

## chapter 12



# International Finance

## **12.1 INTERNATIONAL BUSINESS AND TRADE**

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# Case STUDY

## Global Banking Activities of HSBC

With almost 10,000 offices in nearly 80 countries, HSBC Holdings is the largest bank in the world. HSBC is named after its founding bank—Hong Kong and Shanghai Banking Corporation, created in 1865 to finance the growing trade between China and Europe. Today, with headquarters in London, HSBC has a strong financial presence in Europe, Asia, the Americas, the Middle East, and Africa.

HSBC is listed on the London, Hong Kong, New York, Paris, and Bermuda stock exchanges. Shares of the company are owned by about 200,000 stockholders in 100 countries. In the United States, shares traded on the New York Stock Exchange are in the form of American Depository Receipts (ADRs). The U.S. operations of HSBC are a subsidiary of HSBC Holdings, which operates more than 400 branch offices. This network allows HSBC Bank USA to provide customers with the full array of personal and commercial banking services.

Recently, HSBC obtained Household International, a U.S. company. This consumer lending division serves customers in the United States, the United Kingdom, Canada, Ireland, the Czech Republic, and Hungary. The selling focus of HSBC Finance involves home mortgages, automobile loans, credit cards, and other types of personal loans.

HSBC Canada, previously called the Hong Kong Bank of Canada, is the Canadian subsidiary for HSBC. In recent years, HSBC Canada was the seventh largest bank in Canada. It was also the largest foreign-owned bank in the country.

Through the use of its computer technology network, HSBC is able to provide a wide variety of online services. This financial service e-commerce capacity allows the company to provide personal, commercial, and investment banking services throughout the world. In addition to its core banking services, HSBC also offers credit cards, investment portfolio management, insurance, and leasing.

### Think Critically

1. How might HSBC be different from U.S. banks?
2. Locate the web site of HSBC to obtain current information on the company. Prepare a brief summary of recent activities.

## 12.1 International Business and Trade



### Goals

- Describe common international business activities.
- Identify methods for encouraging and measuring foreign trade.

### Terms

- absolute advantage
- comparative advantage
- imports
- exports
- quota
- tariff
- embargo
- foreign debt
- balance of trade
- balance of payments

### ■ Foreign Trade Activities

Most business activities and financial transactions occur within a country's own borders. The making, buying, selling, and financing of goods and services within a country is called *domestic business*. In contrast, *international business* refers to business and financial activities necessary for creating, shipping, and selling goods and services across national borders. International business is often referred to as *foreign* or *international trade*.

The countries of the world are interdependent and so are their economies. The United States conducts trade with over 180 countries. Consumers have come to expect goods and services from around the world.



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*The natural resources of a country may give it an absolute advantage in foreign trade.*

## ABSOLUTE ADVANTAGE

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

## COMPARATIVE ADVANTAGE

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

## IMPORTING

Goods and services bought from other countries are called **imports**. In the United States, imports account for the total supply of bananas, coffee, cocoa, spices, tea, silk, and crude rubber. In order to manufacture certain goods, U.S. companies must import tin, chrome, manganese, nickel, copper, zinc, and several other metals. Without foreign trade, many things you buy would cost more or would not be available at all.

## EXPORTING

The goods and services sold to other countries are called **exports**. Just as imports benefit you, exports benefit consumers in other countries. Workers throughout the world use factory and farm machinery made in the United States. They eat food made from U.S. agricultural products and use chemicals, fertilizers, medicines, and plastics. Exports by U.S. companies create about one of every six jobs in this country.

## TRADE BARRIERS

Government actions can create *trade barriers*, which are restrictions to reduce free trade. These political actions are known as *formal* trade barriers. In contrast, the culture, traditions, and religion of a country can create *informal* trade barriers. Informal barriers are not based on formal government actions but they do restrict trade. Three common formal trade barriers are quotas, tariffs, and embargoes.

**Quotas** One action by governments to regulate international trade sets a limit on the quantity of a product that may be imported or exported in a given period of time. This limit is referred to as a **quota**. Quotas may be set for many reasons. Countries that export oil may put quotas on crude oil so that the supply will remain low and prices will stay at a certain level. Quotas may also be imposed by one country on imports from another to express disapproval of the policies or social behavior of that country. A quota can be set to protect an industry from too much foreign competition.

Tariffs can hurt trade relations. Some years ago, Pakistan's import duties ranged from 20 to 90 percent. Imports were also subject to a 5 percent education fee, a 12.5 percent sales tax, and a 10 percent import surcharge tax. A product costing \$100 before entering the country could have ended up costing \$223.50.

**Tariffs** Another device that governments use to regulate international trade is the tariff. A **tariff**, also referred to as an *import duty*, is a tax that a government places on certain imported products. Suppose you want to buy an English bicycle. The producer charges \$140, but our government collects a 20 percent tariff (\$28) on the bicycle when it is imported. You will have to pay \$168 plus shipping charges for the bike. The increased price may cause you to decide to buy a U.S.-made bike at a lower price.

**Embargoes** If a government wishes to do so, it can stop the export or import of a product completely. This action is called an **embargo**. Governments may impose embargoes for many reasons. They may wish to protect their own industries from international competition to a greater degree than either the quota or the tariff will accomplish. The government may wish to protect sensitive products, particularly those important to national security. Like a quota, an embargo also may be imposed to express disapproval of the actions or policies of another country.

### checkpoint

What are common actions by government to discourage global trade?

## ■ Encouraging and Measuring Trade

Expansion of foreign trade is an ongoing goal of most countries. Governments attempt to create jobs and enhance economic development through exporting.

### ACTIONS TO ENCOURAGE TRADE

Specific government actions can promote international business activities. Common efforts to encourage international trade include free-trade zones, free-trade agreements, common markets, and regional trade organizations.

**Free-Trade Zones** To promote international business, governments often create free-trade zones in their countries. A *free-trade zone* is a designated area, usually around a seaport or airport, where products can be imported duty-free and then stored, assembled, and/or used in manufacturing. Only when the product leaves the zone does the importer pay any taxes.

**Free-Trade Agreements** A growing trend is for countries to establish *free-trade agreements* with other nations. With this arrangement, member countries agree to eliminate duties and trade barriers on products traded among them. Trade is then increased between members. For example, the United States, Canada, and Mexico created the North American Free Trade Agreement (NAFTA) in 1993. This pact eliminates taxes on goods traded among the three countries and eases the movement of goods. NAFTA is designed to enlarge the markets and economic bases of the countries involved. The Central American Free Trade Agreement (CAFTA), which includes the Dominican Republic, has a similar purpose.



DIGITAL VISION

*To encourage trade, countries may engage in free-trade agreements.*

A free-trade agreement may be between two or more countries. The United States has agreements with many individual nations, including Australia, Bahrain, Chile, Israel, Jordan, Malaysia, Panama, and Peru.

**Common Markets** Countries may join together in a common market to promote more trade among them. In a *common market*, also called an *economic community*, members eliminate tariffs and other trade barriers, allow companies to invest freely in each member's country, and allow workers to move freely across borders. Common market members also have a common external duty on products being imported from non-member countries. Examples of common markets include the European Union (EU), the Latin American Integration Association (LAIA), and Mercosur, the Southern Common Market, whose original members were Argentina, Brazil, Paraguay, and Uruguay. In recent years, other countries have joined as full or associate members. The goals are to expand trade among member nations and promote regional economic integration.

**Regional Trade Organizations** In most regions of the world, countries unite to promote economic development and trade. Examples of these efforts include the following:

- The Association of Southeast Asian Nations (ASEAN) promotes political and economic cooperation among its 11 member countries. The goals of ASEAN include acceleration of economic growth, social progress, and cultural development in the region.
- The Caribbean Community and Common Market (CARICOM) was established to provide for free movement of goods, labor, and capital among the member countries. CARICOM attempts to improve living and work standards and coordinate economic development and trade.
- Economic Community of West African States (ECOWAS) was organized to promote development among the 15 member countries. Economic issues (agriculture, trade, and infrastructure) along with social concerns (children, education, and public health) are the foundation of ECOWAS activities.



## teamwork

In your team, describe three specific actions a country might take to encourage international trade with nations in other regions of the world.



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Money moves between countries through tourism.

## TRADE MEASUREMENTS

Like households, nations are concerned about balancing income with expenditures. When people buy more than their income allows, they go into debt. In the same way, when the businesses in a country import more than they export, they owe money to others. **Foreign debt** is the amount a country owes to other countries.

**Balance of Trade** The difference between a country's total exports and total imports is called the **balance of trade**. Countries like to have a favorable balance of trade.

able balance of trade. That happens when they export more than they import.

When a country exports (sells) more than it imports (buys), it has a *trade surplus*, and its trade position is said to be *favorable*. But, if it imports more than it exports, it has a *trade deficit* and its trade position is *unfavorable*. A country can have a trade surplus with one country and a trade deficit with another. Overall, a country tries to keep its international trade in balance. After a long history of a favorable balance of trade, the United States has had a trade deficit in recent years. Figure 12-1 shows the U.S. trade balance with various nations.

FIGURE 12-1

### United States Trade Balances

| Goods Exported (in billions) | Country        | Goods Imported (in billions) | U.S. Trade Balance |
|------------------------------|----------------|------------------------------|--------------------|
| 904.3                        | All countries  | 1,671.4                      | -767.1             |
| 211.9                        | Canada         | 290.4                        | -78.5              |
| 120.4                        | Mexico         | 170.1                        | -49.7              |
| 55.5                         | Japan          | 138.0                        | -82.5              |
| 26.5                         | Netherlands    | 14.9                         | +11.6              |
| 15.8                         | Australia      | 7.3                          | +8.5               |
| 15.4                         | Brazil         | 24.4                         | -9.0               |
| 22.1                         | Taiwan         | 34.8                         | -21.7              |
| 41.9                         | China          | 243.5                        | -201.6             |
| 186.4                        | European Union | 308.8                        | -122.4             |

**Balance of Payments** In addition to exporting and importing goods and services, other financial exchanges occur among nations. Money goes from one country to another through investments and tourism. For example, a citizen of one country might invest in a corporation in another country. A business may invest in a factory in another country. Or, a government might give financial or military aid to another nation. When tourists travel, they contribute to the flow of money from one country to another.

The difference between the amount of money that comes into a country and the amount that goes out is called the **balance of payments**. A country's balance of payments can either be positive or negative. A *positive* or *favorable* balance of payments occurs when a nation receives more money in a year than it pays out. A *negative* balance of payments is *unfavorable*, which is the result of a country sending out more money than it brings in.

## checkpoint



How does balance of trade differ from balance of payments?



## technology topics

### Online Foreign Trade Resources

The U.S. Department of Commerce and other federal government agencies provide extensive assistance to companies involved in international trade and global financial transactions. Some of the most valuable include

- The U.S. Government's Export Portal, also referred to as export.gov
- The USA Trade Center
- The International Trade Administration, also known as trade.gov
- The Small Business Administration Office of International Trade
- The Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA)

Web sites that have a specific emphasis on financing global business activities include

- The Export-Import Bank of the United States
- The Overseas Private Investment Corporation
- The Foreign Credit Insurance Association

### Think Critically

1. Why does the U.S. government provide assistance to companies involved in international trade?
2. Locate a web site that provides information for companies involved with exporting or other international business activities. Prepare a summary of the content of this web site.

## 12.1 Lesson Assessment

### UNDERSTAND CONCEPTS

Determine the best answer for each of the following questions.

1. A limit on the quantity of a product that may be imported or exported is
  - a. an absolute advantage
  - b. a comparative advantage
  - c. a quota
  - d. a tariff
2. **True or False?** A country may have an absolute advantage because of its natural resources.
3. An action to encourage trade is
  - a. a quota
  - b. an economic community
  - c. a tariff
  - d. an embargo
4. **True or False?** A favorable balance of trade results from a country importing more than it exports.
5. A commonly used trade barrier is
  - a. an economic community
  - b. a tariff
  - c. a free-trade zone
  - d. a free-trade agreement

### MAKE ACADEMIC CONNECTIONS

6. **International Studies** Check the labels of various clothing items you own to determine the countries of origin. Make a list of the nations. Prepare a short essay on why certain products may be manufactured in certain countries.
7. **Visual Art** Use photos and other visuals to create a poster or computer presentation to communicate various trade barriers and various actions countries take to encourage international trade.
8. **Technology** Explain the benefits of the Internet and other technology for expanded and improved international trade and global financial transactions.
9. **Geography** Select a common market or a regional trade organization discussed in this lesson. Conduct research to determine the countries involved in this organization. Prepare a map showing the member nations. Create a brief oral summary of the organization's activities.

## 12.2

# Economic Development and Monetary Systems

### Goals

- Describe factors that affect economic development.
- Explain how countries influence foreign exchange values.

### Terms

- infrastructure
- industrialized country
- less-developed country (LDC)

- developing country
- exchange controls

## Economic Development

Every country and every individual continually makes decisions about the use of time, money, and energy. A nation's economic situation is a significant element in its international business and global financial activities.

### ECONOMIC DEVELOPMENT FACTORS

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

- Literacy Level** Countries with better education systems usually have more productive facilities.
- Technology** Automated production, distribution, and communications systems allow for the efficient creation and delivery of goods, services, and ideas.
- Agricultural Dependency** An economy with an emphasis on agriculture will not likely have manufacturing to provide a high quantity and quality of products.

Another element that supports economic development is **infrastructure**, which is the transportation, communication, and utility systems of a nation. Countries with efficient transportation systems and modern telecommunications are better prepared for global business activities than nations with a weak infrastructure.

### TYPES OF INFRASTRUCTURE

The infrastructure of a country provides the foundation for economic development and efficient business activities. Going beyond the basic facilities needed for financial transactions, infrastructure may be viewed from several perspectives.

# NETBookmark

The CIA maintains The World Factbook, a compendium of information on every country in the world. Access [thomsonedu.com/school/busfinance](http://thomsonedu.com/school/busfinance) and click on the link for Chapter 12. Choose several countries in a geographic area and find their major import and export partners. Do countries generally trade with their neighbors?

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## team work

The economies in less-developed countries often lack infrastructure and strong educational systems. In your team, create a list of actions that could improve economic conditions in these countries.

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**1. Physical Infrastructure** Refers to the transportation, communication, and utility systems that facilitate business activities, including computer systems and telecommunications facilities that are necessary for global business success.

**2. Natural Infrastructure** Involves climate, waterways, farmland, and other natural resources that contribute to a nation's economic development. These natural resources can provide an advantage for countries when creating and distributing goods and services.

**3. Social Infrastructure** Family relationships, labor unions, religious influences, schools, and other social organizations often must be considered when interacting

with customers, suppliers, investors, and employees.

**4. Financial Infrastructure** This element involves the availability and efficiency of a country's banks, financial markets, and other financial institutions.

**5. Managerial or Entrepreneurial Infrastructure** The ability of a nation's 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 how to obtain, coordinate, and use the food products, workers, buildings, and equipment necessary to operate a fast-food restaurant.

## LEVELS OF ECONOMIC DEVELOPMENT

The degree to which a country provides food, housing, health care, and other consumer needs is commonly viewed in three categories.

**Industrialized Countries** Nations with the greatest economic power have the ability to provide extensive goods and services. 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 a high level of industrialization and an extensive network of financial institutions. Population is centered in large cities and suburbs rather than in rural areas. Industrialized countries are actively involved in foreign trade. Nations commonly described as industrialized include Canada, England, France, Germany, Italy, Japan, and the United States.

**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. About four billion people living in LDCs have an income of \$2 or less per day. As a result, citizens often cannot afford adequate housing, food, and health care. This situation results in a high death rate among newborns, a shorter life expectancy than in other countries, and potential for political instability. Examples of LDCs include Afghanistan, Bangladesh, Bolivia, Chad, Ethiopia, Kenya, Liberia, Nepal, Nigeria, Pakistan, and Somalia. Future economic development for less-developed countries presents a challenge for all nations.

**Developing Countries** Between the extremes of economic development are the **developing countries**, attempting to evolve 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, Bulgaria, Czech Republic, India, Mexico, and Thailand.

### checkpoint



What factors affect a country's level of economic development?

F.Y.I.

In the 1990s, Ukraine changed from using the Russian ruble to its own monetary unit—the *hryvnia*. While waiting to convert to a new currency, the Ukrainian government issued coupons for use in buying food and other products. These coupons were not originally intended to be a currency, but they became widely accepted as money.

## International Currency

A major challenge faced by businesses involved in international trade is the varied currency systems in use around the world. Nations have their own banking systems and their own kinds of money. For instance, Russia uses the ruble; the European Union uses the euro; Brazil, the real; India, the rupee; and Saudi Arabia, the riyal.

The value of a country's currency is important for international business success. If trading partners do not accept certain currency, the country may have to make payment in another currency. A currency that is not easy to exchange for other currencies is called *soft currency*. While the monetary unit serves as a medium of exchange in the home country, the currency has limited value in the world marketplace.

In contrast, monetary units such the Japanese yen, the euro, the Swiss franc, and the U.S. dollar are accepted for most global financial transactions. These monetary units are examples of *hard currency*, which refers to monetary units that are freely converted into other currencies.



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Industrialized countries have the physical infrastructure to support business activities.

## FOREIGN EXCHANGE RATES

The process of exchanging one currency for another occurs each day. The value of a currency in one country compared with the value of a currency in another is called the *exchange rate*. The value of currency, like most things, is affected by supply and demand. The approximate values of various currencies on a recent date in relation to the U.S. dollar (USD) are shown in Figure 12-2.

FIGURE 12-2

| Recent Exchange Rates for Selected Countries |          |        |      |              |                       |
|--|----------|--------|------|--------------|-----------------------|
| Country                                      | Currency | Symbol | Code | Value in USD | Units per USD         |
| United Kingdom                               | pound    | £      | GBP  | \$1.89       | 0.53 pounds           |
| Canada                                       | dollar   | \$     | CAD  | 0.90         | 1.11 Canadian dollars |
| European Union                               | euro     | €      | RUR  | 1.27         | 0.78 euro             |
| India  | rupee    | Rs     | INR  | 0.0215       | 46.5 rupees           |
| Japan  | yen      | ¥      | JPY  | 0.0086       | 116.34 yen            |
| Mexico                                       | peso     | Mex\$  | MXN  | 0.09         | 10.9 pesos            |
| Saudi Arabia                                 | riyal    | SRls   | SAR  | 0.267        | 3.75 ryals            |
| South Africa                                 | rand     | R      | ZAR  | 0.14         | 7.15 rand             |
| Brazil                                       | real     | R\$    | BRL  | 0.466        | 2.14 reals            |
| Venezuela                                    | bolivar  | Bs     | VEB  | 0.00047      | 2,146 bolivares       |
| China  | yuan     | ¥      | CNY  | 0.13         | 7.98 yuan             |

When a U.S. company sells products to a Canadian firm, for example, the U.S. firm must convert the Canadian dollars received in payment into U.S. dollars. If each Canadian dollar is worth 90 cents in the United States, what would the U.S. firm charge if goods worth approximately \$10,000 in the United States were sold to a Canadian firm? The U.S. firm would have to charge about \$11,111 in Canadian dollars ( $10,000 \div 0.90 = 11,111$ ). That makes a U.S. dollar worth about \$1.11 in Canadian currency.

## FACTORS AFFECTING CURRENCY VALUES

Currency exchange rates among countries are affected by three main factors: the country's balance of payments, economic conditions, and political stability.

**Balance of Payments** When a country has a favorable balance of payments, the value of its currency is usually constant or rising. Increased demand for both the nation's products and its currency are the basis of this situation. In contrast, when a nation has an unfavorable balance of payments, its currency usually declines in value due to lower demand for the monetary unit.

**Economic Conditions** When consumer prices increase and the buying power of the country's money declines, its currency will not be as attractive. Inflation reduces the buying power of a currency. High inflation in Brazil, for example, would reduce the demand for the real.



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Foreign exchange controls help maintain the value of a country's currency.

Interest rates, the cost of using someone else's money, also affect the value of a country's currency. Higher interest rates mean more expensive products and lower demand among consumers. This, in turn, reduces the demand for a nation's currency, causing a decline in its value.

**Political Stability** Companies and individuals want to avoid risk when doing business in different nations. If a government changes unexpectedly to create an unfriendly business environment, a company may lose control of a factory or money on deposit in local banks.

Political instability may also occur when new laws and regulations are enacted. These rules may not allow foreign businesses to operate as freely. Uncertainty in a country reduces the confidence businesspeople have in its currency.

## FOREIGN EXCHANGE CONTROLS

In an effort to maintain the value of its currency, a nation may place limits on the flow of money out of the country. **Exchange controls** are government restrictions to regulate the amount and value of a nation's currency. These controls can be in the form of either fixed exchange rates or limits on the amount and cost of currency. One common exchange control limits the amount of local currency a person can take out of a country. For example, in past years, Australia, Bangladesh, France, Italy, Japan, Portugal, South Africa, Spain, and Sweden have all placed some restrictions on exporting local currency.

### checkpoint

What factors affect the value of a country's currency?

## 12.2 Lesson Assessment

### UNDERSTAND CONCEPTS

Determine the best answer for each of the following questions.

1. A less-developed country is characterized by
  - a strong infrastructure
  - a low literacy level
  - modern technology
  - a well-educated population
2. The value of a country's currency would likely decline as a result of
  - inflation
  - a favorable balance of trade
  - expanded exports
  - decreased foreign debt
3. **True or False?** Infrastructure commonly refers to a nation's trade activities with other countries.
4. **True or False?** Most currencies of the world have a value that stays fairly constant from day to day.

### MAKE ACADEMIC CONNECTIONS

5. **Science** Describe how new scientific discoveries might improve the economic development of a country.
6. **Economics** Research the economies of a less-developed or developing country. Prepare a short report that communicates possible actions that might be taken to improve economic conditions in these countries. Also, point out how all nations benefit when economic conditions improve in less-developed countries.
7. **Communication** Talk to a person who has lived in or visited another country. Obtain information about experiences with obtaining and using local currency.
8. **Visual Art** Conduct an Internet search for pictures of currency from various countries. What types of images appear on these banknotes? What is the significance of the images?

**Goals**

- Describe global markets for selling financial securities.
- Explain other types of international financial markets.

**Terms**

- global stock index
- American depository receipt (ADR)
- floating exchange rates
- currency futures

## Global Security Markets

International companies use stocks and bonds to finance global business activities. Stock and bond exchanges around the world create a network for issuing, buying, and selling equity and debt securities.

### INTERNATIONAL STOCK EXCHANGES

While the New York Stock Exchange is the largest in the world, other major stock exchanges exist, including Euronext (Paris, Amsterdam, and Brussels), Bombay, Copenhagen, Dusseldorf, Istanbul, Milan, Rio de Janeiro, Seoul, Stockholm, Taiwan, Tel Aviv, Toronto, and Zurich.

Every hour of the day, investors buy and sell stocks. On the trading floor of the stock exchange and through computer systems, representatives of buyers and sellers interact to determine the prices of shares of stock.

Completely computerized stock exchanges, without trading floor representatives, are becoming common. These high-speed, low-cost automated systems are used by most major stock exchanges. Some of the world's largest screen-based systems for buying and selling global stocks are based in Europe. Computerized stock trading allows a broker in London to buy and sell stocks of multinational companies listed on stock exchanges in Istanbul, Rio de Janeiro, or Taiwan. The system allows investors to complete buy and sell orders anytime, day or night.

**World Federation of Exchanges** This private organization exists to coordinate the activities of the hundreds of financial markets and stock exchanges around the world. The World Federation of Exchanges attempts to communicate among the exchanges to enhance the efficiency of these financial markets. This group also attempts to meet the needs of capital markets in emerging economies.

**Global Stock Indexes** Investors use a stock index as an indication of market changes and trends. A **global stock index** is based on a group of stocks selected to reflect the overall progress of all stocks being represented. More than 50 stock indexes exist to communicate market trends, including the Toronto S&P, London FTSE, Tokyo Nikkei, DJ Pacific Pan-Asia, Milan S&P, Oslo All-Share, Kuala Lumpur Composite, and the Sao Paulo BOVESPA.



## teamwork

In your team, create a list of factors that might affect the value of bonds in different countries of the world.



People often confuse the euro and Euro-dollar. The euro is the official currency of the European Union. A Eurodollar is a U.S. dollar on deposit in a bank outside the United States. It was originally called the Eurodollar since most of the deposits were in Europe. Today, the U.S. dollar is used throughout the world.

**American Depository Receipt** Citizens of the United States are restricted from buying stocks in foreign companies. To allow U.S. investors to buy shares in corporations based in other countries, an **American depository receipt (ADR)** may be issued. The value of this document, which originates with a U.S. bank, is based on the value of the shares of the foreign stock. ADRs are traded on U.S. exchanges and are valued in U.S. dollars. With this procedure, the foreign stock shares are held in trust by the bank. While ADRs reduce transaction costs for investors, currency rate and economic risks still exist. The dividends and capital gains earned on the shares are converted to U.S. dollars, which are then distributed to investors.

**International Mutual Funds** International mutual funds exist to attract investors who wish to buy stock in hundreds of companies around the world. These investments are managed by a company that combines invested money from many people to purchase a portfolio of stocks.

A major benefit of these mutual funds is *diversification*. By pooling money from many investors, a mutual fund manager is able to invest in many types of stocks and bonds, spreading out the risk for the investors.

Global mutual funds eliminate the high brokerage commissions and high currency conversion fees that an individual investor might encounter. International funds reduce the risk that exchange rate changes may wipe out profits even when stocks increase in value.

Other types of international mutual funds include regional funds. For example, a Latin America fund invests in companies with long-term growth in Central and South America. A Pacific fund would invest in companies in that region.

## THE OVER-THE-COUNTER MARKET

Large companies that meet financial requirements of a stock exchange and are traded regularly are called *listed stocks*. In contrast, the *over-the-counter (OTC) market* is a network of stockbrokers who buy and sell stocks not listed on a stock exchange.

The National Association of Securities Dealers Automated Quotations (NASDAQ) is the major computerized trading system for OTC stocks in the U.S. The Unlisted Securities Market is the over-the-counter market for companies in England. In Germany, the Neuer Markt trades stocks of emerging companies in the European Union.

## GLOBAL BOND MARKETS

Debt instruments such as bonds and notes are used by most companies, governments, and other organizations. These securities are bought and sold through financial markets in most major cities of the world.

**International Bonds** Issuing bonds provides debt financing for companies and governments. The issue value of a corporate bond will vary based on the nation. Examples of this issue value, also called the *face value* or *maturity value*, include the following:

| Country        | Bond Issue Amount     |
|----------------|-----------------------|
| United States  | \$1,000 (dollar)      |
| United Kingdom | £100 (pound sterling) |
| Brazil         | R\$1,000 (real)       |
| South Africa   | 100 R (rand)          |

The global bond market faces various problems, especially in emerging economies where economic and political uncertainty can affect interest rates and default potential. International financial analysts mention the following concerns regarding bonds issued in developing economies in an attempt to drive economic development.

- Projected returns from bonds can face strong uncertainty when issued by companies with no past record of financial success.
- Risk levels can quickly increase due to economic difficulties, political instability, and cultural differences.
- Local rating agencies may not have analysis techniques and reporting standards comparable to industrialized countries.
- The buy or sell decisions of institutional investors, such as mutual funds and insurance companies, can affect the bond market values for small, vulnerable companies.



*Bonds are sold by companies and governments around the world to finance debt.*

**Inflation-Linked Bonds** A debt security that can provide protection against economic uncertainty is the *inflation-linked bond*. This bond increases in value based on the rate of inflation. Examples of inflation-linked bonds are the Canadian real return bond (RRB) and the British inflation-linked gilt (ILG). With these securities, the loan principal of the bond increases with the inflation rate. Investors receive interest payments based on the inflated principal. At maturity, the repaid amount is the inflated principal.

**International Asset-Backed Securities Market** The *asset-backed security* is a specialized type of global debt instrument. These bonds and notes are secured by various company assets. Common items used as collateral include loan receivables, accounts receivable, and other types of receivables. These asset-backed securities have short maturities and involve steady, definite cash flows, such as payments from loans or leases.

The international asset-backed securities market has grown extensively in recent years, with continued growth expected. Most regions of the world will expand use of this financial security. In Asia, for example, some asset-backed securities are supported by the Asian Development Bank and others are funded by the Japanese government.

### checkpoint

What are the benefits of international mutual funds for investors?

# ■ Other International Financial Markets

In addition to stock and bond markets, other global financial markets are in operation, including foreign exchange, futures, and options markets.

## FOREIGN EXCHANGE MARKET

The value of a country's currency used to be set by its government. More recently, most countries use **floating exchange rates**, in which currency values change based on supply and demand. These values and the process of exchanging one currency for another occur in the *foreign exchange market*, which consists of banks and other financial institutions that buy and sell different currencies. Most large banks are part of the foreign exchange market and may provide currency services for businesses and consumers.

Travelers and businesspeople going outside of the United States can exchange dollars for the currencies of the countries they will visit. This exchange can be done at large banks, online, or at travel agencies that specialize in foreign currency services. When in another country, travelers can go to a currency exchange window at the airport, train station, or local bank and buy local currency. How much of the local currency they will get depends on the value of the two currencies at that time. Rates are posted at exchange windows, and there is a charge for exchanging currency.

## FUTURES MARKET

If a company knows it will need a certain currency in the future, it can enter into an agreement to buy that monetary unit later at a price agreed upon today. **Currency futures** are contracts to purchase for a fee a foreign currency at today's rate with payment and delivery at a later date. For example, an Australian company needs 20 million yen in two months to pay for imports from a Japanese company. By buying a currency future contract, the importer will get the yen in two months at today's rate. This protects the Australian importer from having to buy the currency later at a higher price.

Farmers want to get a fair price for their grain. Food companies want to avoid paying high prices for grain that will be used to make breakfast cereals. By agreeing to a price now for delivery in the future (usually three or six months from now), a farmer is protected against receiving a lower price, while the cereal company is protected against higher costs.

The *futures market* allows investors to buy or sell contracts on the future prices of commodities, metals, and financial instruments. Futures markets involve contracts on corn, oats, soybeans, wheat, cocoa, sugar, oil, gold, silver, treasury bonds, and currencies—yen, euro, and Eurodollars.

## OPTIONS MARKET

An *option* is the right to buy or sell a security or commodity at a specific price within a limited time period, usually three, six, or nine months. This contact can take one of two forms. A *call option* is the right to buy the item. In contrast, a *put option* is the right to sell some type of investment.

When buying an option, you are *not* buying the investment (stock or commodity). You are only purchasing the *right* to buy or sell the investment in the future at a certain price. For example, a call option to buy a certain stock might allow the purchase of that stock at \$40. This gives the investor the opportunity to buy those shares, before a certain date, for \$40.

This option would be used if the current market value of that stock is more than \$40. However, if the stock sells for less than the option price, the investor will not exercise the option. The investor is not required to exercise an option. In general, the buyer of a call option hopes the price of the stock will rise. In contrast, an investor who buys a put option is expecting the market price to decline so the stock can be sold later at a higher price.

Options markets exist around the world. In New York, Chicago, London, Tokyo, and elsewhere, investors are buying call and puts on everything from stocks and gold to soybeans and euros.

## checkpoint

What is the purpose of a futures contract?



## business in action

### Carrefour's Cross-Border Cash Flows

The name of the Carrefour company, which is French for "crossroads," describes the company's global business activities. This French company, which is the largest retailer in Europe (and second largest in the world), has consumers crossing roads to get to their stores in 29 countries in Europe, Latin America, and Asia. Carrefour has more than 12,000 retail outlets operating under more than 20 different store names. Shoppers may encounter hypermarkets, supermarkets, convenience stores, and discount stores. The company offers everything from vegetables and frozen dinners to socks and banking. The diverse product line allows Carrefour to adapt to the needs of various cultures and geographic regions.

At the crossroads of southern Europe, Carrefour Italia has a significant presence with about 1,500 hypermarkets, supermarkets, and convenience stores. The company obtains over 90 percent of its fresh foods from local producers. This strategy keeps costs low and freshness and quality high. Carrefour brands in Italy include Terre D'Italia and ScelgoBio.

Centros Comerciales Carrefour operates in Spain. Also called Carrefour España, this subsidiary owns or franchises about 3,000 hypermarkets, supermarkets, and discount stores under the Dia and MaxiDia banners.

In Latin America, Carrefour faced many cultural, economic, and political barriers. Despite setbacks, the company has been able to establish itself as the largest retailer in this region. Countries where Carrefour has strong market presence include Argentina, Brazil, Chile, Colombia, and Mexico.

In Asia, the company's success has been a result of careful planning and interaction with knowledgeable citizens. Facing regulatory risks along with currency crises, Carrefour effectively used local partners in the region.

### Think Critically

1. What strategies of Carrefour enhance the company's profits?
2. What costs and risks are associated with the company's operations?
3. Conduct an Internet search for current information about the activities of Carrefour. Prepare a short written summary of your findings.

## 12.3 Lesson Assessment

### UNDERSTAND CONCEPTS

Determine the best answer for each of the following questions.

1. An investor in the United States may buy shares in foreign companies through
  - a. the World Federation of Exchanges
  - b. a global market index
  - c. an ADR
  - d. NASDAQ
2. A company may contract a price today for a product that will be delivered months from now through the \_\_\_\_? \_\_\_\_ market.
  - a. foreign exchange
  - b. futures
  - c. international bond
  - d. over-the-counter
3. The global \_\_\_\_? \_\_\_\_ market involves the use and trading of equity securities.
  - a. stock
  - b. bond
  - c. foreign exchange
  - d. futures
4. **True or False?** International corporate bonds represent ownership in a foreign company.
5. **True or False?** Most countries of the world use a fixed exchange rate rather than a floating exchange rate.

### MAKE ACADEMIC CONNECTIONS

6. **Economics** Conduct library and online research for a global stock market index. In a written summary, describe the index and the recent trend of its movement.
7. **Culture** Talk to a person who has lived or worked in another country. Obtain information about the financial markets and investment activities in that country.
8. **Research** Conduct online or library research on an international mutual fund. Locate information about the name of the fund, the investment goal, and recent performance results. In what types of companies does the fund invest? In what countries are these companies located? How has the fund performed in recent years?
9. **Visual Art** Select a currency from another country. Research the value of that monetary unit in relation to the U.S. dollar over the past three months. Prepare a graph to communicate the exchange rate. Describe possible factors that may have affected the changing value.

## 12.4

# Global Payments and Financial Risk

### Goals

- Describe global payment methods and financial documents.
- Identify agencies that help companies reduce global financial risks.

### Terms

- letter of credit
- bill of exchange
- commercial invoice

- proof of insurance
- credit risk insurance

## International Payments and Financial Documents

Sometimes when buying an item, you pay cash or write a check. Other times, you may buy the item on credit. In a similar way, global companies must decide how to pay for imported goods. Three types of payment methods are commonly used for international transactions: cash in advance, letter of credit, and sale on account.

### CASH IN ADVANCE

Making payment before the shipment of goods can be risky for the buyer. When paying in advance, you may not receive the items or you may have difficulty obtaining a refund for damaged or returned goods. Cash in advance is not often used. This method may be required for first-time customers, small orders, or customers in high-risk countries.



DIGITAL VISION

*Global companies may use commercial invoices to provide a description of the merchandise and calculate import duties.*

## LETTER OF CREDIT

A **letter of credit** is a financial document issued by a bank for an importer in which the bank guarantees payment. This payment method involves the importer paying for goods before they are received, but after the goods are shipped. This agreement, issued by the importer's bank, promises to pay the exporter a set amount when certain documents are presented. A *bill of lading* might be required as proof that the goods have been shipped.

## SALE ON ACCOUNT

Almost every business buys or sells on account, allowing its regular customers to make payments in a certain time period, such as 30 or 60 days. Credit terms describe the time required for payment and other conditions of a sale on account.

## OTHER GLOBAL FINANCIAL DOCUMENTS

Varied business environments may result in the use of other types of documents for foreign trade transactions.

**Promissory Note** A promise to pay a set amount by a certain date is a *promissory note*. These notes are signed by buyers to confirm their intention to make payment. A promissory note communicates to both the buyer and the seller the amount of a purchase, the date by which it must be paid, and any interest charges.

**Bill of Exchange** A written order by an exporter to an importer to make payment, usually through a third party, is a **bill of exchange**. The instructions to the importer include the amount, the due date, and the payment location, such as a bank or other financial institution.

**Electronic Funds Transfer** Each day, more and more payments are being made online. Electronic funds transfer (EFT) moves payments through banking computer systems. After an importer receives the ordered goods, a bank can be instructed to transfer the payment for the merchandise to the bank of the exporter.

**Commercial Invoice** Prepared by the exporter, a **commercial invoice** provides a description of the merchandise and the terms of the sale. This document includes details about the buyer, seller, merchandise, amounts, prices, shipping method, date of shipment, and terms of payment. Commercial invoices are also used at the port of entry to calculate any import duties that may be due.

**Proof of Insurance** Often required in import-export transactions is **proof of insurance**. An insurance certificate explains the amount of insurance coverage for fire, theft, water, or other damage that may occur to goods in shipment. This document also lists the names of the insurance company and the exporter.

### checkpoint



What three payment methods are commonly used in foreign trade transactions?



### teamwork

Various business transactions may require different payment methods. In your team, describe situations in which each of these payment methods might be appropriate: cash in advance, letter of credit, and sale on account.

# International Financial Agencies

Companies involved in global transactions must protect their merchandise and other assets. The services of several agencies are available to reduce foreign trade risk.

## EXPORT-IMPORT BANK

The Export-Import Bank of the United States (EXIM) is a U.S. government agency that helps finance the export sales of U.S. products. EXIM provides loans to exporters, along with loan guarantees and export credit insurance. An exporting company can purchase an export credit insurance policy from EXIM that will provide 100 percent political risk protection for international sales, including protection from foreign governments that refuse to convert local currency to dollars. EXIM also covers damage or destruction of a shipment caused by wars, revolutions, and civil disorders.

## OVERSEAS PRIVATE INVESTMENT CORPORATION

The Overseas Private Investment Corporation (OPIC) provides investment insurance to U.S. companies that establish operations in developing countries. A company can protect its overseas investment by purchasing OPIC insurance to shield the company from several types of political risk, including expropriation and damage or destruction caused by war, revolution, terrorism, and sabotage. If any of these political actions occur, the business can file a claim with OPIC to recover its losses.

## FOREIGN CREDIT INSURANCE ASSOCIATION

One financial hazard of conducting business in other countries is not receiving payment.

**Credit risk insurance** provides coverage for loss from non-payment for delivered goods.

Credit risk insurance is available through the Foreign Credit Insurance Association (FCIA), a private association that insures U.S. exporters. FCIA enables exporters to extend credit to overseas buyers.

F.Y.I.

The U.S. dollar is the official currency of Ecuador and El Salvador. A country may adopt a “dollarization” policy in an attempt to reduce economic problems and enhance trade with other nations. The dollar is also the unofficial monetary unit for tourist transactions in countries such as the Bahamas and Haiti.



*Companies that engage in international trade protect their delivered goods with insurance against non-payment, damage, or political disruptions.*

Credit insurance covers 100 percent of losses for political reasons, such as war, asset seizure, and currency inconvertibility. This insurance covers up to 95 percent of commercial losses, such as non-payment due to insolvency or default. About 200 banks in the United States have purchased policies from FCIA and can insure loans made to U.S. exporters.

### checkpoint

Name agencies that exist to help companies reduce global finance risk.



### a question of ethics

#### Bribery and Gift Giving

In the United States, it is considered unethical for a businessperson to pay bribes to government officials or to other businesspersons in exchange for favorable treatment such as the awarding of contracts. In fact, it is against the law, whether the recipient is an American or someone in another country. The Foreign Corrupt Business Practices Act of 1977 outlawed the payment of bribes by Americans to foreign officials, companies, or individuals. At times, not paying bribes may put U.S. businesses at a competitive disadvantage.

Companies in some regions of the world commonly use payoffs to gain access to new markets. Some countries consider bribes to be tax-deductible business expenses. U.S. companies can face heavy fines and prison sentences when U.S. laws are violated. But sometimes companies cave in to local customs. A U.S. computer company offered Chinese journalists the equivalent of \$12 to attend its news conference. The company said the money was for taxi fares; but the amount was equal to a week's pay for some journalists.

While it is relatively easy to outlaw bribes, it is much harder to define the difference between a bribe and a gift given as a token of appreciation. Gift giving among businesspeople is relatively limited and infrequent in the United States and Canada. In other cultures it is very common and regarded as entirely appropriate. Many organizations have policies that limit the monetary value and type of gifts that are acceptable. A social dinner invitation is usually meant to influence the recipient's behavior, even if in a subtle way. As more countries recognize how harmful bribes are to economic progress, the practice is ending.

#### Think Critically

1. How can U.S. businesspeople handle situations in foreign countries where officials expect bribes to be paid as a condition for doing business there?
2. Suppose you work for a manufacturing company. A plastics supplier who is trying to get more business sends you a case of golf balls made with one of its high-tech composite materials. What would you do?

## 12.4 Lesson Assessment

### UNDERSTAND CONCEPTS

Determine the best answer for each of the following questions.

1. The payment method with the lowest risk is
  - a sale on account
  - a letter of credit
  - a bill of exchange
  - cash in advance
2. The \_\_\_\_?\_\_\_\_ provides investment insurance when U.S. companies establish operations in developing countries.
  - Export-Import Bank
  - Foreign Credit Insurance Association
  - World Federation of Exchanges
  - Overseas Private Investment Corporation
3. **True or False?** Letters of credit are commonly issued by a federal government agency.
4. **True or False?** A commercial invoice documents that an exporting company has insurance coverage.

### MAKE ACADEMIC CONNECTIONS

5. **Visual Art** Obtain photos and other visuals that reflect the various payment methods and financial documents discussed in this lesson. Create a poster, computer presentation, or other visual summary to communicate your knowledge of these items.
6. **Law** Conduct research to obtain information about the payment methods and other legal documents required when exporting to another country. Prepare a short oral summary of your findings.
7. **Research** Select one of these agencies: the Export-Import Bank, the Foreign Credit Insurance Association, or the Overseas Private Investment Corporation. Conduct online and library research about this organization. Prepare a brief written summary of its current activities.
8. **Careers** Investigate what types of legal agreements a person might encounter when applying for a job to work for a multinational company in another country.

## Summary

### 12.1 INTERNATIONAL BUSINESS AND TRADE

1. A country that can produce a good or service at a lower cost has an absolute advantage. A comparative advantage exists when a country produces a good or service at which it is more efficient. Items bought from other countries are imports. Items sold to other countries are exports. Some formal trade barriers are quotas, tariffs, and embargoes.
2. Free-trade zones, free-trade agreements, common markets, and regional trade organizations encourage international trade. The difference between a country's total exports and total imports is its balance of trade. Balance of payments is the difference between the amount of money that comes into a country and the amount that goes out.

### 12.2 ECONOMIC DEVELOPMENT AND MONETARY SYSTEMS

3. An industrialized country has strong business activity resulting from advanced technology and a highly educated population. A less-developed country (LDC) has little economic wealth and an emphasis on agriculture or mining. Developing countries are attempting to evolve from less developed to industrialized.
4. The value of a country's currency is affected by the nation's balance of payments, economic conditions, and political stability.

### 12.3 INTERNATIONAL FINANCIAL MARKETS

5. The World Federation of Exchanges coordinates financial markets and stock exchanges around the world. International mutual funds allow investors to buy stock in companies around the world. The global bond market is used to issue and trade debt securities.
6. Floating exchange rates are set in the foreign exchange market. The futures market allows investors and others to buy or sell contracts on the future prices of commodities, metals, and financial instruments.

### 12.4 GLOBAL PAYMENTS AND FINANCIAL RISK

7. Three types of payment methods are used for international transactions: cash in advance, letter of credit, and sale on account. Other global financial documents include promissory notes, bills of exchange, electronic funds transfer, commercial invoices, and proof of insurance.
8. The Export-Import Bank of the United States (EXIM) helps finance the export of U.S. products. The Overseas Private Investment Corporation (OPIC) provides investment insurance to U.S. companies that establish operations in developing countries. Credit risk insurance is available through the Foreign Credit Insurance Association (FCIA).

## Develop Your Business Language

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

1. Exists when a country can produce a good or service at a lower cost than other countries
2. Tax that a government places on certain imported products
3. A country specializes in the production of a good or service at which it is relatively more efficient
4. Exists when a government stops the export or import of a product
5. Items bought from other countries
6. Difference between a country's total exports and total imports
7. Difference between the amount of money that comes into a country and the amount that goes out
8. The transportation, communication, and utility systems of a nation
9. A country with little economic wealth and an emphasis on agriculture or mining
10. Nations characterized by improving educational systems, increasing technology, and expanding industries

- a. absolute advantage
- b. balance of payments
- c. balance of trade
- d. bill of exchange
- e. commercial invoice
- f. comparative advantage
- g. credit risk insurance
- h. currency futures
- i. developing country
- j. embargo
- k. exchange controls
- l. exports
- m. floating exchange rates
- n. foreign debt
- o. global stock index
- p. imports
- q. infrastructure
- r. less-developed country (LDC)
- s. letter of credit
- t. quota
- u. tariff

## Review Concepts

11. If more money flows out of a country than flows in, the result is
  - a. a lower foreign debt
  - b. an unfavorable balance of payments
  - c. a favorable balance of payments
  - d. a favorable balance of trade
12. \_\_\_\_? \_\_\_\_ countries are often characterized by low economic wealth and a dependence on agriculture or mining.

|                   |                   |
|-------------------|-------------------|
| a. industrialized | c. developing     |
| b. less-developed | d. infrastructure |
13. \_\_\_\_? \_\_\_\_ would likely increase the value of a country's currency.

|                           |                     |
|---------------------------|---------------------|
| a. inflation              | c. expanded exports |
| b. extensive foreign debt | d. expanded imports |
14. Credit risk insurance providing coverage for loss from non-payment for delivered goods may be obtained from
  - a. Export-Import Bank of the U.S.
  - b. International Monetary Fund
  - c. FCIA
  - d. OPIC

## Think Critically

15. High tariffs are sometimes used by a country to protect its new and developing industries. What are two examples of new and developing industries either in the United States or in other countries? Do you think that such industries should be protected by high tariffs? If so, how long should they be protected? Give reasons for your answer.
16. What are some concerns associated with an unfavorable trade balance? What actions might be taken by a country to reduce an unfavorable trade balance?
17. Describe situations in which the financial markets of a country might affect the economies and companies of other countries.
18. To what extent should the government of a country help companies expand their exports?

## Business Financial Calculations

19. In a certain year, a country has exports of \$6.7 billion and imports of \$7.1 billion. Do these numbers represent a favorable or unfavorable balance of trade? For what amount?
20. To make their exports suitable for use in other countries, U.S. manufacturers must produce goods that are measured in the metric system. Using this metric conversion table, determine the following amounts.

| When you know: | Multiply by: | To find:       |
|----------------|--------------|----------------|
| ounces (oz)    | 28.35        | grams (g)      |
| pounds (lb)    | 0.45         | kilograms (kg) |
| pints (pt)     | 0.47         | liters (l)     |
| quarts (qt)    | 0.95         | liters (l)     |
| gallons (gal)  | 3.79         | liters (l)     |

- a. A 14-ounce package of pasta would weigh about \_\_\_\_? \_\_\_\_ grams.
- b. Six pounds of beef would about \_\_\_\_? \_\_\_\_ kilograms.
- c. Eight pints of fruit juice is about \_\_\_\_? \_\_\_\_ liters.
- d. Three quart bottles of soft drinks equals about \_\_\_\_? \_\_\_\_ liters.
- e. Estimate how many gallons are equal to 12 liters. Then check your answer with a calculator. How accurate was your estimate?
21. Using Figure 12-2, determine how many U.S. dollars could be bought for these amounts from other countries:
  - a. In Japan, 1,200 yen
  - b. In Canada, 5 Canadian dollars
  - c. In Saudi Arabia, 150 riyals
22. A corporate bond in the Philippines selling for 1,000 pesos and earning annual interest of 80 pesos has a current yield of 8 percent ( $80 \div 1,000$ ). If the risk of this bond increased, investors would require a higher rate of return. If the bond value declines to 840 pesos (with the interest payment staying the same), what would be the new yield?

## Analyze Cases

Use the case from the beginning of the chapter, Global Banking Activities of HSBC, to answer the following questions.

23. Explain actions that might be taken by HSBC to better understand its customers in different regions of the world.
24. Describe possible differences in financial activities in other countries that might require HSBC to adapt its product offerings.
25. What are benefits and drawbacks of technology that HSBC might encounter when doing business around the world?
26. Select a country in which HSBC currently does business or might start doing business. Conduct research to (a) describe the current financial market of the country, (b) identify the financial products of HSBC that would be appropriate for that country, and (c) suggest actions HSBC might take regarding doing business in that country.

## Portfolio Activity

**COLLECT** an item that illustrates global business activities. This example could be an ad, written article, photo, product package, or some other item.

**CREATE** a visual to show various international financial activities related to the item. Use photos, other pictures or ads, other actual items, and drawings to illustrate how geography, culture, economic conditions, and government activities influence a company's international financial activities and the use of global financial markets.

**CONNECT** your visual to other aspects of our economy and society or relate it to an important concept you have learned in another class. Make the connection by preparing a brief explaining how various factors affect international financial decisions.

## Stock Market Activity

The value of a company's stock is often affected by its international operations as well as competition from foreign companies. Every business exports, imports, or competes against companies that import or export.

Use online and library resources along with the annual report of the company you have been studying (or select a different company).

1. Describe the international activities of the company. In how many countries does the company do business?
2. Determine the portion of revenue and profit that the company obtains from outside its home country.
3. Discuss actions the company takes to adapt its products, advertising, and financial activities to varied cultures and foreign business environments.
4. Determine to what extent international operations may have influenced the stock price of the company.



International finance and global business offer many employment opportunities. These positions include people who work with financial transactions and selling across borders as well as international banking and global shipping. While the skills necessary to perform these tasks are increasingly important, job titles may not reflect global activities.

Workers will also have duties unrelated to importing and exporting. Transportation managers will usually oversee both foreign and domestic shipping. A loan officer will approve loans for both exporting and local business activities.

## Employment Outlook

- Faster than average growth in employment for interpreters and translators is expected.
- Employment of inspectors will likely increase with the need for security compliance.
- Continued growth of many global finance and international trade positions is expected as companies expand global operations.

## Job Titles

- Foreign exchange trader
- International loan officer
- Customs inspector
- Interpreter, translator
- Global purchasing manager
- Cargo and freight agent
- Cross-cultural trainer
- International sales agent

## Needed Skills

- International finance and business positions require a college degree along with experience

in a field, such as accounting, banking, investments, marketing, or sales.

- Advanced study in international banking, global financial markets, and economics is required for some positions.
- Computer skills and technology competencies are increasing in importance.
- Fluency in another language is required for many jobs.
- A foreign exchange or overseas study program will contribute to cultural awareness and language proficiency.

## What's It Like to Work in International Finance?

"What is the yen doing compared to the euro?" This type of question can be the focus of a foreign exchange trader. You will need to assess various factors affecting local economies. The political environment may create risk and uncertainty.

Your clients will expect you to get them the best exchange rates for their foreign sales and purchases. The buying and selling of currencies requires information in the quickly changing foreign exchange marketplace.

You work long hours since it's always the middle of the business day somewhere in the world.

**What about you?** What aspects of international finance are of interest to you? Why? What are some actions a person might take to achieve success in this career field?



## EMERGING ISSUES EVENT

The Emerging Issues Event gives FBLA members an opportunity to demonstrate skills in researching and presenting an emerging business issue. This team event helps members learn research skills. Team participants develop speaking ability and poise through oral presentation.

The global economy has presented opportunities and challenges for increased trade. Businesses in the United States have a code of ethics or rules for honest and fair business practices. American companies outsource jobs to countries like India and China with large populations and lower wages than the United States. These countries also have large markets for products and services made in America. The home-building and agriculture industries count on illegal workers from Mexico.

Participants will be expected to research the topic prior to the presentation. They must be prepared to present an affirmative or negative argument for the business practice.

Each team must be composed of two to three (2-3) members. Each team's presentation must be the result of independent work. Facts and working data may be secured from any credible source. All members of the team must participate in research on the topic and in the actual presentation. Teams are allowed to use note cards for their presentations. No other materials or props are allowed for this presentation.

Ten (10) minutes before their presentation time, team members will draw to determine whether they will present an affirmative or negative argument. Teams will then have five (5) minutes to finalize their preparations. Each presentation may last no longer than five (5) minutes. Following each oral presentation, the judges may conduct a five (5) minute question-and-answer period during which the presenters should be prepared to defend their affirmative or negative argument.

### Performance Indicators Evaluated

- Define clearly the ethical issue(s) involved in the business situation.
- State clearly the team's position about the ethical issue(s).
- Present an affirmative or negative argument for the business practice.
- Organize thoughts and solutions in a clearly understandable format.
- Demonstrate self-confidence, poise, and good voice projection. Involve all team members in the presentation.

*Go to the FBLA web site for more detailed information.*

### Think Critically

1. Why are outsourcing and illegal employees hot issues in the U.S.?
2. How does this competitive event require you to keep an open mind about a topic on which you may have formulated a definite opinion?
3. What is the best argument for an affirmative response to this issue?
4. What is the best argument for a negative response to this issue?