Exercise walk-through

Business and the international economy ▪ 6.3

eXercise

You must be able to

- define globalisation and explain why it has grown
- describe the benefits and drawbacks of multinationals
- explain how a change in the exchange rate affects importers and exporters

Method — Exchange rates and trade

- **Globalisation 全球化**: growing trade and movement of goods, money and people — grown from cheaper transport, the internet, fewer **tariffs 关税**.
- **Multinational 跨国公司**: makes/sells in more than one country — brings jobs and investment, but profits may leave and local firms may be forced out.
- **Stronger currency** → exports dearer, imports cheaper. **Weaker currency** → exports cheaper, imports dearer.

Answer shapes: K + App + An + Ev (a justified judgement, for "do you think" questions).

Method — Exchange rates and trade

stronger
currency
(rises in value)

imports cheaper
exports dearer

weaker
currency
(falls in value)

exports cheaper
imports dearer

SPICED: **S**trong **P**ound $\Rightarrow$ **I**mports **C**heaper, **E**xports **D**earer

How a stronger or weaker currency changes the price of imports and exports

Practice 2.1 ▪ 2 marks

Define the term *globalisation*.

Solution 2.1

Worked steps

the growing trade and movement of goods, money and people between countries, so the world acts more like one market (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

Define the term *multinational company*.

Solution 2.2

Worked steps

a company that makes or sells its products in more than one country (2 for a clear definition; 1 for a partial idea).

Practice 2.3 ▪ 1 mark

State the effect of a **weaker** currency on the price of exports.

Solution 2.3

Method: Exchange rates and trade

Worked steps

exports become cheaper (to foreign buyers) (1).

Exam-style 3.1 ▪ 2 marks

Identify two benefits to a country of a multinational company locating there.

Solution 3.1

Method: Exchange rates and trade

Worked steps

any two of: new jobs and training; investment and technology; more choice and lower prices; more tax $(1 + 1)$.

Exam-style 3.2 ▪ 6 marks

Explain two drawbacks to a country of a multinational company locating there.

Solution 3.2

Method: Exchange rates and trade

Worked steps

[6] For **each** of two drawbacks: K 1 + An up to 2 — e.g. *profits leave*: the multinational sends profits back to its home country → less money stays in the local economy. *Local firms forced out*: a large, cheap multinational → small local firms cannot compete and close. Maximum 3 each.

Exam-style 3.3 ▪ 6 marks

A country's currency has become stronger. Do you think this is good for a business that exports most of its goods? Justify your answer.

Solution 3.3

Method: Exchange rates and trade

Worked steps

[6] Both sides + judgement. **Bad for an exporter:** a stronger currency makes its exports dearer for foreign buyers → they buy less → sales and profit fall. **Some good:** any imported materials become cheaper, lowering costs. **Judgement (Ev):** a stronger currency is mostly bad for an exporter because its main sales abroad fall, though cheaper imported inputs help a little — so overall it depends on how much the firm relies on exports versus imported materials.