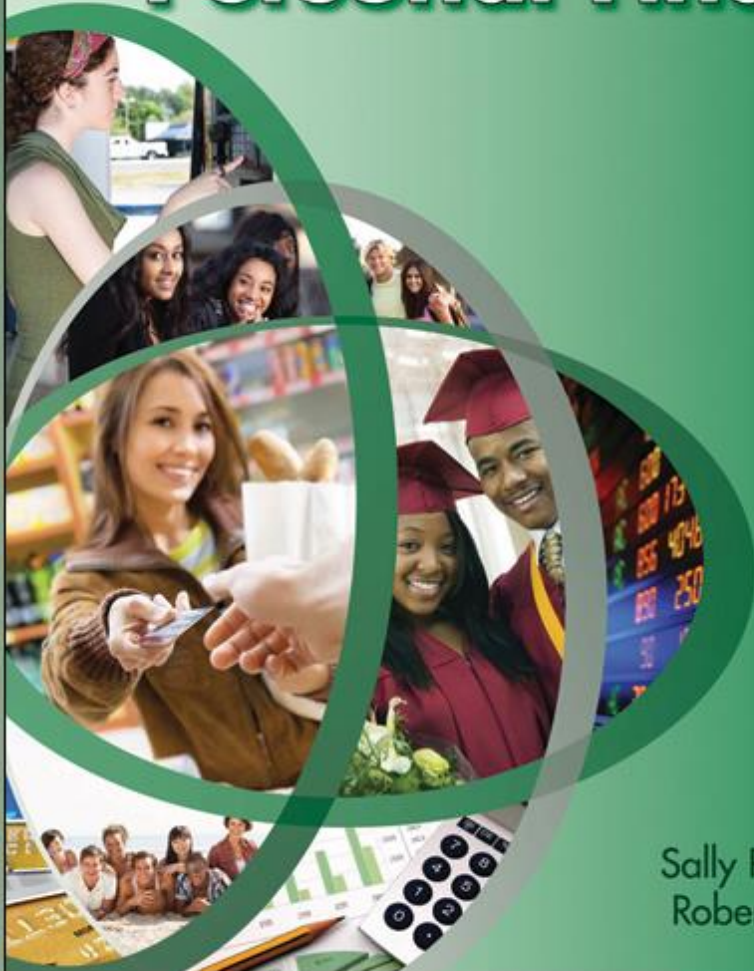


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# Foundations of Personal Finance

Ninth Edition



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*PowerPoint Presentations for*

# Foundations of Personal Finance

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# Chapter 21

## **Global Economy**

Section 21.1

# **ECONOMIC GLOBALIZATION**

# Objectives

- Describe the flow of goods and services in the global economic system.
- Explain the flow of labor among countries.
- Analyze the effect of multinational corporations on the global economy.

# Terms

- economic globalization
- international trade
- imports
- exports
- specialization
- comparative advantage
- economies of scale
- migrants
- multinational corporation
- outsourcing
- offshore outsourcing
- insourcing
- cartel

# Flow of Goods and Services

- **Economic globalization** is the flow of goods, services, labor, money, innovative ideas, and technology across borders
- **International trade** is the buying and selling of goods and services across national borders and among the people of different nations

# Flow of Goods and Services (Continued)

- **Imports** are the goods and services that come into a country from other countries
- An *importer* is the business or consumer who buys goods and services that come from other nations
- **Exports** are the goods and services grown or made in a country and then sold in world markets
- An *exporter* is the party who sells goods or services in foreign countries

# Why Trades Occur

- **Specialization** is a method of production in which a particular range of products and services is produced
  - No country can produce all the goods and services that its people and businesses want
  - A country can trade for whatever it cannot produce



# Discussion

If a nation can produce all the goods and services its citizens and businesses need, are there still advantages to trade with other nations?

# Why Trades Occur (Continued)

- **Comparative advantage** is the benefit to the party that has the lower opportunity cost in pursuing a given course of action
- Countries tend to export what they produce most efficiently, and they import goods and services that can be produced more efficiently in other countries

# Why Trades Occur (Continued)

- **Economies of scale** is the concept that cost of producing one more unit of something declines as the number of units produced rises
- If a business can sell more of a product by expanding into overseas markets, it can take advantage of economies of scale

# Did You Know?

In 2011, the United States imported about \$399 billion worth of goods from China, while exporting only \$104 billion worth of goods. That created a \$295 billion trade imbalance with China.

# Why Trades Occur (Continued)

Top US Trade Partners	
Exports	Imports
Canada	Canada
Mexico	China
China	Mexico
Japan	Japan
Germany	Germany
United Kingdom	United Kingdom
Netherlands	Saudi Arabia
Korea	Venezuela
Brazil	Korea
Belgium	France

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# Flow of Labor

- Globalization increases the flow of labor
- **Migrants** are people who move from one place or country to another
- More than 40 million people, or 13 percent of the US population, were born in another country

# Impact of Multinational Corporations

- A **multinational corporation** is a business that operates in more than one country
- **Outsourcing** is moving sections of a business to other companies, or to subsidiaries in other locations in the United States
- **Offshore outsourcing** is moving sections of a business to another country

# Discussion

- Can you think of any companies that are multinational?
- What are some positive and negative aspects of offshore outsourcing?



# Impact of Multinational Corporations (Continued)

- **Insourcing** is a process in which foreign companies open subsidiaries in the United States and create jobs here
- Examples of American companies insourcing when they return operations to the US from other countries include:
  - Nestle USA
  - T-Mobile USA
  - Sony Corporation of America, and
  - Volvo Group North America

# Did You Know?

- US subsidiaries of foreign companies account for over five million jobs in America
- Examples include:
  - BMW's expansion in North Carolina, and
  - Toyota's plants in Mississippi and Texas

# Impact of Multinational Corporations (Continued)

- A **cartel** is a group of countries or firms that controls the production and pricing of a product or service, and has the same economic effect as a monopoly
- An example is the Organization of Petroleum Exporting Countries (OPEC), which colludes to set prices for oil by controlling the supply

# Review 21.1

- What is the name for buying and selling of goods and services across national borders and among the people of different nations?
  - International trade
- What is a group of countries or firms that controls the production and pricing of a product or service, and has the same economic effect as a monopoly?
  - Cartel

Section 21.2

# **INTERNATIONAL MONETARY SYSTEM**

# Objectives

- Describe the relationship between currency strength and the balance of trade.
- Explain the government's role in global trade.
- List several trade organizations and their purposes.
- Describe what you can do to develop the skills needed to succeed in a global economy.

# Terms

- exchange rate
- balance of payments
- trade deficit
- trade surplus
- free trade
- trade barrier
- European Union (EU)
- North American Free Trade Agreement (NAFTA)
- General Agreement on Tariffs and Trade (GATT)
- World Trade Organization (WTO)
- International Monetary Fund (IMF)

# Foreign Exchange Market

- **Exchange rate** is the value of one currency compared to another
  - It tells you how much you must pay in US dollars to buy a unit of foreign currency
  - Exchange rates are constantly changing



# Did You Know?

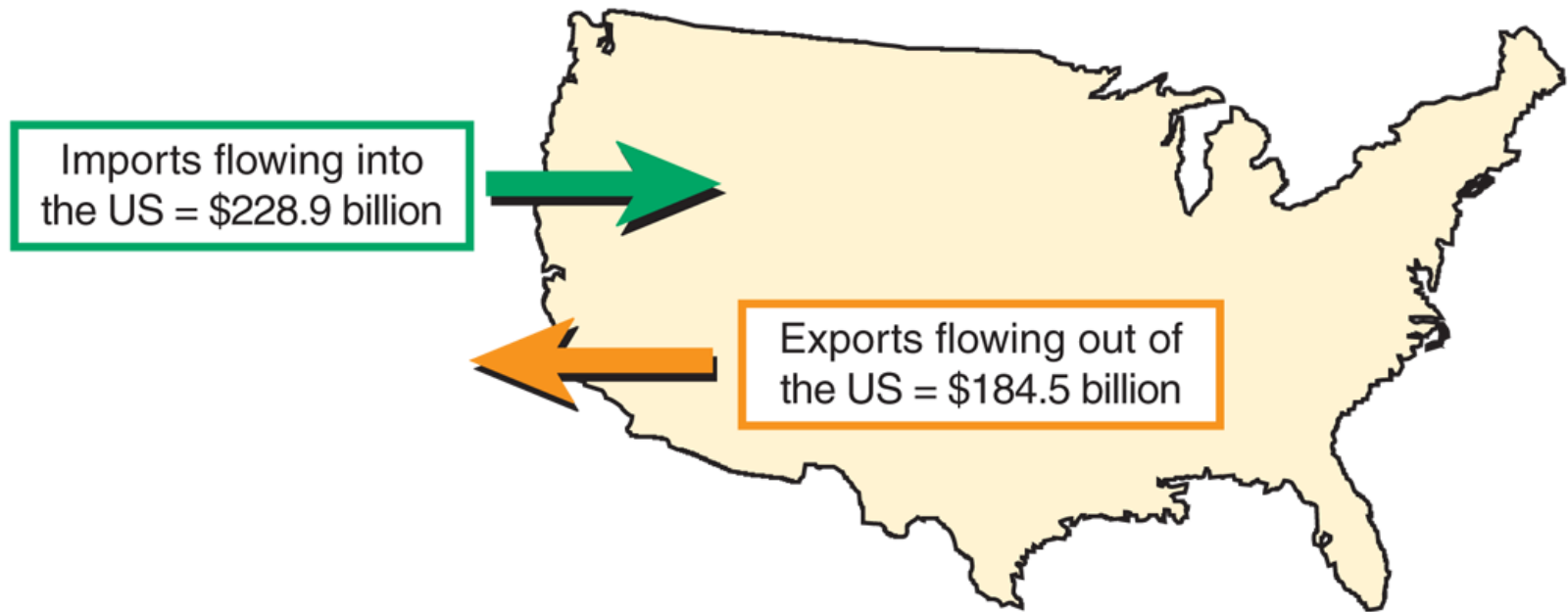
The abbreviation *USD* stands for United States Dollar. USD is the official currency code for US money.

# US Trade Deficit

- **Balance of payments** is the difference between total imports and total exports of goods and services
- **Trade deficit** occurs when a country buys, or imports, more products than it sells; it has an unfavorable balance of trade
- **Trade surplus** is when a country sells, or exports, more than it buys; it has a favorable balance of trade

# US Trade Deficit (Continued)

## Balance of Trade\*



**Trade deficit = \$44.4 billion**

\*2012 Figures from the United States Department of Commerce, Census Bureau, Foreign Trade Division

Source: 2012 figures from the United States Department of Commerce, Census Bureau, Foreign Trade Division  
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# Did You Know?

The United States has had a substantial trade deficit since 1976.

# Government's Role in Global Trade

- **Free trade** is a policy of limited government trade restrictions
- Trade restrictions are often called protectionism, and they are designed to protect businesses at home from foreign competition

# In Your Opinion

- Why is free trade beneficial?
- Why do some nations restrict trade?

# How Governments Restrict Trade

- **Trade barrier** is any action taken to control or limit imports
- A tariff is a tax on imports
- An import quota is a limit on the number or quantity of imports
- Non-tariff barriers are regulations, such as environmental quality or safety requirements
- An embargo is a law prohibiting trade with a particular country for political reasons

# Trade Organizations and Agreements

- The **European Union (EU)** is the largest trade sector in the world
- As of 2012:
  - The EU had the largest GDP and was the largest importer and exporter of goods and services
  - 27 nations belonged to the EU, 17 of those nations share a common currency, the Euro
  - The main trading partners included the United States, China, Switzerland, and Russia



# Trade Organizations and Agreements (Continued)

- **North American Free Trade Agreement (NAFTA)** is an agreement between the United States, Canada, and Mexico that lowered trade barriers and opened markets among the three countries
- **General Agreement of Trade and Tariffs (GATT)** was formed after World War II by the Allied nations to aid postwar recovery
  - It is a set of international agreements that promote free and fair trade among nations
  - The agreements attempt to reduce the use of tariffs, quotas, and other trade restrictions

# Trade Organizations and Agreements (Continued)

- **World Trade Organization (WTO)** was created in 1995 to expand the work of the GATT
  - Mediates trade disputes among 155 member nations
  - Is involved in regulating trade in services, inventions, and intellectual property

# Other Important Global Organizations

- The World Bank is 187 member countries providing financial and technical assistance to developing countries
- **International Monetary Fund (IMF)** oversees the international monetary system to head off and resolve economic crises
  - Includes 188 member countries
  - Provides loans and technical assistance to countries to stabilize their overall economy

# Other Important Global Organizations (Continued)

- The Group of Twenty Finance Ministers and Central Bank of Governors (G20) includes 19 member countries, plus the EU
  - The heads of state of the member countries meet annually to discuss issues from health and the environment to trade and terrorism
  - The leadership role rotates among the member countries

# Other Important Global Organizations

- United Nations (UN) provides humanitarian assistance to areas ravaged by war and natural disasters
  - 193 member countries
  - Created after World War II to maintain peace and security in the world
  - UN members can condemn political aggression and human rights violations.

# Other Important Global Organizations (Continued)

- Organization for Economic Co-operation and Development (OECD) was established in 1961 to promote improved economic and social well-being of people around the world
  - 34 member nations
  - Addresses critical global issues
  - Helps governments deal with economic, social, and governance concerns

# Review 21.2

- What is it called when a country buys, or imports, more products than it sells?
  - Trade deficit, or unfavorable balance of trade
- What is the largest trade sector in the world?
  - The European Union (EU)