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Think About It 16.1

1. What do you think are the main exports of our country?
2. Do you think these have changed over time? If so, why do you think this is?
3. What are the main imports?

Answers will depend on your country.

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Think About It 16.2

1. Can you think of three types of economy of scale from which a business might gain if it were to expand by selling abroad?

Answers might include:
- Technical
- Financial
- Managerial
- Purchasing

2. A business sells its products for £20 and the unit cost is £15. If, through expansion overseas, the unit cost falls to £14, what has happened to its profit margin?

Profit margin was (£5/£20) *100 =25%
Profit margin is (£6/£20)*100= 30%

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Business Analysis 16.1

Do you think that foreign firms should be allowed to buy British brands?

Answers might include:
- May bring investment and jobs
- May increase profits and therefore boost tax revenue
- May bring synergies e.g. shared skills, distribution channels, shared technology
But may depend on:
- Access of British companies to foreign markets
- Political impact

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Data Analysis 16.1

1. Calculate the opportunity cost ratios for each product for each country shown in Table 16.4.
2. What terms of trade might be mutually beneficial?

<table>
<thead>
<tr>
<th>product</th>
<th>X</th>
<th>Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>B</td>
<td>40</td>
<td>20</td>
</tr>
</tbody>
</table>
Opportunity cost of 1X in A = 1/3 Y in B = 1.2Y so A has a comparative advantage in X

Opportunity cost of 1Y in A = 3X in B = 2X so B has a comparative advantage in Y

So B country sell 1Y for more than 2X and make a profit; it could sell it to A for less than 3X and A would be getting it cheaper than it could make it itself.

So possible terms of trade  2X < 1Y < 3X

Business Analysis 16.2

Do you think rising costs mean that China will stop exporting?
It may reduce the competitiveness of China in some industries. However, it may simply change the competitive advantage of China e.g. may move into higher tech sectors whilst cheap production moves to other countries.

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Business Analysis 16.3

1. Discuss the importance of the value of the currency in determining the competitiveness of a country’s businesses.

Changes in the currency will affect the price abroad of your products in foreign currency and the costs of imports therefore can be very important. But also depends on e.g.
- The quality of the product
- Costs of production
- Brand image
- Existence of protectionist measures
- Design features

2. What other factors do you think influence competitiveness?

The price of exports and imports. However, need to consider:
- Quality of goods and services
- Design, reliability, brand values and level of customer service

The price is one factor out of many that determine the value provided by a product.

3. What factors influence which countries businesses export to?

- Transportation issues
- Openness to trade
- Political and cultural links
- Communication issues
- The competitive advantage of both countries
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Think About It 16.3

How do you think the government could encourage clusters?

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Business Analysis 16.4

1. Analyse how China might keep the value of its currency low.

The government might sell its currency in exchange for foreign reserves to shift supply rightwards and depress its price.

2. Analyse how the low value of a currency might make Chinese products more competitive.

It makes its products cheaper in foreign currency and makes imported products relatively expensive within the country.

3. Is a trade war with China a good thing?

May have political appeal; may help specific industries that feel threatened by cheaper Chinese products. However, for consumers it means more expensive products and/or less choice. It may be required as a form of retaliation e.g. against dumping of products but generally trade wars lead to less products being available at higher prices and supporting inefficient domestic industries.

Think About It 16.4

Do you think the movement of foreign workers into the UK is good for the UK economy?

- May provide a cheaper workforces reducing cost push inflation
- May provide more skills
- May increase size of the labour force enabling more production
- May earn income increasing tax revenue
- May start businesses increasing competition
- The concerns raised are usually over the pressure that may be placed on public sector resources such as health care and education if there is a rapid and significant increase in the population in a certain area; this has led to calls for controlled immigration.

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Think About It 16.5

What do you think determines whether a country is willing to join a trading bloc or not?

- Existing political and cultural links
- Existing trade patterns
- Likely impact in terms of trade diversion and trade creation
Likely impact on government objectives such as growth and inflation

Data Analysis 16.2

1. Using the data in Tables 16.5 and 16.6, calculate the percentage of goods and services exported by these EU members to other EU countries.

Value of goods exported = $1422.9 billion
Total exported goods = $2365.2bn
So % of exported goods to EU = 61%

Value of services exported to EU = $403.3bn;
Total services exported = $815 billion
So % imported = 49.4%

2. Comment on the possible significance of the data above for UK managers.

Highlights the importance of EU to EU members on terms of trade. The state of the EE countries is significant therefore in terms of exports which is why the recent euro crisis has been such a concern.

3. Discuss the factors that influence where a country exports to.

Answers might include:
- Trade barriers
- Political, social and cultural links
- Comparative advantage
- Transportation costs

Think About It 16.6

Why do you think that industries such as steel and agriculture are often protected?

- May be seen as important strategically e.g. in case of war
- May be big employers in some countries
- Those involved may be well organized giving strong lobbying power

Business Analysis 16.5

Do you think that the ECB should help banks with their liquidity?

Answers might include:
- May be important for lending and therefore for consumption and investment; may promote economic growth; may generate more confidence in the likely recovery of EU countries

BUT:
- Will this lead to an overconfidence by banks (a sense of being too big to fail) leading to risky lending again?
- Under what terms and conditions will such support be provided?
1. Why would Coca Cola want to buy Huiyan and be willing to pay so much for it?

*Answers might include:*
- Provides access to knowledge and skills that may take time and money to acquire
- Provides local links and contact
- Provides understanding of local culture and markets
- May be quicker and more cost effective to buy this expertise rather than try to build from scratch

2. Why would the Chinese government not want to allow a bid such as this?

May want to protect Chinese businesses e.g. not want profits going to US.
May be used in a trade war as a negotiating technique.

**Suggested Answers to Short Answer Questions**

1. Comparative advantage occurs when a country has a relative advantage in the production of a product i.e. it has a lower opportunity cost than other countries.
2. 1X could trade for anything that is more that 2Y and less than 3Y; e.g. at a price of 2.5Y one country could export and make a profit whilst the other one could buy it for less than it could produce it domestically.
3. Low exchange rate makes the country’s products cheaper in terms of foreign currency.
4. A tariff is a tax on imports; a quota limits the number.
5. A tariff makes products more expensive and also allows inefficient domestic producers to survive.
6. To be seen to act, to retaliate against foreign protectionism, to protect strategic industries, to try and save jobs in a particular industry and win votes.
7. Free trade area: no protectionist measures between members but each state able to set own policies with non members; customs union: no protectionist measures between members but common policies against non-members.
8. Access to more markets to sell in; access to more markets to buy supplies from.
9. More competitors to take away business domestically; more competitors for key suppliers/resources.
10. Share expertise; share resources; build specialisms.