

Week 1 (political and economy)

Political Economy

- Political economy refers to how the political, economic, and legal systems of a country are depending on each other.
 - They interact and influence each other
 - Economy affect the success of the nation

Political Systems (broken into four sectors)

- **Collectivism**
 - Stresses the primacy of collective goals
 - Nowadays it is known as socialists
 - Split into two
 1. Communism
 - Socialism can only be achieved through violence (dictatorship)
 2. Social Democrats
 - Socialism is achieved through democratic means. (privatization of goods)
- **Individualism**
 - Emphasize on individual able to own and have political say
 - Implies democratic political systems and free market economy
- **Democracy**
 - Government is by the people, exercised either directly or through elective representatives
 - Ideal criteria
 1. Right of speech
 2. Free media
 3. Fair and independent court system
- **Totalitarianism**
 - A form of government in which one political party or person exercises absolute control over all spheres of human life
 - Different types:
 1. Communist
 - Communist party rule the place
 2. Theocratic
 - Political party influence by religion
 3. Tribal

- Powerful party influence by particular tribe
- 4. Right-Wing
 - Permits individual economy freedom, but not political
 - However, it is not very common nowadays

Economic Systems

- **Market economies (Capitalist)**
 - All productive activities are privately owned and production is determined by Supply and Demand
- **Command economies (Communist/Socialist)**
 - Government plans the goods and services that a country produces.
 - All businesses are state owned and government allocate resources for the benefit of the society
- **Mixed Economies**
 - Certain sectors are private and others are government
 - Government owns the ones that is important to the country's growth

Week 2 (Legal system, Transition Economies, & Economic Development)

Legal Systems

- The rules that regulate behavior along with the processes by which the laws are enforced through which redress for grievances is obtained
 - Three types of legal system
1. **Common Law**
 - Base on tradition, precedent, custom
 - Originated in England
 - Based on cumulative wisdom of judges and precedent
 2. **Civil Law**
 - Based on detailed set of laws organized into codes
 - Most common form of law
 - Judges have less flexibility; they apply the law rather than interpret it based on tradition
 3. **Theocratic Law**
 - Based on religious teachings
 - Based upon moral behavior that governs faith and practice
 - Islamic Law is the most widely practiced.

Application of Legal System to IB

- Regulates business practice
- Defines how business transactions can occur
- Sets out rights and obligations of parties in a business transaction

Four Important issues for IB based on legal systems

1. **Contract Law**
 - Document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the included parties
 - Under common law, it is very detailed and specified
 - Under civil law, it tends to be shorter because there is a civil code that covers the existed issues.
2. **Property Rights and Corruption**
 - Refer to the legal rights over the use to which a resource is put and over the use made of any income that may derived from that resources.
 - Can be violated through
 - Private action- Theft, Piracy
 - Public action- bribe or corruption

3. Protection of Intellectual Property

- Property that is the product of intellectual activity
- Can be protected using
 - Patents
 - a. Exclusive rights for a defined period
 - Copyrights
 - a. The exclusive legal rights of authors or artist to publish their work
 - Trademarks
 - a. Design and names by which merchants designate and differentiate their products.

4. Produce Safety and liability

- Set certain standards to which a product must follow
- Product liability involves holding a firm responsible for damages

Differences in Economic Development

- Different level of economic development
 1. Natural resources
 1. More is better
 2. Innovation and entrepreneurship
 1. People protected from bankrupt in states
 3. Education
 1. Post war, japan focuses on this
 4. Infrastructure
 1. Roads, transportation of goods

Two way to measure levels of economic development

1. Gross national Income
2. Purchasing Power Parity
3. Third one is HDI (argued)

Amartya Sen- Human Development Index

- Development should be measured on capabilities and opportunities that people enjoy, not the output level
- Based on three measures
 2. Life Expectancy at birth
 3. Educational attainment
 4. Income meeting the need

Transition Economies (move to democracy)

- Economies which have been characterized by a move towards democracy and economic liberalization
- Reasons:
 1. Totalitarian regimes failed to deliver economic progress
 2. Advances in telecommunications technology
 3. Rise in middle class

Nature of Economic Transformation

- The shift toward a market based system involves:
 1. Deregulation
 - Removing legal restrictions to the free play of markets (less rules of how private firms operate)
 2. Privatization
 - Transfer ownership of state property into private
 3. Legal system
 - Creation of a legal system to safeguard property rights

Implications for IB

- This movement to market based systems have opportunities and threats
- Opportunities:
 1. Sized of market, wealth of consumers, labor force
 2. First mover advantage
- Threats
 1. Potential to bribes individuals to do business
 2. Legal factors
 3. Sophistication of economy
 - Infrastructure, etc
- RISKS
 1. Political
 - Likelihood that political forces will cause drastic changes in the environment
 - Ex: Chinese and western companies
 2. Economic
 - Likelihood that economic mismanagement will cause drastic changes to business environment
 - Ex: Greek going bankrupt
 3. Legal
 - Likelihood that a trading partner break a contract and no laws to protect the business.

