

Cambridge IGCSE · Business Studies 0450 · Notes

Business and the international economy

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What you need to know

By the end of this topic you should be able to:

1. **Explain what globalisation is and why it has happened.**
2. **Explain the opportunities and threats globalisation brings to businesses.**
3. **Explain why a government might introduce import tariffs and import quotas.**
4. **Explain the benefits to a business of becoming a multinational company, and how this affects its stakeholders.**
5. **Explain the possible benefits to a country of a multinational company locating there**, such as jobs, exports, more choice and investment.
6. **Explain the possible drawbacks to a country of a multinational company locating there**, such as lower sales for local businesses and profits being sent abroad.
7. **Explain what depreciation and appreciation of an exchange rate mean.**
8. **Explain how a change in the exchange rate affects a business that imports or exports**: its prices, its competitiveness and its profit.

Exchange rate calculations are not examined. The numbers used below to show how exchange rates work are there to help you understand the direction of each change, not to be practised.

Understand it

What globalisation means

Globalisation is the growing number of links between the economies of different countries, so that goods, services, money and people move between them more and more freely. In practice it means more **international trade** (more products bought from and sold to other countries) and more businesses **producing** in other countries, not only selling there.

Two words you need first:

- **Imports** are goods and services bought from other countries.

- **Exports** are goods and services sold to other countries.

Why globalisation has happened

There are five main reasons:

- **Free trade agreements and fewer trade barriers.** Many governments have agreed to cut or remove tariffs and quotas between their countries, often in trading blocs, so trading across borders is cheaper and easier.
- **Cheaper and faster transport.** Container ships, larger aircraft and better road and rail links make it cheaper and quicker to move goods long distances.
- **Better communication technology.** The internet, email, video calls and social media let a business find, talk to and sell to customers and suppliers anywhere, and manage factories in other countries.
- **Fast-growing emerging markets.** Incomes are rising quickly in many countries, so there are millions of new customers who can afford more products.
- **Governments allowing foreign businesses in.** Many governments now let, and often encourage, businesses from other countries to set up there.

Opportunities of globalisation for a business

For a business, globalisation opens doors:

- **New markets, more sales.** It can sell to customers in other countries, so it has more potential customers, so sales, revenue and market share can rise.
- **Spreading risk.** If sales fall in one country, sales in another can make up for it, so it depends less on one market.
- **Cheaper or better materials.** It can import raw materials or components that are cheaper, better quality, or not available at home, so its costs fall or its product improves.
- **Cheaper labour.** It can move production, or part of it, to a country where wages are lower, so its costs fall. Or it can find skilled workers it cannot find at home.
- **Fewer trade barriers.** With tariffs and quotas cut, its exports are no longer made dearer by a tax or limited in number, so it can sell more abroad.
- **New technology and ideas** from businesses in other countries, and sometimes **grants** from governments abroad that want it to set up there.

Threats of globalisation for a business

The same open doors let competitors in:

- **More competition at home.** Cheaper imports compete with its products, and **multinationals** may set up in its home country, so it may lose sales and market share, or have to cut its prices.
- **Losing staff.** Multinationals setting up nearby may offer higher pay and better prospects, so its employees may leave, so it faces higher labour turnover and recruitment and training costs, or must raise wages.

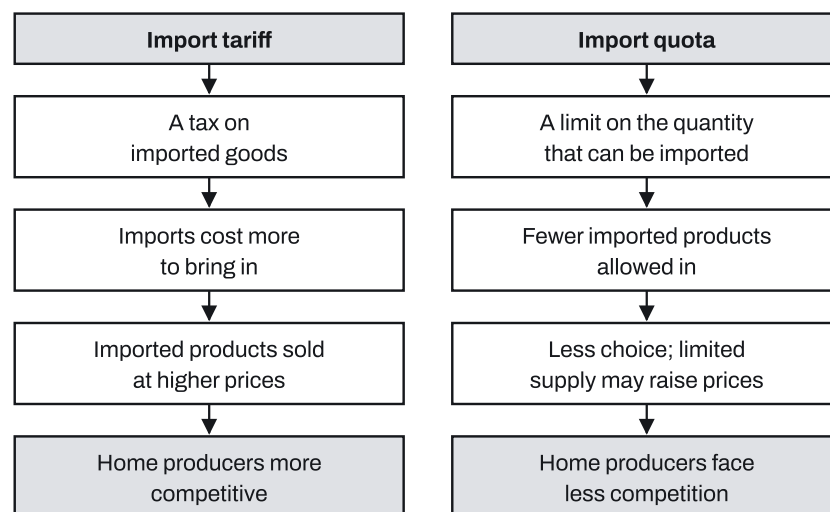
- **Exchange rate changes.** When it buys or sells abroad, a change in the exchange rate can suddenly make its materials dearer or its exports less competitive, so it is harder to set prices and plan.
- **Not knowing the market.** Customers abroad have different tastes, languages and cultures, so it may need market research and new marketing for each country, which adds to costs, and a product may fail.
- **Longer supply chains and different laws.** Imported materials take longer to arrive, so production may be delayed, and each country has its own labour and product laws.

Whether the opportunities outweigh the threats **depends** on the business. A large, efficient business with a strong brand can grab the opportunities; a small business with high costs, selling only at home, mainly feels the threats.

Import tariffs and import quotas

Governments can still put up barriers to trade, which is called **protectionism**. The two you need are:

- An **import tariff** is a **tax on goods from abroad, charged as they enter the country**. The importer pays it, so the goods cost more to bring in, and they are usually sold at a higher price. If a pair of shoes costs \$40 to import and a 25% tariff is added, the importer pays $40 \times 1.25 = 50$, so \$50.
- An **import quota** is a **limit on the quantity** of a product that can be imported, for example no more than 20 000 cars a year. It caps the **amount**; it is not a tax and does not, by itself, add anything to the cost of each item.



A tariff also raises tax revenue for the government.

A quota caps the amount but raises no tax.

Why a government might introduce them:

- **To protect businesses and jobs at home.** Imports become dearer (tariff) or scarcer (quota), so customers buy more from home producers, so those businesses sell more and keep their workers.
- **To protect new (infant) industries** while they grow big enough to compete with established foreign businesses.

- **To cut the amount spent on imports**, so less money leaves the country and the **balance of payments** improves.
- **To raise tax revenue** (tariffs only), which it can spend on public services.
- **To respond** when another country puts barriers on its exports.

How tariffs and quotas affect a business depends on where the business stands:

The business ...	Effect of a tariff or quota
makes products at home that compete with imports	Rivals' imports cost more or are limited, so it becomes more competitive ; it may win sales or even raise its price
imports its raw materials or components	A tariff makes its inputs dearer , so costs rise, so it must raise prices or accept a smaller profit margin; a quota may leave it short of materials , so production is delayed and it may need new suppliers at home
imports finished products to sell (a shop)	Its products cost more (tariff) or it cannot get enough of them (quota), so it may sell fewer and lose revenue
exports to a country that brings in a tariff or quota	A tariff makes its products dearer abroad, so it is less competitive and sells less there; a quota caps how many it can sell there, however popular they are. It may look for other markets, or set up a factory inside that country to get round the barrier

Tariff or quota: which hurts an exporter more? It depends. A tariff can be **absorbed** (the exporter keeps its price the same and takes a smaller margin) or **passed on** (the price rises, and how much sales fall depends on how much customers care about price). A quota is a hard limit: once it is used up, no more can be sold in that country at any price, but the exporter can still sell elsewhere, and the limited supply may keep prices up. So a small tariff on a product customers really want may matter less than a tight quota, and a large tariff on a product with many cheaper rivals may matter more.

Multinational companies

A **multinational company** (MNC) is a business with factories, production or service operations in **more than one country**. Selling in many countries is not enough: a business that exports from one home country is not a multinational. A hotel chain with hotels in several countries, or a car maker with factories in several countries, is.

Why a business becomes a multinational: the benefits to the business

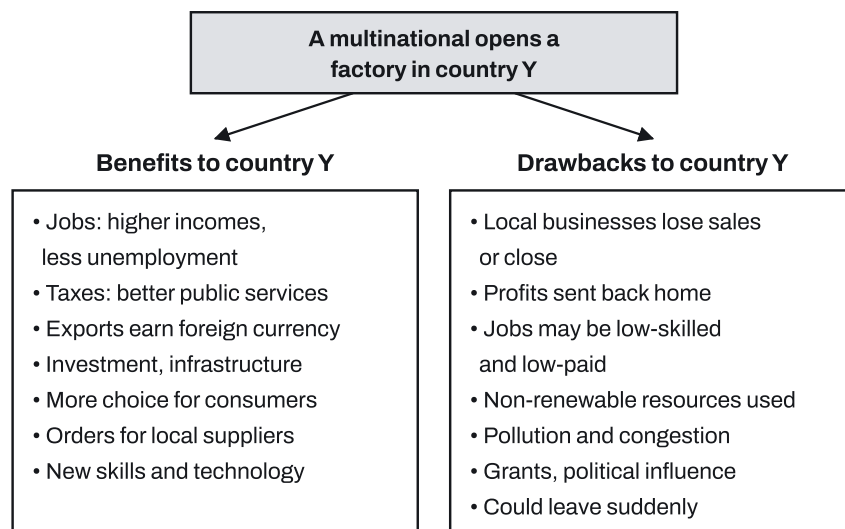
- **Access to new and bigger markets.** Producing inside a country puts it close to millions of new customers, so sales, revenue and market share rise.
- **Spreading risk.** If one country's market goes badly, the business still earns from its others, so it is less exposed to any single market.
- **Lower transport costs.** Producing near its customers, or near its raw materials, cuts the cost and time of moving goods.

- **Cheaper or better resources.** It can use cheaper raw materials, or cheaper labour, in the country where it sets up, so its costs fall and its profit margin rises; or it can reach skilled workers and materials it lacks at home.
- **Avoiding trade barriers.** Products made **inside** a country are not imports there, so they pay no import tariff and are not limited by a quota.
- **Lower taxes and government grants.** Some governments offer lower tax rates, grants or cheap land to attract multinationals.
- **Economies of scale.** Producing much more lowers the average cost of each unit.
- **A stronger brand image.** Being known around the world can attract customers and let it charge higher prices.

How becoming a multinational affects the business's stakeholders

Stakeholder	Possible effects
Shareholders	Higher profit can mean higher dividends and a rising share price ; but dividends may be cut for a while to pay for the expansion, and the risk is higher
Employees	More chances of promotion and work abroad, and jobs may be more secure if the business stays competitive; but jobs at home may be lost if production moves to a country with lower wages
Suppliers	More orders if output grows; but the business may switch to cheaper suppliers in other countries, so home suppliers lose sales
Government (home country)	More tax revenue if more profit comes back home; but less if the business moves its head office, or its production and jobs, abroad
Customers	Lower prices from economies of scale and more choice; but less personal service from a very large business

What a multinational brings to the country where it locates



Weigh them: it depends on the jobs, the taxes and the local businesses affected.

Benefits to the host country

- **Jobs.** The multinational employs local people, so unemployment falls and incomes rise, so people spend more, which helps other local businesses and raises living standards.
- **Tax revenue.** It pays taxes on its profit, and its workers pay income tax, so the government can spend more on schools, hospitals and roads.
- **Exports.** If it sells some of its output abroad, money flows into the country, which improves the **balance of payments** and earns foreign currency to pay for imports.
- **Investment and infrastructure.** It builds factories and may pay for new roads, power or ports, which local businesses can use too.
- **More choice and competition.** Consumers get new products, and competition may push local businesses to improve quality and cut prices.
- **Orders for local suppliers,** so their sales and jobs grow.
- **New skills and technology.** Local workers are trained in new methods, and local businesses can learn from them, so productivity in the country rises.
- **Reputation.** One well-known multinational choosing the country can encourage others to invest there too.

Drawbacks to the host country

- **Local businesses lose sales.** The multinational's economies of scale let it charge lower prices, so smaller local rivals may lose customers, cut jobs or close.
- **Profits sent abroad.** Much of its profit is **repatriated**, sent back to the country where it has its head office, so the money is not spent or reinvested in the host country, and it may arrange its accounts so that it pays little tax there.
- **Low-skilled, low-paid jobs.** The best-paid managerial jobs may go to people from the home country.

- **Using up resources.** It may use up scarce, non-renewable resources such as minerals, water or forests, leaving less for local businesses and future generations.
- **External costs.** Pollution, noise and traffic harm local people and the environment.
- **Power and grants.** A government may have paid large grants or offered tax breaks to attract it, money that could have helped local businesses, and a very large business may gain political influence.
- **It may leave suddenly.** If costs rise, it can move to a cheaper country, and the jobs go with it.

Whether a multinational is good for a country **depends**: on how many and what kind of jobs it creates, how much tax it really pays, whether it buys from local suppliers or imports everything, whether it competes directly with local businesses, and how much damage it does to the environment. In a country with high unemployment, the jobs usually matter most.

Exchange rates

An **exchange rate** is the price of one currency in terms of another: how much of another currency one unit of your currency buys. Exchange rates change from day to day as people buy and sell currencies.

- **Depreciation** is a **fall in the value of a currency** against other currencies: one unit buys less foreign currency than before.
- **Appreciation** is a **rise in the value of a currency** against other currencies: one unit buys more foreign currency than before.

Suppose country A uses the dollar and country B uses the crown.

Depreciation. The dollar falls from \$1 = 5 crowns to \$1 = 4 crowns.

- **Exports become cheaper abroad.** A bag a business in country A sells for \$20 used to cost customers in country B $20 \times 5 = 100$ crowns; now it costs $20 \times 4 = 80$ crowns. It is more competitive there, so it may sell more.
- **Imports become dearer at home.** A machine part priced at 200 crowns used to cost the business $200 \div 5 = 40$, so \$40; now it costs $200 \div 4 = 50$, so \$50. Its costs rise.

Appreciation is the reverse: if the dollar rises from \$1 = 4 crowns to \$1 = 5 crowns, exports become **dearer** abroad and imports become **cheaper** at home.

Country A's currency is the dollar (\$).

\$1 = 5 crowns → \$1 = 4 crowns: depreciation. 4 → 5: appreciation.

	Depreciation (the \$ buys less)	Appreciation (the \$ buys more)
Exports (selling abroad)	Cheaper abroad → more competitive → more sales	Dearer abroad → less competitive → fewer sales
Imports (buying from abroad)	Dearer → higher costs → higher prices or lower profit margin	Cheaper → lower costs → lower prices or higher profit margin

Strong currency: imports cheap, exports dear.

Weak currency: imports dear, exports cheap.

(Exchange rate calculations are not examined.)

How exchange rate changes affect a business

A depreciation of the home currency

- **An exporter** gains: its products are cheaper for foreign customers, so it is **more competitive** abroad, so it can sell more and its revenue rises. Or it can raise its price in its own currency, keep the foreign price the same, and earn a **higher profit margin** on each sale.
- **A business that imports materials, components or products to sell** loses: they cost more, so its **costs rise**. It must raise its prices, which may lose customers, or accept a **lower profit margin**. It may look for **cheaper suppliers at home**, which takes time and may cause delays. Its break-even output rises too, because each unit costs more to make.
- **A business selling only at home, with home-made inputs**, may gain: imported rival products become dearer, so customers switch to it.
- **Customers at home** pay more for imported essentials such as fuel and food, so they have less left to spend on other products.

An appreciation of the home currency

- **An exporter** loses: its products cost more for foreign customers, so it is **less competitive** abroad and may sell less, or it must cut its price and accept a smaller margin.
- **A business that imports its inputs** gains: materials are cheaper, so **costs fall**. It can cut its prices, so it becomes more competitive than rivals that buy their materials at home, or keep prices the same and enjoy a **higher profit margin**.
- **A business selling only at home** faces cheaper imported rivals, so it may lose sales.
- **Customers at home** pay less for imported essentials, so they have more to spend on other things.

Many businesses both import and export, so a change helps one side and hurts the other. Which effect is bigger depends on:

- **How much it imports and how much it exports**, and **the size of the change**.

- **How sensitive customers are to price.** If customers abroad shop around on price, a change in the export price makes a big difference to sales; if they buy for quality or brand, much less.
- **What its competitors do.** If rivals import the same materials, they face the same higher costs, so its competitiveness at home hardly changes.

Importing: why and why not

The syllabus does not list importing as a separate outcome, but questions on globalisation and exchange rates often start from a business that imports.

Why a business might import its raw materials or products:

- they are **not available**, or not available in enough quantity, at home;
- they are **cheaper** abroad;
- they are **better quality** abroad;
- there is a **wider range** to choose from;
- a foreign supplier may be more **reliable**.

Drawbacks of importing:

- **exchange rate changes** can suddenly raise the cost;
- **tariffs and quotas** can raise the cost or limit supply;
- **longer delivery times** and higher transport costs, so it needs to hold more inventory;
- **communication is harder**, with different languages and time zones, and problems take longer to sort out.

When choosing, a business weighs price, quality, reliability (the right amount, on time) and these risks.

Key facts and formulas

This topic has no formula list in the exam, and exchange rate calculations are not assessed. "Learn it" means you must remember it.

Fact or formula	Status
Globalisation: the growing links between countries' economies, with more trade and more businesses producing in other countries	Learn it
Reasons for globalisation: free trade agreements, cheaper transport, better communication technology, fast-growing emerging markets, governments welcoming foreign businesses	Learn it
Import tariff: a tax on imported goods, charged when they enter a country	Learn it
Import quota: a limit on the quantity of a product that can be imported	Learn it

Fact or formula	Status
Why governments use tariffs and quotas: protect home businesses and jobs, protect infant industries, cut imports, raise revenue (tariff)	Learn it
Multinational company: a business with production or service operations in more than one country	Learn it
Depreciation: a fall in the value of a currency against other currencies	Learn it
Appreciation: a rise in the value of a currency against other currencies	Learn it
Depreciation: exports cheaper abroad, imports dearer at home	Learn it
Appreciation: exports dearer abroad, imports cheaper at home	Learn it

How to do it

We have tagged 41 questions on this topic (2021–2026), on Paper 1 and Paper 2. 6 of them have parts of more than one type, so the counts add to 48.

Question type	Questions
Benefits to a business of being a multinational	8
Benefits and drawbacks to a host country of a multinational	8
Opportunities and threats of globalisation for a business	7
Define a term (tariff, quota, multinational, depreciation)	7
How an exchange rate change affects a business	6
How import tariffs and quotas affect a business	5
Why a business imports, and the pros and cons of importing	4
Identify reasons for globalisation	3

The mark scheme codes are **k** (knowledge: a correct point), **app** (application: a detail from the case that makes sense with the point), **an** (analysis: a developed consequence) and **eval** (evaluation: a justified judgement).

Part	Marks	What earns them
Paper 1 "Define"	2	a full definition; part of it = 1
Paper 1 "Identify"	2 or 4	1 per point; only the first two (or four) are marked
Paper 1 "Outline two"	4	each: k + app

Part	Marks	What earns them
Paper 1 "Explain two" or "one ... and one ..."	6	each: k + app + an
Paper 1 (e) "Which is most important?" / "Do you think ...?"	6	2 k + 2 an + 2 eval; general, so no app
Paper 2 (a) "Explain two"	8	each: the point (1) + up to 3 more for the chain of explanation, at least one of them applied to the case
Paper 2 (a) "Explain four" or "one each"	8	each: the point (1) + 1 for explaining it
Paper 2 (b) "Consider ... Justify your answer"	12	levels: detailed, applied discussion of both sides, then a justified conclusion that says why the alternative was rejected

Every explain-type answer on this topic uses the same chain:

1. **Name the point** (k): "access to new markets", "imports become dearer", "creates jobs".
2. **Say what it leads to** (an): a new consequence for the business, such as higher revenue, lower costs or a bigger margin.
3. **Use the case** (app, where marked): the product, the percentage it imports or exports, the number of countries or employees. Use a different detail for each point.

1. Benefits to a business of being a multinational (8 questions)

Forms:

- Paper 1 (e), 6 marks: explain two benefits (or advantages) to a business of being a multinational, which is most important? ([0450/13/M/J/25 Q3](#), [0450/11/M/J/24 Q3](#)).
- Paper 1 (d), 6 marks, in context: explain two benefits to a hotel chain or an airline of being a multinational ([0450/12/F/M/24 Q3](#), [0450/12/F/M/21 Q2](#)).
- Paper 1 (c), 4 marks: identify four benefits ([0450/12/F/M/25 Q3](#)): four short points, no explanation.
- Paper 2 (a), 8 marks: explain four reasons why a business might become a multinational ([0450/23/M/J/23 Q1](#)); one effect each on shareholders, employees, suppliers and the government of a business becoming a multinational ([0450/22/O/N/24 Q3](#)), no application marks.
- Paper 2 (b), 12 marks: consider three benefits to a business of becoming a multinational, which is most important ([0450/21/O/N/23 Q4](#)).

Steps:

1. Pick benefits from "Why a business becomes a multinational" that are **different from each other**.
2. Develop each: "spreading risk, so a weak year in one country hurts the whole business less, because its other markets keep earning"; "economies of scale, so the average cost of each unit falls".
3. "Increases market share" and "gives a competitive advantage" are consequences, so they count as analysis, not as a separate benefit.

4. For a **service** business (hotels, flights), choose benefits that fit: new customers, spreading risk, brand image, avoiding barriers.
5. In (e) and Paper 2 (b), choose one and say why it matters more than the other (see "How to get the marks").

For the stakeholder version, give one effect for each group, then one reason: "employees may lose their jobs, because production moves to a country where wages are lower". Use the stakeholder table above.

2. Benefits and drawbacks to a host country of a multinational (8 questions)

Forms:

- Identify four drawbacks, or four benefits, to a country ([0450/13/O/N/23 Q4](#) part (c), [0450/13/M/J/22 Q4](#) part (c)): four bare points.
- Explain one benefit and one drawback to a country of a named multinational operating there, 6 marks with application ([0450/11/O/N/24 Q4](#) part (d)).
- Paper 1 (e), 6 marks, general: explain two benefits to a country, which is most important ([0450/12/O/N/25 Q1](#)); are the benefits always greater than the drawbacks ([0450/12/O/N/23 Q3](#)); do multinationals always benefit the countries they operate in ([0450/11/M/J/21 Q2](#)).
- Paper 2 (b), 12 marks: are the benefits greater than the drawbacks for the country ([0450/21/O/N/25 Q4](#)); should the government allow the factory ([0450/22/M/J/22 Q4](#)).

Steps:

1. Take benefits and drawbacks from "What a multinational brings to the country", each with its consequence for the country: "jobs, so incomes rise and unemployment falls".
2. On Paper 2, use the case's figures (how many jobs, what it makes, what local businesses make, any grant offered) in every paragraph.
3. **Conclude** with "it depends", tied to something specific: if unemployment is high, jobs matter most; if the multinational competes directly with many small local producers, the lost local jobs may cancel out the new ones; pollution during building may be short term while jobs last for years.

A drawback is not just the opposite of a benefit. "It creates jobs" and "it doesn't create enough jobs" is one idea; "the jobs are low-paid" or "local rivals close, so jobs are lost elsewhere" is a real second point.

3. Opportunities and threats of globalisation for a business (7 questions)

Forms:

- Outline two opportunities of globalisation, 4 marks ([0450/13/O/N/22 Q2](#) part (c), a shoe maker that does not export).
- Explain two opportunities, 6 marks ([0450/12/M/J/25 Q4](#) part (d), a tyre maker with factories in six countries); explain one opportunity and one threat, 6 marks ([0450/11/M/J/23 Q1](#) part (d), a carpet maker that exports 40% of its products).
- Paper 1 (e), 6 marks: are the opportunities greater than the threats ([0450/12/F/M/26 Q4](#)).

- Paper 2 (b), 12 marks: are the threats greater than the opportunities (**0450/23/O/N/25 Q4**); which has the greater effect (**0450/22/O/N/22 Q1**); will globalisation help the business increase its profit (**0450/23/O/N/21 Q4**).

Steps:

1. **An opportunity** (k) → consequence (an), from the list in "Understand it": "new markets, so more sales and revenue".
2. **A threat** (k) → consequence (an): "staff leave for better-paid jobs at multinationals, so recruitment costs rise".
3. For "are the opportunities greater?", you must discuss **at least one opportunity and one threat**, or the evaluation marks are not available.
4. **Judge** by weighing one against the other: "the extra revenue from new markets is likely to be greater than the extra recruitment costs, and could even pay for higher wages to keep staff".

4. Define a term (7 questions)

Two marks for a full definition, one for part of it:

- **Import tariff** (**0450/11/O/N/25 Q2** part (a), **0450/13/O/N/24 Q1** part (b), **0450/12/M/J/23 Q3** part (a)): a **tax on imported goods, charged when they enter the country** (2). Give the whole thing: the November 2024 scheme gave only 1 mark for "a tax on imported goods" without the entering-the-country part, and "a type of tax" alone = 1. The first mark needs the idea of a tax.
- **Import quota** (**0450/13/O/N/23 Q4** part (a), **0450/11/M/J/21 Q2** part (a)): a **limit on the quantity** (amount, number) of a product that can be **imported** (2).
- **Multinational company** (**0450/11/O/N/21 Q2** part (a)): a business with factories, production or service operations in **more than one country** (2).
- **Depreciation of an exchange rate** (**0450/12/F/M/22 Q1** part (b)): a **fall in the value of a currency** against **other currencies** (2).

5. How an exchange rate change affects a business (6 questions)

Forms:

- Explain two ways a **depreciation** might affect a business, 6 marks (**0450/13/O/N/24 Q1** part (d), a bicycle maker that imports 60% of its materials and exports to 8 countries).
- Paper 2 (a), 8 marks: explain two ways an **appreciation** might affect a restaurant business that imports most of its ingredients (**0450/22/F/M/24 Q3**); two ways a depreciation might affect a house builder (**0450/23/O/N/23 Q4**).
- One effect of an appreciation on a business when importing raw materials (**0450/12/M/J/23 Q3** part (d)).
- As one of three changes in a 12-mark Paper 2 (b) (**0450/21/M/J/23 Q4**, **0450/22/O/N/23 Q4**).

Steps:

1. **Find in the stem whether the business imports, exports or both**, and the percentages. These are your application.
2. **Read the effect off the grid** in "Exchange rates" for imports and for exports.
3. **Import effect**: inputs cost more (or less) → costs rise (fall) → prices rise (fall), or the profit margin falls (rises).
4. **Export effect**: products cheaper (dearer) abroad → more (less) competitive → more (fewer) sales → revenue rises (falls).
5. A third effect, if you need one, from "How exchange rate changes affect a business": switching to home suppliers, rival imports becoming dearer, or customers' spending on imported essentials.

No calculations are needed. Use the case's percentages as words, not in a sum: "as 60% of its materials are imported, its costs will rise a lot".

6. How import tariffs and quotas affect a business (5 questions)

Forms:

- One effect of an import quota on a business when importing raw materials ([0450/12/M/J/23 Q3](#) part (d)).
- Why import tariffs might matter to a business deciding whether to export to another country ([0450/13/O/N/21 Q4](#) part (d)).
- Paper 1 (e): do manufacturers always benefit from the introduction of import tariffs ([0450/12/F/M/23 Q1](#)); is a tariff likely to have a greater effect than a quota on an exporting business ([0450/12/M/J/21 Q4](#)).
- Paper 2 (b): a home tariff on rivals' imports and a quota in its export markets, alongside a depreciation ([0450/22/O/N/23 Q4](#)).

Steps:

1. **Decide where the barrier is**. A tariff or quota **at home** on rivals' products helps a business that makes the same thing at home. One at home on its **own inputs** raises its costs or cuts its supplies. One **abroad**, in a country it exports to, makes its products dearer there (tariff) or caps its sales there (quota).
2. **Chain it** as in the table in "Understand it": tariff on rivals' imports → their price rises → customers switch → this business's sales rise.
3. **"Always benefit?"**: no. A manufacturer that imports its materials faces higher costs; one that exports may face **retaliation**, other countries putting tariffs on its products; and customers get less choice.
4. **Tariff vs quota**: weigh them as in "Tariff or quota: which hurts an exporter more?", using price sensitivity and how tight the quota is.

7. Why a business imports, and the pros and cons of importing (4 questions)

Forms: identify two reasons why a business might import raw materials, 2 marks ([0450/13/O/N/25 Q1](#) part (a)); outline two reasons why a named business imports, 4 marks ([0450/11/O/N/23 Q3](#) part (c)); explain one advantage and one disadvantage of importing a product, Paper 2 (a), 8 marks ([0450/22/M/J/21 Q2](#)); is the reliability of the supplier the most important factor when deciding whether to import ([0450/13/M/J/21 Q3](#) part (e)).

1. Take reasons and drawbacks from "Importing: why and why not", each with its consequence for the business (lower costs, better products, delays, higher costs).
2. For "is reliability the most important factor?", say what reliability means (the right amount, on time, every time) and why it matters (production stops without materials), then weigh it against price, quality and the risk from exchange rates and tariffs.

8. Identify reasons for globalisation (3 questions)

0450/11/M/J/25 Q4 part (b), 0450/13/M/J/24 Q3 part (b), 0450/12/F/M/22 Q1 part (a): 2 marks, one per reason, first two only. Give two of the five reasons in "Why globalisation has happened", in a few words each.

Worked examples

Example 1

Pellam Foods makes canned fish in country Q. The government of country Q plans to introduce import tariffs on canned food.

(a) Define 'import quota'. [2]

(b) Identify two reasons why a government might introduce import tariffs. [2]

(c) Identify two reasons for globalisation. [2]

(a) A limit on the quantity of a product (1) that can be imported into a country (1).

(b) Any two, 1 mark each: to protect businesses and jobs at home from foreign competition (1); to raise tax revenue for the government (1). (Also: to protect infant industries; to reduce spending on imports.)

(c) Any two, 1 mark each: free trade agreements that remove trade barriers (1); cheaper and faster transport (1). (Also: better communication technology; fast-growing emerging markets; governments allowing foreign businesses to set up.)

Total: 2 + 2 + 2 = 6 marks.

Example 2

Corla Chocolates makes chocolate bars in a factory in country M. It imports 70% of its cocoa from other countries and sells 40% of its chocolate to customers abroad. Country M's exchange rate has appreciated.

Explain two ways the appreciation might affect Corla Chocolates. [6]

Way 1. Imported materials become cheaper (k). As Corla buys 70% of its cocoa from abroad (app), its costs of making each bar fall, so it can cut its price and become more competitive, or keep its price the same and earn a higher profit margin (an).

Way 2. Its exports become more expensive for foreign customers (k). As 40% of its chocolate is sold abroad (app), it becomes less competitive against chocolate made in those countries, so it may sell fewer bars there and its revenue may fall (an).

Each way earns k + app + an: 6 marks. The two ways use different details from the case (70% of cocoa, 40% of chocolate). A depreciation would give the opposite effects, and writing them for this question would score nothing.

Example 3

Explain two drawbacks to a country of a multinational company locating there. Which drawback is likely to be the most serious? Justify your answer. [6]

One drawback is that local businesses may lose sales (k), because the multinational's economies of scale let it sell at lower prices, so smaller local rivals may have to cut jobs or close (an). Another drawback is that profits are sent back to the multinational's home country (k), so the money is not reinvested in the host country and less tax may be paid there (an).

The loss of sales by local businesses is likely to be more serious, because if many of them close, the jobs lost could be as many as, or more than, the jobs the multinational creates, which would cancel out its main benefit (eval). Repatriated profit matters less, because the multinational still pays wages that are spent in the country and some taxes, so part of the money stays there anyway (eval).

Two developed points (2 k + 2 an), then a choice with a reason that compares the two (2 eval). The question is general, so details about a named business earn nothing. Choosing repatriated profit, justified by the country losing money it needs for public services, would earn the evaluation marks as well.

Example 4

Tamara Textiles is a family business that makes school uniforms in country P. It has 60 employees and sells only in country P. Last year it sold 30 000 uniforms at \$30 each. Each uniform uses 2 metres of cotton fabric, which it buys from a supplier in country P for \$5 a metre.

Country P has just signed a free trade agreement with its neighbour, country R, which removes all tariffs on clothing and fabric between them:

- A supplier in country R can deliver the same fabric for \$4 a metre.
- A multinational clothing retailer plans to open 12 stores in country P, selling school uniforms at \$24 each. Tamara's manager expects to lose 15% of its sales if it keeps its price at \$30.
- Schools in country R buy uniforms, and no tariffs would now be charged on uniforms Tamara sells there.

Consider the opportunities and threats of globalisation for Tamara Textiles. Are the opportunities likely to be greater than the threats? Justify your answer. [12]

Last year Tamara's revenue was $30\,000 \times 30 = 900\,000$, so \$900 000.

Opportunities. The free trade agreement means Tamara can import fabric from country R with no tariff. It uses $30\,000 \times 2 = 60\,000$ metres a year. At \$5 a metre this costs $60\,000 \times 5 = 300\,000$, so \$300 000; at \$4 a metre it would cost $60\,000 \times 4 = 240\,000$, so \$240 000, a saving of \$60 000 a year, or \$2 on every uniform. Lower costs mean Tamara could cut its price to compete, or keep its price and earn a higher profit margin. It can also sell uniforms to schools in country R, where it would pay no tariff, so it has a whole new market: more sales and revenue, and less dependence on country P alone. But imported fabric takes longer to arrive, and an exchange rate change could wipe out the saving; and selling in country R needs market research into each school's uniform.

Threats. The multinational retailer will sell uniforms at \$24, which is \$6 less than Tamara's \$30. If Tamara loses 15% of its sales, it sells $30\,000 \times 0.15 = 4500$ fewer uniforms, and its revenue falls by $4500 \times 30 = 135\,000$, so \$135 000. But many parents may prefer a local business that knows each school's exact uniform, so the loss might be smaller than the manager expects.

Conclusion. The threats are likely to be greater for Tamara. The \$135 000 of revenue at risk is more than twice the \$60 000 a year it could save on fabric. Even if it passes the whole \$2 saving on to customers, its price of \$28 is still \$4 above the multinational's \$24. The opportunity to sell in country R is less certain: Tamara has never exported, and winning orders from schools there will take time and money, while the multinational's stores will open soon. Tamara should still import the cheaper fabric and stress its knowledge of local schools, rather than try to match the multinational on price.

Both sides discussed in detail and in the case, with figures, and a conclusion that says why the other side was rejected: Level 3 (9–12). Deciding the opportunities are greater, because the cheaper fabric and a new market in country R could more than replace the lost sales over a few years, would score as well if justified.

Common mistakes

- **Mixing up tariffs and quotas.** A tariff is a tax, so it raises the price of imports; a quota is a limit on quantity, not a tax. Writing that a quota "adds to the price of each item" or that a tariff "limits the number" loses the marks.
- **Defining a term with the term.** "Depreciation is when the exchange rate depreciates" or "a fall in the exchange rate" shows no understanding. Say what falls: the **value of the currency** against other currencies.
- **Leaving "imported" out of a tariff definition,** or calling it "money" or "a cost" instead of a **tax**.
- **Getting the direction of an exchange rate change wrong.** Many candidates assume any change makes imports dearer. After an **appreciation**, imports are **cheaper** and exports dearer.
- **Confusing globalisation with multinationals.** A question on the opportunities and threats of globalisation is about the business's markets, costs and competition, not about what a multinational does to a country. Globalisation also removes trade barriers: don't write as if tariffs will rise.
- **Answering from the wrong point of view.** "Benefits to a country" questions want jobs, taxes and investment for the country; candidates often write about the multinational's benefits (new markets, spreading risk) instead. The reverse happens too.

- **Assuming a multinational always makes more profit.** It has more customers, but also higher costs and risks; explain how a benefit leads to lower costs or higher revenue.
- **Calling an exporting business a multinational.** It must produce or operate in more than one country.
- **Repeating the knowledge as analysis.** "Access to new markets, so more customers" says the same thing twice. Go one step further: "...so revenue rises and risk is spread".
- **Writing as the exporter when the business imports** (or the reverse). Check which way the goods move in the case.
- **Vague effects.** "Cost", "sales" or "profit" alone score nothing; say **lower** cost or **more** sales, and why.
- **In (e) and 12-mark questions, conclusions that only repeat earlier points.** Make a choice, give a new reason, and say why the other option matters less.

How to get the marks

- **Define** (2 marks): every part in one sentence. Tariff: tax + on imported goods + when they enter the country. Quota: limit on quantity + imported. Multinational: operations or production + in more than one country. Depreciation: fall in value of a currency + against other currencies.
- **Identify** and **outline**: short, different points; only the first two (or four) are marked. Outline adds a case detail to each, but no explanation.
- **Explain**: use a **different** case detail for each point (the 60% imported for one, the 8 export countries for the other).
- **Paper 1 (e)**: general, so case details earn nothing. For "greater than" questions, one point on each side, then a decision that **compares** them: "...is more important because ..., whereas ...".
- **Paper 2 (b)** (12 marks): both sides in detail, in the case, with its figures; then a conclusion that answers the exact question (greater or not; should the government allow it; which benefit) and says **why the alternative was rejected**. One side done well caps you in Level 2.
- **"Always"** in a question invites "not always": say which businesses or countries gain and which don't, and why.
- **"Justify your answer"**: the marks are in the reason, not the choice. Either side can score full marks.

Quick check

1. Say whether each is an import tariff or an import quota: (a) no more than 50 000 tonnes of rice may be imported each year; (b) a 12% charge on the value of every imported television. (c) Which of the two raises money for the government?
2. Country A's dollar changes from \$1 = 6 crowns to \$1 = 5 crowns. (a) Is this a depreciation or an appreciation of the dollar? (b) A business in country A sells a lamp for \$20. To help you see the direction (this calculation is not examined), work out its price in crowns before and after the change. (c) Is the change good or bad for this exporter? Why?
3. Identify four benefits to a business of becoming a multinational company.

4. Business X imports 80% of its raw materials and sells only in its home country. Business Y buys all its materials at home and exports 60% of its output. The home currency depreciates. Which business is more likely to benefit? Explain.
5. A tea grower exports to country K. Country K introduces an import quota on tea. Explain one effect on the tea grower and one way it could respond.

Answers

1. (a) **Quota**: a limit on quantity. (b) **Tariff**: a tax on imports. (c) The **tariff**, because it is a tax collected by the government; a quota raises nothing.
2. (a) **Depreciation**: one dollar now buys fewer crowns. (b) Before: $20 \times 6 = 120$, so **120 crowns**. After: $20 \times 5 = 100$, so **100 crowns**. (c) **Good**: the lamp is cheaper for customers in country B, so the business is more competitive there and may sell more.
3. Any four: access to new markets and more sales; spreading risk; lower transport costs; cheaper labour or raw materials; avoiding import tariffs and quotas; lower taxes or government grants; economies of scale; a stronger brand image.
4. **Business Y**. A depreciation makes its exports cheaper abroad, so it is more competitive and may sell more, and its costs are not affected because it buys materials at home. Business X loses: its imported materials cost more, so its costs rise and it must raise prices or accept a lower profit margin, and it gains nothing on the export side.
5. Effect: it can sell only a limited quantity of tea in country K, however much customers want, so its sales and revenue there fall. Response: any one of: look for customers in other countries; sell more at home; set up production inside country K, so its tea is no longer an import there; move into a higher-priced, better-quality tea, so each limited sale earns more.

Past questions to try

- **0450/12/F/M/26 Q4**: part (e), are the opportunities of globalisation greater than the threats?
- **0450/21/O/N/25 Q4**: part (b), benefits and drawbacks to country Y of a new factory (12 marks).
- **0450/13/O/N/24 Q1**: parts (b) and (d), define import tariff; how a depreciation affects a business that imports and exports.
- **0450/12/M/J/21 Q4**: part (e), will a tariff or a quota have the greater effect on an exporter?