GDP): The economy slows down. There is a decline in consumer purchasing, an increase in unemployment, and businesses contract or close.
- ***Trough***: Production and unemployment reach their lowest levels. The economy completes the recession and turns towards prosperity.
- ***Expansion***: The economy begins to grow again. Employment, wages, production, and profits expand.
- ***Peak***: Top of the business cycle. The economy stops expanding and begins contracting.

The Business Cycle

Economic Indicators of the Business Cycle

Three types of economic indicators:

- **Leading:** Adjust before the economy experiences a change and predict where the economy is going. Housing starts are an example.
- **Lagging:** Do not adjust until after the economy has experienced a change. Unemployment rate is an example.
- **Coincident:** Move in conjunction with the business cycle. International trade is an example.

Economics of Trade

Absolute advantage

The ability of one country to use its resources to make a product or service more efficiently than other countries.

Opportunity cost

The value of what is foregone, or the cost of giving something up to get something else. For example, the opportunity cost of being in class is the money a student could earn working at a job.

Comparative advantage

The ability of a country to produce a good at a lower opportunity cost than another country. Comparative advantage is the foundation for specialization and trade.

The Role of Government in International Business

Some of the ways government affects international trade and business include:

- Establishing import and export laws
- Setting tariffs
- Maintaining membership in trade organizations and negotiating trade agreements
- Determining monetary policy, including currency exchange rates
- Determining fiscal policy, including taxation laws
- Building infrastructure, such as roads and sewer systems

The Role of Government in International Business

The government establishes:

- Regulations that businesses must comply with
- Trade offices
- Government embassies, high commissions, and consulates
- Trade missions



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Corporate Influence on Governments

Corporations influence governments in several ways:

- Contribute large amounts to political campaigns
- Participate in trade missions with politicians
- Pressure government to change or adopt policies that will benefit business

Corporate Influence on Governments

Lobbying

A clip about tobacco lobby representative-Thank You for Smoking

<http://www.youtube.com/watch?v=4HC3xwIfcFM>