Exercise walk-through

3.2

External Influences on Business: International Economics

GAC Business

You must be able to

- define exchange rate, tariff, and quota
- identify winners and losers from a trade change
- recommend a business response using cause and effect

1 The method

Method — Follow the currency effect

A Chinese firm buys parts in US dollars and exports finished goods. If the yuan becomes stronger, the dollar parts may cost less. However, its exports may become more expensive for foreign customers.

A **tariff 关税** on imported parts would raise the firm's costs. It could negotiate with suppliers, find another source, redesign the product, or review its selling price.

2 Practice

Practice 2.1 ▪ 1 mark

Define an exchange rate.

Solution 2.1

Worked steps

- The price of one currency in terms of another currency. **B1**

Practice 2.2 ▪ 1 mark

State what a tariff is.

Solution 2.2

Worked steps

- A tax on imported goods. **B1**

Practice 2.3 ▪ 2 marks

Explain one way a tariff on imported materials can affect a local manufacturer.

Solution 2.3

Method: Follow the currency effect — p.4

Worked steps

- Imported materials become more expensive. **B1**
- This raises production costs or may force the firm to raise its price. **A1**

3 Exam-style

Exam-style 3.1 ▪ 4 marks

A furniture maker imports wood and exports tables. Its home currency becomes stronger. Explain one possible benefit and one possible drawback for the firm.

Solution 3.1

Method: Follow the currency effect — p.4

Worked steps

- Imported wood may cost less in the stronger home currency. **B1** **A1**
- Tables may cost more for foreign customers. **B1**
- This could reduce overseas demand or export sales. **A1**

Exam-style 3.2 ▪ 4 marks

The government introduces a quota on imported wood.
Recommend one response by the furniture maker and justify it.

Solution 3.2

Worked steps

- Find a reliable domestic or alternative overseas wood supplier. **B1**
- The quota may limit imported wood and create shortages or higher prices. **A1**
- A different source protects production from the restricted supply. **A1**
- The firm should compare quality and cost before changing suppliers. **B1**