Chapter 2

OUR GLOBAL ECONOMY

2-1 Economics and Decision Making

2-2 Basics of Economics

2-3 Economic Systems

2-4 Achieving Economic Development

2-5 Resources Satisfy Needs
An Economic Plan for Mexico

In the early 1980s, Mexico had several economic difficulties. The country’s governmental policies created barriers to international trade. These decisions meant fewer foreign companies wanted to do business in Mexico. Therefore, fewer jobs were available.

The government created programs to help those without jobs. The Mexican government had to borrow money to pay for this state assistance program. Soon, the government was using more and more of its money to pay back the loans. Little money was left to spend on public services.

One problem led to another until the country decided to take a new course of action. Mexico then took several steps toward economic reform. The Mexican government

- Allowed more foreign businesses to produce and sell goods and services in Mexico
- Reduced government spending and created programs that served only the neediest people in the country
- Sold several unprofitable government-owned businesses that were costing the taxpayers money
- Worked out a new plan to reduce government debt

The Mexican government chose actions to help the country compete in the global marketplace while also improving the economic situation of its citizens. In recent years, Mexico has seen improved economic conditions. The prices of goods in the country have not increased as quickly as in the past. Global business activities helped to create more jobs and higher incomes for Mexican workers.

Think Critically

1. Obtain current information on the Internet about doing business in Mexico. Prepare a one-page summary of your findings.
2. What factors created economic difficulties for Mexico?
Each day people throughout the world make economic decisions. For example, selecting what groceries to buy is an economic choice. Choosing whether to buy a shirt or a compact disc is an economic choice. As you make choices, you probably are not able to obtain everything you want. These choices are the basis of economics.

You are limited by the amount of time and money you have available to acquire the things you want. Countries and individuals have limited resources available. As a result, decisions are necessary to make the best use of resources.

Scarcity refers to the limited resources available to satisfy the unlimited needs and wants of people. All people and all nations face scarcity every day. A country must decide whether to grow its own food or to import agricultural products so its workers can produce other items. Many factors affect the choices made by an individual, a company, or a country. The study of how people choose to use limited resources to satisfy their unlimited needs and wants is called economics.

Economics can be an exciting topic to study. Knowledge of economics helps people understand why some earn more than others and why certain items cost more at different times of the year. Economic principles can explain why business managers make one choice over another.

What is economics?
MAKING ECONOMIC DECISIONS

People and countries cope with scarcity by making decisions. Every time you decide how to use your time, money, and energy, you are making an economic decision. Companies and nations also have to make choices.

THE DECISION-MAKING PROCESS

One way to help make economic choices is to use the decision-making process. Using the steps shown in Figure 2-1 can help people make wiser decisions and get the best use of resources. This process can help consumers make faster and better choices. Saving time and money when making a purchase is something most people want.

There are six steps in the decision-making process.

Step 1 Define the problem What do I need or want?
Step 2 Identify the alternatives What are the different ways my problem can be solved?
Step 3 Evaluate the alternatives What are the advantages and disadvantages of each of the choices available?
Step 4 Make a choice Based on the advantages and disadvantages, which would be my best choice? Can I live with the consequences of that choice?
Step 5 Take action on the choice What needs to be done to put the decision into action?
Step 6 Review the decision Did your decision solve the problem? As time goes by, what different actions might be necessary? Were there consequences you did not predict when you evaluated the alternatives?

WORK AS A GROUP

Discuss an important decision that you might have to make in life, such as buying a car or going to college. Work through the six steps of the decision-making process to help you make your decision.
DECISION MAKING IN ACTION

How do companies use the decision-making process? An example of economic decision making for international business could involve a company in the United States that wants to increase the sales of its product.

**Step 1 Define the problem** The problem might be “How can the Benson Electric Company continue to increase its sales over the next five years?” Right now, the company only sells home audio and electronic products in the United States.

**Step 2 Identify the alternatives** Solutions include

- Increasing advertising to attract new customers
- Reducing prices to attract more customers
- Selling products over the Internet and mailing information to customers in other countries
- Shipping products to sell in other countries
- Producing and selling products in other countries

**Step 3 Evaluate the alternatives** Each of these choices has costs and benefits. The process of evaluating these options involves comparing the risks and costs of each alternative. Benson Electric must consider the expected increase in sales from each alternative. For example, reducing prices may increase the number of customers but could reduce total dollar sales. The cost of producing products in another country could be greater than the money earned from additional sales.

**Step 4 Make a choice** Every time a choice is made, something else is given up. So, once Benson Electric selects a course of action, it probably will not be able to choose other alternatives. **Opportunity cost** is the most attractive alternative given up when a choice is made. In your own life, a decision to go to college, for example, could mean you would not be able to use your time to earn money in a job right now. Generally, the benefits of a decision should be more valuable to you than the opportunity cost. So, the decision to continue your education is likely to benefit you throughout your life with higher earnings.

**Step 5 Take action on the choice** Finally, the Benson Company must put its choice into action.

**Step 6 Review the decision** Over the weeks, months, and years that follow, the company should review this decision to determine whether it needs to be changed or if other decisions need to be made. Remember that decision making is an ongoing process in your life.

**Checkpoint**

List the six steps of the decision-making process. Give an example of each step from a recent decision you have made.
REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. scarcity
2. economics
3. opportunity cost

REVIEW GLOBAL BUSINESS CONCEPTS

4. What is the basic economic problem?
5. Describe the six steps of the decision-making model.
6. Why does every decision have an opportunity cost?

SOLVE GLOBAL BUSINESS PROBLEMS

For each of the following international business situations, describe the problem and list two or three alternatives that the company could take to solve the problem.

7. A food company is having trouble selling its frozen products in other countries because it is very expensive to transport frozen foods.
8. A computer store is losing business to a competitor. The competitor is selling imported software at a very low price.
9. Buyers of a tool exported to Bermuda are not following the safety directions, and users are being injured.

THINK CRITICALLY

10. Explain how scarcity affects you and your family, school, and community.
11. What are some examples of situations in which you make decisions without thinking about every step of the decision-making process?
12. Think of three choices you have made recently. What were the opportunity costs of those choices?

MAKE CONNECTIONS

13. COMMUNICATION Talk to a person who works in the business world. Obtain an example of a business decision that the person has made.
14. TECHNOLOGY Explain how new computer systems have improved decision making for companies involved in international business.
15. MATHEMATICS A cloth manufacturer has the opportunity to purchase new machinery for its factory for $1 million. The machinery will require five equal annual payments while the equipment is being installed. How much will the company have to pay each year for the machinery? During installation, the company can expect profits to rise by $100,000 per year. After that, they can expect profits to rise by $250,000 per year. How long will it be before the increase in profit pays for the machinery entirely?
Describe how the market sets prices.

Explain the causes of inflation.

Price is one of the most visible economic factors you encounter every day. The amount paid for goods and services results from economic decisions made by consumers, businesses, and governments. Daily economic decisions affect you in many ways. For example, if people rent many videos, more stores will make DVDs available. In addition, more jobs will be available for people working in video stores. If consumers no longer want to purchase a certain video, the availability or price of that video will decrease.

Have you ever noticed that when something has limited availability and many people want to buy it, the price increases? If many people want to buy tickets for a hockey game or a concert, for example, ticket prices are likely to go up. When freezing temperatures destroy the fruit blossoms and reduce the number of oranges available, prices go up.

The opposite is also true. If a musical group is no longer popular, the prices of its posters, CDs, and T-shirts are likely to go down. The price system is a method of balancing unlimited needs and wants with limited resources.
Determining prices involves two main elements—supply and demand. **Supply** is the relationship between the amount of a good or service that businesses are willing and able to make available and the price. The amount of an item supplied tends to go up when producers see an opportunity to make money. For example, many years ago only a couple of companies made baseball and other sports cards for collecting. As these cards became more popular, other companies got involved in the sports card business.

Supply also works the other way. If companies can no longer make money producing an item, they will get out of that business. As video replaced film, most companies that made film projectors for schools and libraries went into other types of businesses. The number of film projectors available declined.

On the buyer’s side is **demand**, which is the relationship between the amount of a good or service that consumers are willing and able to purchase and the price. In general, as the amount of a good or service that people want increases, the price of that item goes higher. If more people want tickets to a sports event or concert, the price of admission can be set higher for those events. If fewer people want tickets, the price will likely be lower. For example, near the end of the summer, swimsuits are usually at their lowest prices.

The downward sloping line marked D in Figure 2-2 shows that as price declines, demand increases. This is called the **law of demand**. For example, at a price of $12, ten videos are demanded, but if the price is $2, sixty videos are demanded. On the supply side (the S line), higher prices mean a greater amount supplied since businesses can make a larger profit. At a price of $2, twenty videos are offered for sale, while at $8, fifty videos are available.

The point at which supply and demand cross is called the **market price**. Look at Figure 2-2. At a price of $6 sellers are willing to offer 40 videos and consumers are willing to buy 40 videos. The market price, therefore, is $6. This point is also known as the **equilibrium price**. While supply and demand in the real world do not work as neatly as the graph shows, market forces do cause prices to rise and fall.

![Figure 2-2](image-url)

**Figure 2-2** The point where supply equals demand is known as the market price.
Prices constantly change. The price of a gallon of gasoline over the past 30 years has gone from less than fifty cents to more than two dollars, depending on supply and demand. When the supply of oil (used to make gasoline) was threatened during various Middle East crises, gasoline prices went up. As hostilities lessened, prices dropped.

A common economic concern is continually rising prices. An increase in the average prices of goods and services in a country is known as inflation. Inflation allows people to buy fewer goods and services. Inflation is an indication of the buying power of a country's monetary unit (such as the U.S. dollar, the British pound, or the Japanese yen).

Inflation has two basic causes. First, when demand exceeds supply, prices go up. This is called demand-pull inflation. It can occur when a government tries to solve economic problems by printing more money. The increased demand comes from the additional currency in circulation. A similar situation can occur if people increase borrowing for spending. Again, demand exceeds supply, and prices tend to rise.

The other cause of inflation occurs when the expenses of a business (such as the cost of salaries or raw materials) increase. This is known as cost-push inflation. Cost-push inflation results in a higher price charged by a company.

While the United States and Canada have had some periods of high inflation, other countries have experienced more extreme situations. Consumer prices in Peru, for example, increased by 400 percent in one month during the early 1990s. This meant an item costing one Peruvian sol at the start of the month, cost five sol by month's end. The government had to take drastic action to solve the country's inflation problem.
REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.
1. supply  
2. demand  
3. market price  
4. inflation

REVIEW GLOBAL BUSINESS CONCEPTS

5. What factors affect the supply of a good or service?
6. How does consumer demand create inflation?
7. How can the price of raw materials affect inflation?

SOLVE GLOBAL BUSINESS PROBLEMS

Identify the type of inflation that will result from each of the following situations.
8. The price of silicon used to make computer chips increases.
9. The government prints more money to pay its expenses.
10. Consumers borrow more to buy additional goods and services.
11. Labor unions make employers increase workers' pay.

THINK CRITICALLY

12. Sometimes demand goes up even if prices go up. Describe an example when that might occur.
13. Describe three situations in which inflation has affected you, your family, or your friends. What were the possible causes of that inflation?

MAKE CONNECTIONS

14. MATHEMATICS Figure 2-3 is a graph of the supply and demand for sweaters at a local clothing store. Use the graph to identify the market price. How many sweaters will be bought and sold at that price?
15. HISTORY Research a period in history when a country experienced a period of extremely high inflation. Where and when did this period of inflation occur? What were the causes of the inflation? What measures were taken to end the period of extreme inflation? Did that country later experience another period of extreme inflation?

Figure 2-3

![Graph of supply and demand for sweaters at a local clothing store.](intlbizxtra.swlearning.com)
Every country makes economic decisions. These decisions provide a basis for solving the basic economic problem—unlimited needs and wants with limited resources. The production of goods and services is a primary activity to satisfy the needs and wants of consumers.

To start a company that makes a product requires several elements. These elements are the factors of production, which are the three types of resources used to produce goods and services. These resources are natural, human, and capital, as shown in Figure 2-4.

Natural resources Also known as land, these resources are the raw materials that come from the earth, from the water, and from the air. Iron ore, gold, silver agricultural products, rivers, and oxygen are examples of natural resources. These items are used in the production of goods and services consumed by individuals, businesses, and governments.

Human resources Also known as labor, these resources are the people who work to create goods and services. While technology has changed or eliminated certain tasks previously performed by people, new types of work are continually being created.

Capital resources Also called capital, these resources include buildings, money, equipment, and factories used in the production process. These items are expensive and are used over several years by business organizations.
2-3 ECONOMIC SYSTEMS

FACTORS OF PRODUCTION

Natural Resources

Human Resources

Capital Resources

Figure 2-4 The factors of production are used individually or in combination to produce the goods and services in any economy.

GLOBAL BUSINESS EXAMPLE

FACTORS OF PRODUCTION FOR FAST-FOOD COMPANIES

McDonald’s and KFC were joined by Burger King, Arby’s, and Wendy’s in selling their products to the consumers of Mexico. Each of the companies combined money, buildings, and equipment (capital resources) with beef, chicken, and wheat (natural resources) and hired local workers (human resources) to provide meals at their restaurants. Some of the most popular locations for the fast-food restaurants are Acapulco, Cancun, Tijuana, and suburban Mexico City.

Think Critically
1. Go to the web site of one of these fast-food companies to obtain additional information about its business operations in different countries. Prepare a one-page summary of your findings.
2. What might cause problems in obtaining factors of production to do business in another country?

CheckPoint

Name the three factors of production, and give an example of each.
Chapter 2  OUR GLOBAL ECONOMY

TYPES OF ECONOMIC SYSTEMS

Every nation decides how to use its factors of production to create goods and services for its people. The way in which these resources are used differs from country to country. The economic choices of a country relate to three basic questions.

- What goods and services are to be produced?
- How should the goods and services be produced?
- For whom should the goods and services be produced?

Every country must decide how to use its productive resources to answer these three basic economic questions. An economic system is the method a country uses to answer the basic economic questions. Nations organize for production and distribution of goods and services based on customs, political factors, and religious beliefs.

Economic systems can be categorized based on ownership of resources and government involvement in business activities. The three common types of economic systems are command, market, and mixed economies.

COMMAND ECONOMIES

Throughout history, many nations decided to answer the basic economic questions by using central planning. In a command economy, the government or a central-planning committee regulates the amount, distribution, and price of everything produced. The government also owns the productive resources of the country. Any income from these resources is used to help fund government activities. At the start of the 21st century, Cuba is one of the few countries using a command system of economic decision making. The political and economic environment where the government owns all of the productive resources of the economy and a single party controls the government is called communism.

In some command economies, consumers have very few choices of products to buy. A government agency could even decide what job a person will have.

MARKET ECONOMIES

In contrast to command economies, where all of the decisions are made by the government, market economies are based on the forces of supply and demand. Market economies are those in which individual companies and consumers make the decisions about what, how, and for whom items will be produced. The economic and political environment where a market economy exists is called capitalism. It has three main characteristics.

- **Private property** Individuals have the right to buy and sell productive resources and to own business enterprises.
2-3 ECONOMIC SYSTEMS

- **Profit motive** Individuals are inspired by the opportunity to be rewarded for taking business risks and for working hard.

- **Free, competitive marketplace** Consumers have the power to use their choices to determine what is to be produced and to influence the prices to be charged.

Since market economies have minimal government involvement with business, they are commonly called *free enterprise systems* or *private enterprise economies*. Since every country has some governmental regulations affecting business activities, no perfect market economies exist. The United States, although not a pure market economy, is one of the best examples of this type of economic system. Despite strong government involvement in business activities, the Japanese, Australian, and Canadian economies are also usually labeled as market economies.

<table>
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<tr>
<th>MIXED ECONOMIES</th>
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<tbody>
<tr>
<td>Many economies are a blend between government involvement in business and private ownership. This is known as a <em>mixed economy</em>. For example, some countries have publicly owned transportation companies, communication networks, and major industries. The income from these enterprises is used to help fund government activities.</td>
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*Socialism* refers to a political and economic system with most basic industries owned and operated by government with the government controlled by the people as a whole. In socialism, individuals are usually free to engage in other business opportunities and free to make buying choices. In recent years, examples of socialist countries include Sweden and France.

In changing from a command economy to a market economy, a country may sell government-owned industries to private companies. This process of changing an industry from publicly to privately owned is called *privatization*. In recent years, local governments in the United States have hired private companies to provide services such as trash collection, landscaping, road repairs, and fire protection.

**Think Critically**

1. What are some examples of privatization in your school or community?
2. What problems might be associated with privatization?

**Checkpoint**

What are the three types of economic systems?
REVIEW GLOBAL BUSINESS TERMS
Define each of the following terms.

1. factors of production
2. economic system
3. command economy
4. market economy
5. mixed economy
6. privatization

REVIEW GLOBAL BUSINESS CONCEPTS
7. List examples of the three factors of production.
8. What are the basic economic questions?
9. What are the three characteristics of capitalism?

SOLVE GLOBAL BUSINESS PROBLEMS
Indicate whether each of the following situations describes a command economy, market economy, or mixed economy.

10. The government tells you what type of job you will have.
11. The government owns the mill that supplies steel to private construction firms.
12. Private investors own a mine that supplies gold to a family jewelry maker.
13. You are free to choose when and where you will buy a new CD for your friend.

THINK CRITICALLY
15. Is one of the three factors of production more important than the others? Explain your answer.
16. If you could choose to live in communism, capitalism, or socialism, which one would you choose? Why?

MAKE CONNECTIONS
17. HISTORY Conduct research to find examples of countries that have changed from a command economy to a market economy. What kind of changes did the country need to make?
18. SCIENCE Describe how scientific developments have changed the skills needed for labor.
DEVELOPMENT FACTORS

In some countries, people travel on a high-speed bullet train to manage a computer network in a high-rise building. In other countries, people go by ox cart to a grass hut to operate a hand loom to make cloth for family members and other people in their village. These differences in living and work environments reflect the level of economic development. The main influences on a country's economic development are literacy level, technology, and agricultural dependency.

- **Literacy level**  Countries with better education systems usually provide more goods and services that are of higher quality for their citizens.
- **Technology**  Automated production, distribution, and communications systems allow companies to create and deliver goods, services, and ideas quickly.
- **Agricultural dependency**  An economy that is largely involved in agriculture does not have the manufacturing base to provide citizens with a large number of high quality products.

What factors influence a country's economic development?
The level of economic development of a country can be categorized in three different ways. A country can be industrialized, less developed, or developing. Each of the different levels has unique characteristics.

**INDUSTRIALIZED COUNTRIES**

The nations with the greatest economic power are usually those with many large companies. An industrialized country is a country with strong business activity that is usually the result of advanced technology and a highly educated population. Such countries have attained high levels of industrialization with high standards of living for their residents. Population tends to be centered in large cities and suburbs rather than in rural areas.

Another factor that supports international trade in industrialized countries is infrastructure. Infrastructure refers to a nation’s transportation, communication, and utility systems. A country such as Germany—with its efficient rail system, high-speed highways, and computers—is better prepared for international business activities than many other nations with weaker infrastructures.

Industrialized countries are actively involved in international business and foreign trade. A portion of the wealth of these nations is the result of successful business activities conducted throughout the world. Countries commonly described as industrialized include Canada, the United Kingdom, France, Germany, Italy, Japan, and the United States.

**TYPES OF INFRASTRUCTURE**

The infrastructure of a country usually refers to the transportation, communication, and utility systems that facilitate business activities. These may be referred to as the physical infrastructure.

Countries also have a natural infrastructure. This includes climate, waterways, farmland, and other natural resources that contribute to a nation’s economic development.

Business activities are also affected by a nation’s social infrastructure. This involves family relationships, labor unions, the church, educational institutions, and other social organizations.

Finally, the managerial or entrepreneurial infrastructure involves the ability of people to organize and implement business activities. For example, when McDonald’s first opened a restaurant in Russia, company representatives worked with local businesspeople to teach managerial skills. They taught them how to obtain, coordinate, and use the food products, workers, buildings, and equipment necessary to operate a fast-food restaurant.

**Think Critically**

1. Explain why “infrastructure” refers to more than just the transportation, communication, and utility systems.
2. How do the various types of infrastructure affect the economic development of a country?
LESS-DEVELOPED COUNTRIES
Many countries of the world have a very low standard of living. A less-developed country (LDC) is a country with little economic wealth and an emphasis on agriculture or mining. Sometimes these countries have abundant resources but no technology to make use of them. Most LDCs have an average annual income per person of less than $3,000. This compares to the United States’ average annual income per person of more than $30,000.

As a result of low incomes in less-developed countries, citizens often have problems such as inadequate housing, starvation, and poor health care. This situation results in a high death rate among infants, a shorter life expectancy, and the potential for political instability. Examples of LDCs include countries such as Bangladesh, Bulgaria, Chad, Ecuador, Ethiopia, Hungary, Kenya, Liberia, Nepal, Nigeria, Pakistan, Peru, and the Philippines.

Future economic development for less-developed countries presents a challenge for all nations. Industrialized countries tend to assist LDCs with the problems of poor health care, limited natural resources, low literacy rates, low levels of employment skills, shortage of investment capital, and uncertain political environments. As these obstacles are overcome, all countries will benefit.

DEVELOPING COUNTRIES
Between the extremes of economic development are the developing countries that are evolving from less developed to industrialized. These nations are characterized by improving educational systems, increasing technology, and expanding industries. These factors result in an increasing national income. Examples of developing countries include Brazil, India, Singapore, South Korea, Taiwan, and Thailand. Figure 2-5 summarizes the factors that affect a country’s level of economic development.

LEVELS OF ECONOMIC DEVELOPMENT

Figure 2-5 Nations vary in their levels of economic development.

Describe each of the different levels of economic development.
**REVIEW GLOBAL BUSINESS TERMS**

Define each of the following terms.

1. industrialized country
2. infrastructure
3. less-developed country (LDC)
4. developing country

**REVIEW GLOBAL BUSINESS CONCEPTS**

5. What are the main influences on a country's economic development?
6. Why is infrastructure important to the economic development of a country?
7. What types of business are commonly found in developing countries?

**SOLVE GLOBAL BUSINESS PROBLEMS**

For each of the following factors, indicate if the item would usually result in an improving or declining level of economic development for a country.

8. Increased spending on schools and education.
9. Government tax reductions to attract businesses that build new factories.
10. Use of manual labor instead of automated machinery to harvest crops.
11. Reduced government spending for literacy programs.
12. Expanded use of computers for record keeping by business organizations.

**THINK CRITICALLY**

13. Why would a modern infrastructure give a country an advantage over other countries?
14. What actions can improve a country's education level?
15. Use the Internet to research ways that industrialized countries are working with less-developed and developing countries to create economic growth.

**MAKE CONNECTIONS**

16. SCIENCE Describe how new scientific discoveries might improve the economic development of a country.
17. CULTURAL STUDIES Describe how a country's customs and traditions can influence economic development.
18. TECHNOLOGY Use the Internet to research ways a developing country is trying to improve the quality of life for its people.
In the past, economies were viewed solely in terms of national borders. With international trade expanding every day, these boundaries are no longer completely valid in defining economies. Countries are interdependent with each other and so are their economies. Consumers have come to expect goods and services from around the world, not just from suppliers in their own country.

Buying and selling among companies in different countries is based on two economic principles. **Absolute advantage** exists when a country can produce a good or service at a lower cost than other countries. This situation usually occurs as a result of the natural resources or raw materials of a country. For example, South American countries have an absolute advantage in coffee production, Canada in lumber sales, and Saudi Arabia in oil production.

A country may have an absolute advantage in more than one area. If so, it must decide how to maximize its economic wealth. For example, a country may be able to produce both computers and clothing better than other countries. The world market for computers, however, might be stronger. This means the country would better serve its own interests by producing computers and buying clothing from other countries. This is an example of the second economic principle, **comparative advantage**. In this situation, a country specializes in the production of a good or service at which it is relatively more efficient.

**Checkpoint**

Describe an absolute advantage a country may have as a result of natural resources.
MEASURING ECONOMIC PROGRESS

The World Cup, the World Series, and the Olympics are sports events that involve scorekeeping. As with sports, international business also keeps score. Various economic measures are used to evaluate and analyze the economic conditions of a country.

**MEASURE OF PRODUCTION**

**Gross domestic product (GDP)** measures the output of goods that a country produces within its borders. It includes items produced with foreign resources. For example, the GDP of the United States would include automobiles manufactured in the United States by foreign-owned companies.

**Gross national product (GNP)** measures the total value of all goods and services produced by the resources of a country. GNP is like GDP but also includes production in other countries using resources of the country whose GNP is being measured.

Since all nations have different populations, comparing total GDP or GNP is not always meaningful. To help compare the economic progress of countries, businesspeople use a *per capita* comparison, which refers to an amount per person. The per capita GDP of the United States is total GDP divided by the number of people in the country. Figure 2-6 shows per capita GDP in U.S. dollars for selected countries.

**INTERNATIONAL TRADE ACTIVITY**

An important measure of a country’s international business activity is its balance of trade. **Balance of trade** is the difference between a country’s exports and imports. When a country exports (sells) more than it imports (buys), it
has a favorable balance of trade. This is also called a *trade surplus*. However, if a country imports more than it exports, the nation has an unfavorable balance of trade, or a *trade deficit*. Figure 2-7 shows a comparison of the balance of trade for Canada and the United Kingdom.

In the process of doing international business, payments must be made among businesses in different countries. Since different nations have different monetary units, a comparison of the value of currencies is required. The *foreign exchange rate* is the value of one country’s money in relation to the value of the money of another country. Each day in the business section of newspapers or online at various websites, you can see the changing value of currencies for different countries.

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**Figure 2-6** Per capita GDP can be used to compare economic output among nations.

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**PER CAPITA GDP FOR SELECTED COUNTRIES**

<table>
<thead>
<tr>
<th>Country</th>
<th>Per Capita GDP in U.S. Dollars</th>
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<tbody>
<tr>
<td>United States</td>
<td>$36,300</td>
</tr>
<tr>
<td>Canada</td>
<td>29,400</td>
</tr>
<tr>
<td>Japan</td>
<td>28,000</td>
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<td>Iceland</td>
<td>27,100</td>
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<tr>
<td>France</td>
<td>25,700</td>
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<td>Sweden</td>
<td>25,400</td>
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<tr>
<td>Italy</td>
<td>25,000</td>
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<tr>
<td>New Zealand</td>
<td>19,500</td>
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<tr>
<td>Greece</td>
<td>19,000</td>
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<tr>
<td>Israel</td>
<td>19,000</td>
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<tr>
<td>South Africa</td>
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<td>Mexico</td>
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<tr>
<td>Brazil</td>
<td>7,400</td>
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<tr>
<td>Thailand</td>
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</tr>
<tr>
<td>China</td>
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<td>India</td>
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When you buy more than your current income allows, you go into debt. In the same way, when a country continually has an unfavorable balance of trade, it owes money to others. Foreign debt is the amount a country owes to other countries. While owing money to others will affect a country in several ways, the largest effect on the economy is that the nation must use future income to pay for current and past spending. This limits the funds available for improving a country’s infrastructure and for providing services for its citizens in the future.
THE FOUNDER OF BLACK HISTORY MONTH

Each February, the United States celebrates the contributions of African Americans. Black History Month was the idea of Dr. Carter Godwin Woodson, the son of former slaves, who was born in 1875 in New Canton, Virginia. As a young boy, Woodson was only able to attend school a few months of each year. The rest of the year he worked in the coal fields of West Virginia. Despite this hardship, Woodson earned a bachelor’s degree from Berea College and went on to earn a Ph.D. from Harvard.

Woodson’s many contributions to education include serving as supervisor of a school in the Philippines; serving as a dean at Howard University and West Virginia State College; and teaching French, Spanish, English, and history in the District of Columbia schools. Despite this success, Woodson gave up his educational career in 1922 to devote his energies to developing materials and programs focusing on the experiences of African Americans. This effort resulted in the publication of 20 books—including *The Negro in Our History*, *The Negro Church*, and *The Miseducation of the Negro*. In 1926, Woodson started Negro History Week, which was later expanded and renamed Black History Month.

Dr. Carter G. Woodson made sure everyone would know about the important role that Africans and African Americans have played in the history of the United States and in the history of the world.

Think Critically
1. Conduct Internet research about local and national activities for Black History Month. Prepare a one-page report of your findings.
2. How did Dr. Woodson’s efforts improve the educational and economic opportunities for African Americans?
Chapter 2 OUR GLOBAL ECONOMY

OTHER ECONOMIC MEASUREMENTS

Inflation refers to general increases in prices in a country. In the United States, inflation is measured by the consumer price index (CPI). The CPI is a federal government report published by the Bureau of Labor Statistics. Each month, data are provided on price levels for various products and services in different regions of the country. This information can help consumers and business managers make buying decisions. Inflation rates for other countries are available on the Internet or in reference books.

A final indicator of a country’s economic situation is the unemployment rate. When people are not earning an income, they cannot purchase needed goods and services. This causes other people to lose their jobs. The result is a weaker economy. For any country to operate efficiently, a constant flow of money must be in circulation. When this monetary flow slows down, the economic potential of a nation is not realized.

**CheckPoint**

What are common economic measurements of production and international trade activity?

**NET Bookmark**

The United States, Germany, and Japan are considered developed countries. However, they still suffer from many of the issues that plague underdeveloped countries, such as hunger and homelessness. Access intlbizxtra.swlearning.com and click on the link for Chapter 2. Read the Thinkquest Library article entitled “Development and Underdevelopment: The Dynamics of Economic Progress.” Study the information and write a paragraph detailing some reasons for differences in development levels.

intlbizxtra.swlearning.com
REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. absolute advantage
2. comparative advantage
3. gross domestic product (GDP)
4. gross national product (GNP)
5. balance of trade
6. foreign exchange rate
7. foreign debt
8. consumer price index (CPI)

REVIEW GLOBAL BUSINESS CONCEPTS

9. What is the difference between absolute advantage and comparative advantage?
10. What does gross domestic product (GDP) measure?
11. How does a country’s balance of trade affect its foreign debt?

SOLVE GLOBAL BUSINESS PROBLEMS

Using the data in the Regional Profile at the beginning of this unit, answer the following questions.

12. Which country has the highest per capita GDP? Which has the lowest?
13. Which countries have a trade surplus?
14. Which country had the highest inflation rate of those listed?

THINK CRITICALLY

15. How can a nation create an absolute advantage through its investment activities?
16. How would a high inflation rate affect a country’s economic image in the world?

MAKE CONNECTIONS

17. GEOGRAPHY Locate examples of natural resources that would give a country an absolute advantage.
18. MATHEMATICS A country has exports of $4.2 billion and imports of $4.6 billion. (a) What is the country’s balance of trade? (b) Is this amount a trade surplus or a trade deficit?
19. VISUAL ART Select one or more economic statistics for several countries. Prepare a graph comparing these data.
The basic economic problem involves scarcity—balancing limited resources with unlimited needs and wants.

The steps of the decision-making process are (1) define the problem, (2) identify the alternatives, (3) evaluate the alternatives, (4) make a choice, (5) take action, and (6) review the decision.

The main factors that affect prices are supply and demand.

Inflation occurs when demand exceeds supply or when business operating costs increase. There are two basic causes for inflation: demand-pull inflation and cost-push inflation.

The three main factors of production are natural resources (land), human resources (labor), and capital resources (money and equipment).

Countries make economic decisions using command economies, market economies, and mixed economies.

The main influences on a country’s economic development are literacy level, technology, and agricultural dependency.

The three levels of economic development are industrialized countries, less-developed countries, and developing countries.

Absolute and comparative advantages are economic principles that explain buying and selling among companies in different countries.

Measures of economic progress and development include gross domestic product, gross national product, balance of trade, foreign exchange rate, foreign debt, and consumer price index.

Read the Global Focus at the beginning of this chapter, and answer the following questions.

1. After taking various corrective actions, what future economic problems might occur in Mexico?
2. How has NAFTA (the North American Free Trade Agreement) contributed to Mexico’s economic development?
3. Conduct an Internet search to obtain current information about the Mexican economy.
REVIEW GLOBAL BUSINESS TERMS

Match the terms listed with the definitions. Some terms may not be used.

1. The difference between a country's exports and imports.
2. A situation that exists when a country specializes in the production of a good or service at which it is relatively more efficient.
3. The study of how people choose to use limited resources to satisfy their unlimited needs and wants.
4. The amount of a good or service that businesses are willing and able to make available at a certain price.
5. The process of changing an industry from public to private ownership.
6. The limited resources available to satisfy the unlimited needs and wants of people.
7. The amount of a good or service that consumers are willing and able to purchase at a certain price.
8. The method a country uses to answer the basic questions of what to produce, how to produce it, and for whom to produce it.
9. A measure of the productive output of a country within its borders, including items produced with foreign resources.
10. The monthly United States federal government report on inflation.
11. The amount a country owes to other countries.
12. A measure of the total value of all goods and services produced by the resources of a country.
13. A nation's transportation, communication, and utility systems.
14. The three types of resources used to produce goods and services.
15. A country's ability to produce a good or service at a lower cost than other countries.

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<td>a. absolute advantage</td>
<td>b. balance of trade</td>
<td>c. command economy</td>
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<td>d. comparative advantage</td>
<td>e. consumer price index (CPI)</td>
<td>f. demand</td>
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<td>g. developing country</td>
<td>h. economics</td>
<td>i. economic system</td>
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<td>j. factors of production</td>
<td>k. foreign debt</td>
<td>l. foreign exchange rate</td>
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<td>m. gross domestic product (GDP)</td>
<td>n. gross national product (GNP)</td>
<td>o. industrialized country</td>
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<td>p. inflation</td>
<td>q. infrastructure</td>
<td>r. less-developed country (LDC)</td>
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<td>s. market economy</td>
<td>t. market price</td>
<td>u. mixed economy</td>
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<td>v. opportunity cost</td>
<td>w. privatization</td>
<td>x. scarcity</td>
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<td>y. supply</td>
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MAKE GLOBAL BUSINESS DECISIONS

16. Describe situations of people, companies, and nations facing the basic economic problem of scarcity.

17. Explain how a person goes through the decision-making process many times a day, usually without thinking about the specific steps.

18. If the demand for a product in our society is high, what are some things that happen to reduce that demand?

19. Give examples of capital resources that are used by business organizations to produce goods and services.

20. If you were creating an economic system for a country, what traits would you want it to have? Explain your answer.

21. What problems may arise when a government decides to sell government-owned businesses to private companies?

22. How are people in all countries affected by poor economic conditions in less-developed countries?

23. Name a famous person who is able to do something better than anyone else. This is an absolute advantage. Now, for an example of comparative advantage, describe a person who does several things well but selects only one of these talents to make a living.

24. What actions could a country take to improve its balance of trade?

25. What factors could affect the value of a country’s currency compared to that of another country?

GLOBAL CONNECTIONS

26. COMMUNICATIONS Find an article about changes in prices. Prepare a one-minute oral explanation about how supply and demand influence these prices.

27. SCIENCE Prepare a poster or display that shows how the factors of production are used to create a specific product.

28. GEOGRAPHY Prepare a research report on a less-developed country. Describe ways in which that nation could improve its economic development and the quality of life for its citizens.

29. HISTORY Conduct research on the historic factors of production previous to the Industrial Revolution. What types of factories existed in Europe and Asia before 1870?

30. CAREER PLANNING Find a recent news article that deals with a change in the economy as a result of international business. Describe how the events in the article could affect the supply and demand for certain international jobs.
THE GLOBAL ENTREPRENEUR
CREATING AN INTERNATIONAL BUSINESS PLAN

ECONOMIC CONDITIONS AROUND THE WORLD
Obtain data on GDP, per capita income, balance of trade, and unemployment for six countries for three recent years. Choose two less-developed countries, two developing countries, and two industrialized countries. (Include the country you chose in Chapter 1.) Use library reference materials (such as The World Almanac or the Statistical Abstract of the United States) or an Internet search to obtain your data.

Find additional information about each country. Locate the countries on a world map or globe. Try to picture their climates, geography, and neighbors. What is it like to live in each of the countries? What natural resources are available? What type of economic system operates in each country: command, market, or mixed? What is the literacy rate in each country? Does most of the population live in an urban or a rural setting?

1. Prepare four graphs: one that compares GDP for the countries over the past three years, one that compares per capita income, one that compares balance of trade, and one that compares unemployment.

2. Prepare a written report that answers the following questions. Include your graphs as part of the report.
   - How has the level of economic development changed in recent years for less-developed countries? for developing countries? for industrialized countries?
   - What do these changes mean for countries involved in international business?
   - Are GDP, per capita income, balance of trade, and unemployment related to each other in any way? If so, how are they related?
   - How could a company involved in international business use this information to make better company decisions?