Chapter 7: The International Monetary System and the Balance of Payments
Learning Objectives

1. Discuss the role of the international monetary system in promoting international trade and investment
2. Explain the evolution and functioning of the gold standard
3. Summarize the role of the World Bank Group and the International Monetary Fund in the post-World War II international monetary system established at Bretton Woods
4. Explain the evolution of the flexible exchange rate system
5. Describe the function and structure of the balance of payments accounting system
6. Differentiate among the various definitions of a balance of payments surplus and deficit
The Opening Case: Will the stars shine on Astra again?

- PT Astra
  - One of the oldest and largest conglomerates in Southeast Asia,
  - At one point having employed 125,000 people
    - Indonesia’s dominant automobile assembler as well as providing motorcycles, tractors, coal mines, plantations and financial services
    - Company benefited from “Crony capitalism”
  - After borrowing in dollars from foreign banks, Astra’s fortunes plummeted with the collapse of the Indonesian rupiah.
    - Caused by the Asian Financial Crisis in 1997
  - A new president installed in 1998, Rini Soewandi, did much to turn the company around until her ouster in 2000.
    - Restructuring; reforming corporate culture
  - Now, with deals struck with the Indonesian Bank Restructuring Agency (IBRA) and the International Monetary Fund (IMF), Indonesia and Astra may again have reason to be optimistic.
    - IBRA announced it would sell its stake in Astra to foreign investors
The Opening Case: Will the stars shine on Astra again?

**Key Points**

- Astra was a domestically oriented firm.
- Even so, it was not impervious to international competitive issues, such as changes in the value of the Indonesian rupiah.
- As global competition increases, domestically protected companies face greater and greater challenges internally and outside of their country.
International Monetary System

- Establishes the rules by which countries value & exchange their currencies
- Exists because most countries have their own currencies
  - A means of exchanging these currencies is needed
- Provides a mechanism for correcting imbalances between a country’s international payments and its receipts
- The cost of converting currencies depends on the smooth functioning of the international monetary system

Balance of Payments (BOP)

- Records international transactions & supplies vital information about:
  - The health of a national economy
  - The likely changes in its fiscal and monetary policies
- Can be used to detect signs of trouble
  - That would result in changes such as governmental trade restrictions, higher interest rates, accelerated inflation, reduced aggregate demand, and general changes in the cost of doing businesses
1) History of International Monetary System

- The Gold Standard
- The Collapse of the Gold Standard
- The Bretton Woods Era
  - The International Bank for Reconstruction and Development
  - The International Monetary Fund
  - A Dollar-based Gold Standard
- The End of the Bretton Woods System
- Performance of the International Monetary System Since 1971
  - Other Post-World War II Conferences
  - The International Debt Crisis
1. The Gold Standard

- **Gold standard**
  - Developed from an ancient reliance on gold coins as an international medium of exchange
  - Countries agree to buy or sell their paper currencies in exchange for gold
    - On the request of any individual or firm
    - To allow the free export of gold bullion and coins (in contrast to mercantilism)

- **Exchange rate**
  - The price of one currency in terms of a second currency

- **Fixed exchange rate system**
  - The price of a given currency does not change relative to each other currency
  - Pegged or tied to
    - The value of its currency to gold

- **Floating (Flexible) exchange rate system**
  - System in which exchange rates are determined by supply and demand
1. The Gold Standard

- **Fixed Exchange rate example…**
  - The UK pledged to buy or sell: 1 ounce of gold = £ 4.247
    - The pound’s par value = £ 4.247
    - Par value: official price of currency in terms of gold
  - The US’s par value = US$ 20.67
    - £ 4.247 = 1 ounce of gold = US$ 20.67

- **Transacting in gold was expensive**
  - E.g. Trading between Jardine Matheson (Hong Kong trading company) and Twining & Company (the UK’s fine tea company)
  - Jardine Matheson sold £ 100,000 worth of tea to Twining & Company
  - If they wanted to be paid in gold they have to bear a lot of cost and risk involved
    - Costs of loading the gold into the cargo, guarding it against theft, transporting it, insuring against possible disasters,
    - Slowness of sailing ships loosing the chances of earning interest rate by putting £ 100,000 in the bank
  - If they wanted to be paid in British pounds,
    - Simply receiving check that was drafted from Twining
1. The Gold Standard

- **Sterling Based Gold Standard: 1821-1918 (the end of WWI)**
  - The British pond sterling
  - The most important currency in international commerce
  - Most firms worldwide were willing to accept either gold or British pounds in settlement of transactions
  - Reinforced by the expansion of the British Empire
    - See Map 7.1 – page 204 of the text book
  - Each colony:
    - Branches were established by British banks
    - Used pound sterling to settle international transactions among themselves
  - London became the dominant international financial center in the 19th Century
    - British banks; Barclays Bank, Thomas Cook, Lloyd’s
2. The Collapse of the Gold Standard

- **World War I**
  - Normal commercial transactions between the Allies and the Central Powers ceased
    - Allies: France, Russia and the UK
    - The Central Powers: Austria-Hungary, Germany and the Ottoman Empire
  - The economic pressures of war
    - Cased nations to suspend their pledges to buy or sell gold at their currencies’ par values

- **After WWI**
  - Attempts to resuscitate the gold standard
    - Conferences at Brussels (1920) and Genoa (1922)
      - Agreements among the major economic powers to return to the prewar gold standard
  - Readopted the gold standard in the 1920s
    - The Great Depression
2. The Collapse of the Gold Standard

The Great Depression

- The UK: unable to honor its pledge to maintain the value of the pound
- 1931: British pound: Fixed Floating exchange rate
  - The pound’s value would be determined by the forces of supply and demand
  - The Bank of England would no longer redeem British paper currency for gold at par value
- “The Sterling area”: Mostly members of the British Commonwealth
  - Pegged their currencies to the pound
  - Relied on sterling balances held in London as their international reserves
- Other countries tied the value of their currencies to the US$ or the French franc
2. The Collapse of the Gold Standard

- **Beggar-thy-neighbor policies**
  - An economic policy through which one country attempts to remedy its economic problems by means that tend to worsen the economic problems of other countries
  - Domestic economic policies that ignore the economic damage done to other countries

- **Competitive devaluation (of the currencies) among the countries**
  - Each nation hoped to make its own goods cheaper in the markets
  - In order to stimulate its exports and reducing its imports
  - However, the devaluation will be of no use if other countries do the same

- **Raised the tariffs**
  - To protect their domestic market
3. The Bretton Woods Era

- After WWII
  - Inflation, unemployment, the costs of rebuilding war-torn economies, political instability

- The Bretton Woods Conference, 1944
  - Representatives of 44 countries
  - Western diplomats desired to create a postwar economic environment that would promote worldwide peace and prosperity
  - Agreements on;
    1. Renew the gold standard on a greatly modified basis
    2. The creation of two new international organization
       - The International Bank for Reconstruction and Development (the World Bank)
       - The International Monetary Fund (the IMF)
     To assist rebuilding of the world economy
a) The International Bank for Reconstruction and Development (IBRD) – the World Bank

- **World Bank**
  - Established in 1945

- **The Goal of the World Bank**
  - 1945: to help finance reconstruction of the *war-torn European economies*
    - The World Bank accomplished its task by the mid-1950s with the assistance of the Marshall Plan
  - New Mission: to build the economies of the *world’s developing nations*

- **Three affiliated organization**
  1. The International Development Association
  2. The International Finance Corporation
  3. The Multilateral Investment Guarantee Agency
a) The International Bank for Reconstruction and Development (IBRD) – the World Bank

- A weighted voting system
  - The weighted vote reflects the economic power and contributions of its members
  - US (16%), Japan (9.6%), Germany (4.4%), the UK (4.2%), France (4.2%) etc.
  - The voting weights are reassessed time to time
    - As economic power shifts or as new members join the World Bank

- Financing
  - Borrows money in its own name from international capital market
  - Interest earned on exiting loans

- Lending
  - May lend only for “productive purposes”
    - That will stimulate economic growth within the recipient country
  - Cannot finance a trade deficit
  - Can finance an infrastructure project that will bolster a country’s economy
    - E.g. new railroad or harbor facility
  - May lend only to national governments or for projects that are guaranteed by a national government
  - Its loans may not be tied to the purchase of goods or services from any country
  - MUST follow a hard loan policy
    - Make a loan only if there is a reasonable expectation that the loan will be repaid
a) The International Bank for Reconstruction and Development (IBRD) – the World Bank

- The International Development Association (IDA)
  - Established in 1960
  - Created in response to the criticism the World Bank face for the hard loan policy
  - Offer soft loans
    - Loans that bear some significant risk of not being paid
  - Loans
    - Carry no interest rate
    - Collects a small service charge (0.75%)
    - Long maturities (35~40 days)
    - Borrowers are often granted a 10 year grace period before they need to begin repaying their loans
a) The International Bank for Reconstruction and Development (IBRD) – the World Bank

- The International Finance Corporation
  - Established in 1956
  - Charged with promoting the development of private sector in development countries
  - Acting like an investment banker
    - In collaboration with private investors
  - Provides debt and equity capital for promising commercial activities
    - E.g. Bangladesh’s Lafarge Surma Cement Ltd.
    - $10 million equity & $35 million loans
    - To help it build a $60-million plant capable of producing 1.2 million tons of cement annually
  - Help small entrepreneurs
a) The International Bank for Reconstruction and Development (IBRD) – the World Bank

- The Multilateral Investment Guarantee Agency (MIGA)
  - Established in 1988
  - To overcome private sector reluctance to invest in developing countries due to political risks (perceived political riskiness)
  - Encourages FDI in developing countries by offering private investors insurance against noncommercial risks
    - E.g. MIGA issued $18 million of political risk insurance to Societe Nationale de Telecommunications du Senegal to protect its investment in Ikatel SA, a Mali telephone company

- The Regional Development Banks
  - The African Development Bank, The Asian Development Bank, the Inter-American Development Bank
  - Promote the economic development of the poorer countries in their regions
  - Often work together with the World Bank on development projects
b) The International Monetary Fund

- **Created**
  - To ensure that the international monetary system would promote international commerce
  - To oversee the functioning of the international monetary system

- **IMF’s Objectives**
  - To promote international monetary cooperation
  - To facilitate the expansion and balanced growth of international trade
  - To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation
  - To assist in the establishment of a multilateral system of payments
  - To give confidence to members by making the general resources of the IMF temporarily available to them and to correct maladjustments in their balance of payments
  - To shorten the duration and lessen the degree of disequilibrium in the international balance of payments

Su Jin Victoria Yeon, Copyright 2015
b) The International Monetary Fund

- **Membership**
  - Available to any country willing to agree to its rules and regulations
  - 187 member countries (as of 2011)
  - A country must pay a deposit – **quota**
    - Partly in gold & partly in their own currency

- **The Importance of Quota**
  - Determines a country’s voting power within the IMF
  - Serves as part of a country’s official reserves
  - Determines the country’s borrowing from the IMF
    - Each member has an unconditional right to borrow up to 25% of its quota from the IMF
    - Allows additional borrowings contingent on the member country’s agreeing to **IMF-imposed restrictions** on its economic policies – **IMF conditionality**
      - E.g. South Korea during the Asian Financial Crisis
c) A Dollar-based Gold Standard

- The Bretton Woods
  - The participants addressed the problem of how the system would function in practice
- Gold Standard
  - All countries agreed to peg the value of their currencies to gold
  - BUT, only the US pledged to redeem its currency for gold at the request of a foreign central bank
    The US$ became the keystone of the Bretton Wood System
- The early postwar period:
  - Only the US and Canadian dollars were convertible currencies
    - Freely exchanged for other currencies without legal restrictions
  - Countries had faith in the US economy
    - Countries were willing to accept US$ to settle their transactions
    The US$ became the preferred vehicle for settling most international transactions
- The effect of the Bretton Woods conference: to establish a US dollar-based gold standard
c) A Dollar-based Gold Standard

- **The Bretton Woods system**
  - Allowed a country to adjust its currency’s par value under extraordinary circumstances
- **An adjustable peg**
  - Currencies were pegged to gold but the pegs themselves could be altered under certain conditions
    - E.g. British pound’s par value = $2.80 ($2.722~$2.828 range +/- 1%)
    - In the event that pessimism about the British economy caused the pound’s market price to selling some of its gold or US dollar holdings to buy pounds, increase in the demand of pounds
    - The market price would return to within the legal range of $2.722~$2.828
4. The End of the Bretton Woods System

- Major difficulties arise when a country suffered from structural macroeconomic problems
  - E.g. the UK in the 1960s, devaluation of British pounds in 1967
  - Devaluation of French franc in 1969

- “Run on a bank” issue
  - Bank never have enough cash on hand to honor all their liabilities
  - As long as people trust that their bank will give them their money when needed, no one worries

- The reliance on the U.S. dollar eventually led to the downfall of the Bretton Woods system.
  - The supply of gold did not expand in the short term
  - The dollar became the source of additional liquidity to finance expanding international trade.
  - As foreign dollar holdings began to increase, doubt about the ability of the United States to live up to its Bretton Woods obligation began to rise

- The Tiffin paradox
  - Foreign banks needed to increase their holdings of dollars to finance expansion of international trade
  - The more dollars they owned, the less faith they had in the ability of the United States to redeem the dollars for gold
  - Foreigner ↑ the $ they own ↔ less faith on the ability of the US to redeem $ to gold ↔ more they want to get rid of US$ and buy gold ↔ US have not enough reserves to redeem US$ ↔ the collapse of the international monetary system
4. The End of the Bretton Woods System

- The IMF attempted to alleviate the situation by creating an additional source of international liquidity
  - The special drawing right (SDR)
    - A weighted average of the market value of five major currencies, is used by IMF members to settle official transactions at the IMF
  - The SDR did not have the desired effect of reducing the glut of dollars held by foreigners,

- 1971
  - The United States did not have enough gold to meet the demand of those who wanted to exchange dollars for gold.
  - Nixon officially ended the system,
  - All currencies began to float against each other.

- The Smithsonian Conference (late 1971)
  - The new agreement; The fixed exchange rate system was restored
  - The dollar was devalued to $38 per ounce of gold, and the par value of strong currencies was revalued upward.
  - The band of fluctuation within which currencies were allowed to fluctuate was widened to ± 2.25 percent.
  - Collapsed in 1973
    - The central banks conceded they could not successfully resist free-market forces
    - Established a flexible exchange rate system
5. Performance of the International Monetary System Since 1973

- Managed float (dirty float)
  - Many currencies have been established primarily by the interaction of supply & demand
  - BUT central banks sometimes try to affect exchange rates by buying and selling currencies on the foreign-exchange market

- Jamaica Agreement in 1976
  - Each country was free to adopt whatever exchange rate system best met its own requirements
    - The US: adopted a floating exchange rate
    - Other countries: adopted a fixed exchange rate by pegging their currencies to the US$, the French franc or some other currency
    - Crawling pegs
      - Allowing the peg to change gradually over time

- The European Union (EU)
  - Created the European Monetary System (EMS) in 1979
    - To manage currency relationships among themselves
  - EU's exchange rate mechanism (ERM)
    - Pledged to maintain fixed exchange rates among their currencies within a narrow range of +/- 2.25% of par value
    - A floating rate against the US$ and other currencies
    - Facilitated the creation of the Euro in 1999
a) Other Post-World War II Conferences

- Policy conflicts among central banks of many nations
  - US complaints on the overvalue of US$
- Plaza Accord in 1985
  - The central banks agreed to let the dollar’s value fall on currency markets
  - The value of US$ fell dramatically
  - Caused another concern
- Louvre Accord in 1987
  - Signaled the commitment of the five countries to stabilizing the dollar’s value
  - Signed by France, West Germany, Japan, Canada, the US & the UK
b) The International Debt Crisis

- **1973: Israel’s victory in the Arab-Israeli War**
  - Arab nations imposed an embargo on oil shipments to countries that had supported the Israeli cause
  - World oil prices quadrupled: $3 a barrel (Oct 1973) → $12 a barrel (March 1974)
  - 1974: $60 billion in wealth transferred from oil-importing nations to oil-exporting nations
  - The currencies of the oil exporters strengthen & those of the oil importers weakened
  - Oil rich nations spend a lot to build & improve their infrastructures and deposited unspent petrodollars in international banks
  - Banks recycled the petrodollar in the form of loans to countries that were damaged by the rise in oil prices.
  - BUT, many countries borrowed more than they could repay
b) The International Debt Crisis

- The oil shock: 1978-1979
  - The price of oil skyrocketed: $13 a barrel (1978) over $30 a barrel (1980)
  - Worldwide inflation
  - Interest rates on these loans ↑↑ (floating interest rate)
  - Further burdening the heavily indebted nations
  - International Debt Crisis
  - Nations like Mexico that borrowed more than they could pay were in trouble and sought relief from their external debt through IMF
  - In total more than 40 nations in Asia, Africa and Latin America sought relief from their external debts
  - Negotiations among the debtor countries, creditor countries, private banks and international organizations continued

- 1985 Baker Plan
  - Stressed the importance of debt rescheduling, tight IMF imposed controls and continued lending to debtor nations
  - But little progress from indebted nations

- 1989 Brady Plan
  - Focused on the need to reduce the debts of the troubled countries by writing off parts of debt or providing countries with funds to buy back their loan notes at below face value
b) The International Debt Crisis

- The Asian Financial Crisis: 1997
  - Began when Thailand’s currency, baht, was forced to unpeg
    - Due to the investors’ distrust on the ability of Thai borrowers to repay their foreign loans
    - Devaluation of the baht 20% in value
  - Other countries in the region shared Thailand's overdependence on foreign short-term capital
    - Their currencies also came under attack and their stock markets were devastated
    - Indonesia hit the worst; rupiah fell by 73%
  - Aftershocks of the crisis spread to Latin America and Russia
  - The IMF & the developed nations pledged over $100 billion in loans to help restore these countries

- The Global Financial Crisis: 2009
  - The sub-prime meltdown
  - Caused by the bursting of the US housing bubble
  - The financial problems created by the collapse affected financial markets throughout the world
2) The Balance of Payments (BOP) Accounting System

- **BOP**
  - A double-entry bookkeeping system designed to measure and record all economic transactions between residents of one country and residents of all other countries during a particular period of time.
  - Helps policymakers understand the performance of each country’s economy in international market
  - Provides clear warning of the deteriorating performance of the countries in crisis and the increasing riskiness of their overextended external debt positions
  - A careful reading of BOP could protect international bankers from bad investment
  - Provides valuable economic intelligence information

- **The Importance of BOP**
  1. Help *identify emerging markets* for goods and services
  2. Warn of *possible new policies* that may alter a country’s business climate
     - Affecting the profitability of a firm’s operations in that country
  3. Can indicate reductions in a country’s foreign-exchange reserves
  4. Can signal increased riskiness of lending to particular countries
a) The Major Components of the Balance of Payments Accounting System

- Current Account
- Capital Account
  - Record purchase of goods, services, and assets by the private and public sectors
- Official Reserves Account
- Errors and Omissions
  - Captures mistakes
a) The Major Components of the Balance of Payments Accounting System

- **Current Account**
  - Exports & imports of goods (merchandise)
    - The balance on merchandise trade = Merchandise Export - Merchandise Imports
    - Merchandise trade deficit: import more than export
    - Merchandise trade surplus: export more than import
  - Exports & imports of services
    - The balance on services trade = Service Export - Service Imports
    - Service trade deficit: import more than export
    - Service trade surplus: export more than import
  - Investment income
    - Export of the services of capital
      - Interest and dividends earned by the residents of the country on their investments in foreign stocks, bonds, and deposit accounts
    - Export of the services of capital
      - Interest and dividends paid by the residents of the country on their investments in foreign stocks, bonds, and deposit accounts
  - Unilateral transfers (or Gifts)
    - Gifts between residents of one country and another
      - Private and public gifts
  - Current Account Balance
a) The Major Components of the Balance of Payments Accounting System

- **Capital Account**
  - Records capital transactions (sales and purchases of assets) between residents of one country and those of other countries

- **Two categories of capital account transactions**
  - Foreign Direct Investment
  - Foreign Portfolio Investment
    - Short-term foreign portfolio investment
      - Financial investment with maturities of one year or less
      - E.g. checking accounts, time deposits, commercial paper etc.
    - Long-term foreign portfolio investment
      - Financial investment with maturities of more than a year
      - E.g. stocks, bonds, other financial instruments
a) The Major Components of the Balance of Payments Accounting System

- Current account transaction often affect the short-term component of the capital account
  - The first entry: records the purchase or sale of something
  - The second entry: records the payment or receipt of payment for the thing bought or sold
    - Reflects a change in someone's checking account balance

- Capital Account
  - Capital Inflow: credits
    - Foreign ownership of assets in a country increases
      - Selling: increase in capital (received)
    - Ownership of foreign assets by a country's residents declines
  - Capital Outflow: debits
    - Ownership of foreign assets by a country's residents increases
      - Buying: decrease in capital (spend)
    - Foreign ownership of assets in a country declines
a) The Major Components of the Balance of Payments Accounting System

- **Official Reserves Account**
  - Records the level of official reserves held by a national government
  - Used to intervene the foreign-exchange market and in transactions with other central banks
  - Four types of assets
    - Gold
    - Convertible currencies
      - Currencies that are freely exchangeable in world currency market
    - SDRs (Special Drawing Rights) from IMF
    - Reserve positions at the IMF

- **Errors and Omissions**
  - Current Account + Capital Account + Errors and Omissions + Official Reserves = 0.
    - Due to underreporting of capital account transitions
    - Due to illegal activities of individuals
c) Defining Balance of Payments Surpluses and Deficits

- **BOP Surplus? BOP Deficit?**
  - They are referring only to a subset of the BOP account,
  - Balance on trade in goods and services
    - Export > Import trade surplus; Import > Export trade deficit

- **The official settlements balance**
  - Reflects changes in a country's official reserves
  - Records the net impact of the central bank's interventions in the foreign-exchange market in support of the local currency
Course Schedule
Course Outline

- Week 1 (Wed – March 4th)
  - Introduction of the course
  - Tips for the readings
  - Overview of International Business (What is International Business?)

- Week 1 (Fri – March 6th)
  - Chapter 1: Overview of International Business (Globalization)
  - Formation of discussion group
  - Homework & group discussion questions will be provided

- Week 2 (Wed – March 11th)
  - Chapter 2: Global Marketplaces and Business Centers
  - Homework #1 due: Chapter 2 (or 1) summary (Answers to the Chapter Questions)

- Week 2 (Fri – March 13th)
  - Case study discussion: China’s Quest for Natural Resources
  - Homework #2 due: answers to the case study questions
  - Group discussion report #1 due

- Week 3 (Wed – March 18th)
  - Chapter 3: Legal, Technological, Accounting and Political Environments
  - Homework #3 due: Chapter 3 summary (Answers to the Chapter Questions)
Course Outline

- **Week 3 (Fri – March 20th)**
  - Case study discussion: Risky Business in Venezuela
  - Homework #4 due: answers to the case study questions
  - Group discussion report #2 due

- **Week 4 (Wed – March 25th)**
  - Chapter 4: The Role of Culture
  - Homework #5 due: Chapter 4 summary (Answers to the Chapter Questions)

- **Week 4 (Fri – March 27th)**
  - Case study discussion: Quacking Up a Storm of Business
  - Homework #6 due: answers to the case study questions
  - Group discussion report #3 due

- **Week 5 (Mon – April 1st)**
  - Chapter 5: Ethics and Social Responsibility in International Business
  - Homework #7 due: Chapter 5 summary (Answers to the Chapter Questions)

- **Week 5 (Fri – April 3rd)**
  - Case study discussion: A Pipeline of Good Intentions
  - Homework #8 due: answers to the case study questions
  - Group discussion report #4 due
Course Outline

- **Week 6 (Wed – April 8th)**
  - Chapter 6: International Trade and Investment
  - Homework # 9 due: Chapter 6 summary (Answers to the Chapter Questions)

- **Week 6 (Fri – April 10th)**
  - Case study discussion: Twenty-First Century Pirates
  - Homework # 10 due: answers to the case study questions
  - Group discussion report # 5 due

- **Week 7 (Wed – April 15th)**
  - Chapter 7: The International Monetary System and the Balance of Payment
  - Homework # 11 due: Chapter 7 summary (Answers to the Chapter Questions)

- **Week 7 (Fri – April 17th)**
  - Midterm Exam Review

- **Week 8 (Wed – April 22nd)**
  - Mid-term Exam

- **Week 8 (Fri–April 24th)**
  - Mid-term Exam Check
  - Lottery for the Group Discussion / Issuance of Homework #12
Midterm Examination

22nd of April, 2015
Midterm Examination – 15% of the total grade

- 10 Multiple Questions (10 marks)
  - Covers all chapters (Chapter 1~7)
- 6 True or False Questions (6 marks)
  - Chapter 1~6
- 3 Short Answer Questions (6 marks)
  - Chapter 1~6
- 1 Case Study Question (3 marks)
  - A Pipeline of Good Intentions
- 1 Essay Question – choose ONE out of three (5 marks)
  - Chapter 2, 4, 6
Midterm Examination

- **Multiple Choice, T/F and Short Answer Questions**
  - Understanding the terminologies is important!

- **Case Study Question (3 marks)**
  - One question from Q3~6 of “A Pipeline of Good Intentions” (p.163)
  - **Marking Criteria**
    - Answer the Question / stating your opinion clearly 1 mark
    - Give sufficient support for your opinion
      - i.e. reasons, explanations or examples 2 marks
    - Total 3 marks

- **1 Essay Question – choose ONE out of three (5 marks)**
  - Questions from Chapters 2, 4, and 6
  - **Marking Criteria**
    - Answer the Question / stating your opinion clearly 2 marks
    - Give sufficient support for your opinion
      - i.e. reasons, explanations or examples 3 marks
    - Total 5 marks
Writing an Essay

- Introduction
- Body
  - Argument 1
    - Supports
  - Argument 2
    - Supports
  - Argument 3
    - Supports
- Conclusion
Topics that we have covered so far...

1. Overview of International Business
2. Global Market Places
3. Legal, Technological, Accounting and Political Environments
4. The Role of Culture
5. Ethics and Social Responsibility
6. International Trade and Investment (theories)
7. International Monetary System and the Balance of Payments
Overview of International Business

- What is International Business?
- Why Study International Business?
  - International Business Activities
    - Exporting and Importing
    - International Investments
    - Other Forms of International Business Activity
  - The Era of Globalization
  - The Contemporary Causes of Globalization
    - Strategic Imperatives
      - To leverage core competencies
      - To acquire resources and supplies
      - To seek new markets
      - To better compete with rivals
    - The Environmental Causes of Globalization
      - Changes in the political environment
      - Technological changes
    - Globalization and Emerging Markets
Global Market Places and Business Centers

- The Marketplaces of North America
  - The United States
  - Canada
  - Mexico
  - Central America and the Caribbean

- The Marketplaces of Western Europe

- The Marketplaces of Eastern Europe and Central Asia

- The Marketplaces of Asia
  - Japan
  - Australia and New Zealand
  - The Four Tigers
    - South Korea
    - Taiwan
    - Singapore
    - Hong Kong
  - China
  - India
  - Southeast Asian

- The Marketplaces of Africa and the Middle East
  - Africa
  - Middle East

- The Marketplaces of South America
Legal, Technological, Accounting, and Political Environments

- The Legal Environment
  - Differences in Legal Systems
    - Common law
    - Civil law
    - Religious law
    - Bureaucratic law
  - Domestically Oriented Laws
  - Laws Directly Affecting International Business Transactions
    - Sanctions, embargo, dual-use, extraterritoriality
  - Laws Directed Against Foreign Firms
    - Nationalization (expropriation, confiscation)
    - Privatization
    - Constraints on Foreign Ownership
  - The Impact of MNCs on Host Countries
    - Economic and Political Impacts

- Cultural Impacts
- Dispute Resolution in International Business

- The Technological Environment

- The Accounting Environment
  - The Roots of National Differences
  - Differences in Accounting Practices
    - Valuation and Revaluation of Assets
    - Valuation of Inventories
    - Dealing with the Tax Authorities
    - Use of Accounting Reserves
    - Other Differences

- The Political Environment
  - Political Risk
The Role of Culture

- Characteristics of Culture
  - Elements of Culture
    - Social Structure
      - Individuals, Families, and Groups
      - Social Stratification
    - Language
      - Language as a Competitive Weapon
      - Lingua Franca
      - Translation
      - Saying No
    - Communication
      - Nonverbal Communication
      - Gift-giving and Hospitality
    - Religion
    - Values and Attitudes
      - Time
      - Age
      - Education
      - Status
    - Seeing the Forest, Not the Trees
      - Hall’s Low-Context-High-Context Approach
      - The Cultural Cluster Approach
  - Seeing the Forest, Not the Trees
  - Hofstede’s Five Dimensions
    - Social Orientation
    - Power Orientation
    - Uncertainty Orientation
    - Goal Orientation
    - Time Orientation
  - International Management and Cultural Differences
    - Understanding New Cultures

Su Jin Victoria Yeon, Copyright 2015
Ethics and Social Responsibility in International Business

- The Nature of Ethics and Social Responsibility in International Business
- Ethics in Cross-Cultural and International Contexts
  - How an Organization Treats Its Employees
  - How Employees Treat the Organization
  - How Employees and the Organization Treat Other Economic Agents
- Managing Ethical Behavior Across Borders
  - Guidelines and Code of Ethics
  - Ethics Training
  - Organizational Practices and the Corporate Culture
- Social Responsibility in Cross-Cultural and International Contexts
- Areas of Social Responsibility
  - Organizational Stakeholders
  - The Natural Environment
  - General Social Welfare
- Managing Social Responsibility Across Borders
  - Approaches to Social Responsibility
    - Obstructionist Stance
    - Defensive Stance
    - Accommodative Stance
    - Proactive Stance
  - Managing Compliance
    - Legal Compliance
    - Ethical Compliance
    - Philanthropic Giving
- Informal Dimensions of Social Responsibility
  - Organization Leadership and Culture
  - Whistle-blowing
  - Evaluating Social Responsibility
- Difficulties of Managing CSR Across Borders
  - The Anglo-Saxon Approach
  - The Asian Approach
  - The Continental European Approach
- Regulating International Ethics and Social Responsibility
International Trade and Investment

- International Trade and the World Economy
- Classical Country-Based Trade Theories
  - Mercantilism
  - Absolute Advantage
  - Comparative Advantage
  - Comparative Advantage with Money
  - Relative Factor Endowments
- Modern Firm-Based Trade Theories
  - Product Life Cycle Theory
  - Country Similarity Theory
  - New Trade Theory
    - Owning Intellectual Property Rights
    - Investing in Research and Development
- Achieving Economies of Scope
- Exploiting the Experience Curve
- Porter’s Theory of National Competitive Advantage
  - Factor Conditions
  - Demand Conditions
  - Related and Supporting Industries
  - Firm Strategy, Structure, and Rivalry

An Overview of International Investment

- Types of International Investments
- The Growth of FDI
- FDI and the US

International Investment Theories

- Ownership Advantages
- Internalization Theory
- Dunning’s Eclectic Theory

Factors Influencing FDI

- Supply Factors
  - Production Costs
  - Logistics
  - Availability of Natural Resources
  - Access to Key Technology
- Demand Factors
  - Customer Access
  - Marketing Advantages
  - Exploitation of Competitive Advantages
  - Customer Mobility
- Political Factors
  - Avoidance of Trade Barriers
  - Economic Development Incentives

Su Jin Victoria Yeon, Copyright 2015
International Trade and Investment

- History of the International Monetary System
  - The Gold Standard
  - The Collapse of the Gold Standard
  - The Bretton Woods Era
    - The International Bank for Reconstruction and Development
    - The International Monetary Fund
    - A Dollar-based Gold Standard
  - The End of the Bretton Woods System
  - Performance of the International Monetary System Since 1971
    - Other Post-World War II Conferences
    - The International Debt Crisis

- The Balance of Payments Accounting System
  - The Major Components of the Balance of Payments Accounting System
    - Current Account
    - Capital Account
    - Official Reserves Account
    - Errors and Omissions
  - Defining Balance of Payments Surpluses and Deficits