

Economic Opportunities and Threats

Jane Huber, Jacob Uradnik, Spencer Suwal, Vinny
Kakani, Ian Chang

Key factors

- State of economy is determined by Government's four key objectives
 - control inflation
 - reduce unemployment
 - achieve economic growth
 - healthy international trade balance

Significance

- These factors present opportunities and threats
- influences purchasing power of consumers
- impacts structure of consumer expenditures
- can affect legal regulations in a country

Controlled Inflation

- Inflation: Continual rise in the general level of prices in an economy
 - Absolute priority for achieving economic prosperity
- Inflation not controlled by a business is a threat
 - Higher costs and uncertainties are caused
 - Also impacts international competitiveness of a country
- Caused by excessive demands or higher costs of production
- Inflation is viewed as an opportunity when it helps boost consumer demand and consumption
 - Drives economic growth

Example of an Inflation Threat

- Zimbabwe** suffered immensely from hyperinflation in 2008
- Prices doubling each week
- Threatening business finance in the area
and a majority of the population living in poverty

Healthy International Trade Balance

- Trade balance records the value of a country's export earnings and its import expenditure
- To correct imbalances for international trade balance, countries often change their exchange rate
- Higher exchange rate: export prices get higher, reduced exporter's price competitiveness
- Lower exchange rate: Domestic firms have relative price advantage
- Large fluctuations in exchange rates can create threats for businesses
- Business planning and forecasting can become very complex/impractical, hard to accurately forecast export sales or costs

Healthy International Trade Balance cont.

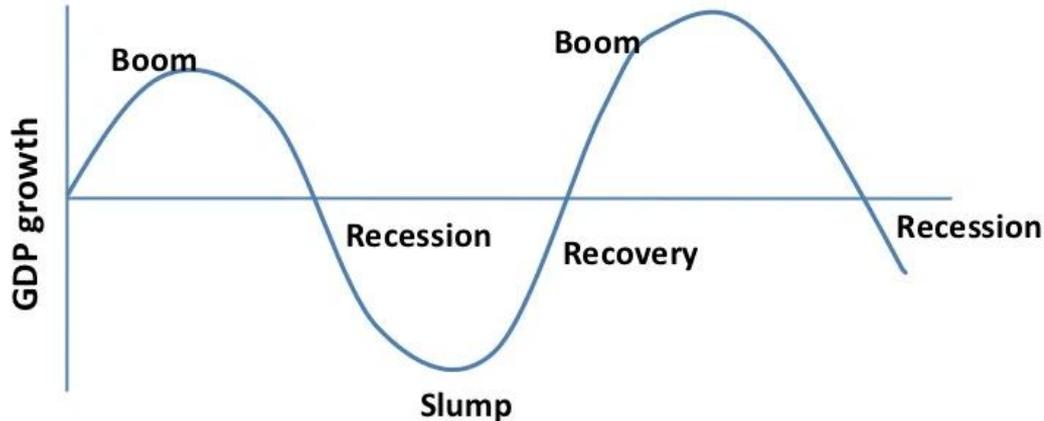
- Governments can set up international trade barriers to correct and disparity in the trade balance
- The way they do this is through **protectionist measures** (any government policy used to safeguard domestic businesses)
- Protectionist measures, however, can serve to be threats to foreign businesses trying to establish themselves in overseas markets

Examples of Protectionist Measures

- **Tariffs** are taxes on imported products, raising their price to give domestic firms a price advantage
- **Quotas** are quantitative limits on volume/value of imports
- **Subsidies** are payments made by a government to domestic businesses as a form of financial aid to reduce their cost of production, giving competitive advantage
- **Embargos** are physical bans on international trade with a certain country, usually due to strategic reasons, health concerns and political conflicts
- **Technological and safety standards** are strict administration and compliance costs in meeting industrial and health and safety regulations imposed on imported products

Economic Growth

Typical shape of the business cycle



Terms to Know:

-Economic Growth (increase in a country's economic activity over time)

-Gross Domestic Product (GDP)

Business Cycle (pattern of fluctuations in economic growth)

- Boom
- Recession
- Trough (Slump)
- Recovery

Significance

- Depending on which point you are at in the cycle; different opportunities or issues can arise
- Barriers to economic growth make it difficult for poorer countries and regions to grow and make it difficult for many businesses to expand overseas
- Businesses operating in countries with a lack of infrastructure may find it difficult to prosper
- Recessions alter business strategies; may include cost reduction or outsourcing production so it is cheaper

Example of an Economic Opportunity

- Nintendo's Wii** appealed to a new market being women and the elderly
- Provided opportunity in the form of new customers
- Caused Nintendo to sell more than 100 million units by 2013

Reduced Unemployment

Reduced unemployment

Measures the portion of a country's workforce not in official employment

Causes of unemployment

Why does government deal with the problems of unemployment?

- social costs of high employment

- present threats to business

Examples

- unemployed-----> stress, depression, low self-esteem

- local community-----> poverty, increased crime rate

Types of unemployment

Frictional unemployment- the time lag when one person changes its job to find another

Seasonal unemployment- caused by periodic and reoccurring changes in demand for a product

Ex. beach resorts suffer from lack of tourists during winter months

Technological unemployment- introduction of labour-saving technologies, can cause mass scale of unemployment

Types of unemployment

Regional unemployment- the rate of different areas in a country. Remote rural areas usually have higher levels of unemployment than busy urban districts

Structural unemployment- occurs when a demand for products produced in a particular industry continually falls, resulting in structural and long term changes in demand

Cyclical unemployment (deficient unemployment)- lack of demand in the economy. Most severe type of unemployment, tends it affect all industries.

How does Gov. deal with unemployment

Reduce taxes and/or increase it's spending to boost the level of consumption in the economy

Reduce interest rates to encourage consumers and firms to borrow and spend more

Use perfectionist measures to safeguard domestic businesses from international competition

Lowering corporate tax and/or interest rates can stimulate business activity and investments in the long run

Gov spending on education and training should help make future generations of workers more skilled and flexible