Chapter 10: Business in a Global Economy

I-Summary: This chapter describes the basics of global trade. International trade is simply the exchange of goods and services between countries. Countries import goods from other countries because the other country can produce a product with higher quality or more cheaply. Communication and shipping have made importing cheaper and easier. Selling goods to another country is called exporting. Some countries or companies specialize in a single product. Individual countries or groups of countries throughout the world have their own currency, although the names of different currencies are sometimes the same. For example, the currencies used in the United States and Canada are different, but both are called the dollar. To buy or sell in another country, you should be familiar with the currency exchange rate, which changes on a daily basis. Some governments have a protectionist policy toward the import of certain goods into their country. They put a tariff (or tax), quota (or limit), or embargo (a ban) on these products in order to protect domestic businesses. Other governments have free trade policies. Some governments have made alliances with other governments in order to encourage trade between the countries.

I-Quiz

Quiz yourself to check your understanding. For each question, you will hear four answer choices. After you hear all four answer choices, choose your answer during the pause. Then you will hear the correct answer. Let's begin.

Question 1

Which term refers to a company that has offices and conducts business in many countries?

a. international trade

b. global economy

c. global trade

d. multinational corporation

Question 2

Which term refers to products sold by one country to another?

a. domestic trade

b. import

c. export

d. free trade

Question 3

Which term refers to the price relationship between the currencies of two different countries?

a. appreciation

b. exchange rate

c. foreign exchange market

d. depreciation

Question 4

Which is NOT a barrier to trade between countries?

a. alliance

b. embargo

c. quota

d. tariff

Question 5

Which is a reason why some governments practice protectionism?

a. They want the extra taxes that result.

b. They need to make alliances with other countries.

c. They need to protect domestic companies from unfair foreign competition.

d. Protectionism promotes cultural understanding and cooperation among nations.

Answer Key

1. The correct answer is D, multinational corporation. Many large businesses have offices and other facilities in several different countries. This makes importing and exporting easier.

2. The correct answer is C, export. To export is to send out, to import is to bring in.

3. The correct answer is B, exchange rate. The price at which one currency can buy another is called the exchange rate. The worth of the currency of a given country varies daily depending on the number of other countries that want to buy its products.

4. The correct answer is A, alliance. An alliance is an agreement to cooperate between nations.

5. The correct answer is C, they need to protect domestic companies from unfair foreign competition. Other reasons for protectionism include keeping demand high for products created at home, protecting national defense industries, avoiding the loss of jobs to foreign countries where labor is cheaper, and encouraging political change in countries that do not have the same environmental or human rights standards.