

International Business Exam Notes

Week 1

An international business is:

- Any firm that engages in international trade or investment
- Almost all firms are international these days due to e-commerce

Differs from domestic business due to:

- National cultural differences
- Differing political, economic, and legal systems
- Varying labour and environmental standards
- The foreign exchange

The Political economy

- The political economy of a nation refers to how the political, economic, and legal systems of a country are interdependent
- That is, they interact and influence each other
- Both affect the level of economic well-being in the nation

Political systems

- A political system is the system of government in a nation
- They are assessed based on the degree of collectivism/individualism and democratic/totalitarianism

Collectivism

- Collectivism stresses the primacy of collective goals over individual goals
- Can be traced to the Greek philosopher, Plato
- Today, collectivism is equated with Socialists (Karl Marx)
- Advocates for state ownership of the basic means of production, distribution, and exchange
- Manage to benefit society as a whole, rather than individual capitalists

Socialism

- In the early 20th century, socialism split into:
 - o Communism – socialism believed only to be achieved through violent revolution and totalitarian dictatorship (USSR, China, NK)
 - o Social democrats – socialism is achieved through democratic means (France, Germany, India)
- Many of these state-owned enterprises have been privatised in the modern day

Individualism

- Holds that an individual should have freedom in his own economic and political pursuits
- Can be traced back to Aristotle
- Belief that the welfare of society is best served by allowing the pursuit of individual economic-interest
- Implies democratic political systems and free market economies (i.e. capitalism)
- “Forces improved efficiency”

Democracy

- Government is by the people, exercised either directly or through elected representatives
- Most commonly, citizens elect individuals to represent them
- Ideal criteria of a democratic state:
 - o Individual right to free expression and organisation
 - o Free media
 - o Universal adult suffrage and regular elections
 - o Limited terms for elected representatives
 - o Fair and independent court system

Totalitarianism

- A form of government in which one person or political party exercises absolute control over all spheres of human life and prohibits opposing political parties
- Communists totalitarianism
 - o The communist party monopolises power
- Theocratic totalitarianism
 - o Political power is monopolised by a party, group, or individual that governs according to religious principles
- Tribal totalitarianism
 - o A political party that represents the interests of a particular tribe monopolises power
- Right-wing totalitarianism
 - o Permits some individual economic freedom, but restricts individual political freedom
 - o E.g. Nazi Germany

Economic systems

- Market economies (capitalist)
 - o All productive activities are privately owned and production is determined by the interaction of supply and demand
 - o Government encourages free and fair competition between private producers
- Command economies (communists/socialist)
 - o Government plans the goods and services that a country produces, the quantity that is produced, and the prices at which they are sold
 - o All businesses are state-owned, and governments allocate resources for “the good of society”
- Mixed economies
 - o Certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning
 - o Governments tend to own firms considered important to national security

Week 2

Three types of legal systems

Common law

- Based on tradition, precedent, and custom
- USA, Canada, Australia, Malaysia
- Based on cumulative wisdom of judges and precedent
- Judges have the power to interpret laws based on unique situations
- Supplemented by statutory laws

Civil law

- Based on detailed set of laws organised into codes
- Most common form
- Judges have less flexibility and can only apply the law rather than interpret
- Germany, France, Russia

Theocratic law

- Based on religious teachings
- Prevalent in the Middle East and Africa
- Islamic law is most common form
- Hindu, Jewish, Catholic forms exist

Legal systems are important in international business as they regulate business practices and define how transaction should occur. They set out the rights and obligations of parties to a business transaction.

Four important IB legal system topics:

- Contract law
- Property rights and corruption
- Protection of intellectual property
- Product safety and liability

Contract law

- Tend to be more specific and detailed under common law systems
- Shorter and less detailed under civil law systems as many issues are already covered in the civil code
- Dispute resolution, especially across international borders, is often complex
- Solution – United Nation Convention on Contracts for the International Sale of Goods

Property rights and corruption

- Property rights refer to the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource
- Can be violated through:
 - Private action – Theft, piracy, blackmail
 - Public action – legally (excessive taxation) or illegally (bribes, blackmail)
 - High levels of corruption reduce foreign direct investment, the level of international trade, and the economic growth rate in a country