Lesson 4 - Impact of Globalization on Consumers

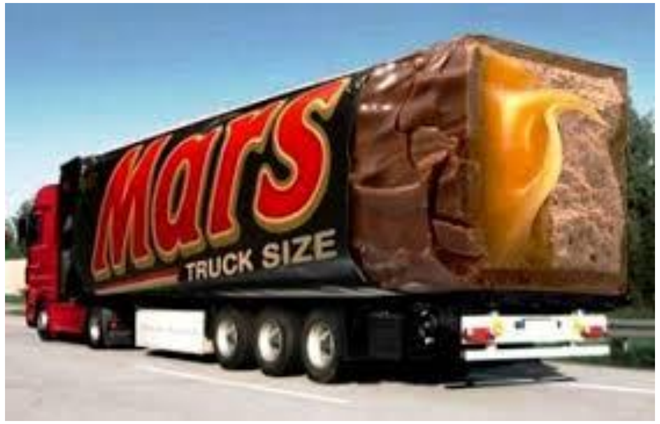
Global markets have caused an increase in the volume and variety of consumer goods and services. You will examine how the consumer benefits from globalization while analyzing consumer protection issues associated with global markets.

The Impact of Globalization on Consumers (1 of 3)

The choices and challenges for Canadian consumers have never been greater or more diverse. Consumers’ tastes have become more sophisticated and complex. An increase in consumer purchasing power has created the means of satisfying their demands.

The Impact of Globalization on Consumers (2 of 3)

Imports are an appealing element of globalization that give Canadian consumers more choice in many markets. However, it also forces the consumer to consider more and more complex consumer information when making purchasing decisions. They must make decisions in areas in which they may have limited experience. They are heavily exposed to marketing and advertising activities as new companies compete for their business.

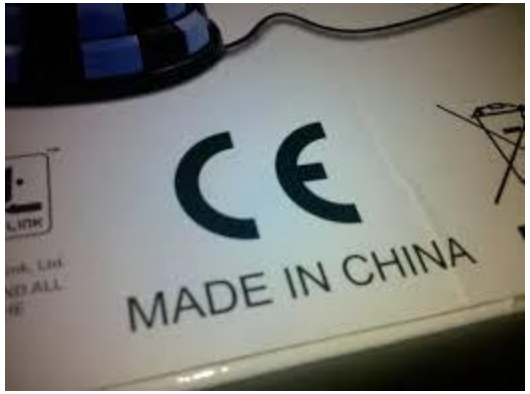


The Impact of Globalization on Consumers (3 of 3)

The growth of international trade has also introduced the concept of values-based consumerism. Many consumers now want to know not only what they are buying, but also how it was made. Concerns about environmental protection, health risks, nutritional content and safety of food, animal welfare and exploitation of workers have led to a growing market demand for products that are produced according to values-based standards. Fair trade coffee, organic food, and lumber from sustainable forests are examples of values-based standards.

Assignment #1 – What's New?

Identify ten different products (around the school) that are less than five years old and indicate the country of the product's origin. You will find this information on clothing labels, packaging, or on the product itself. Then for two of the items, research to determine if a similar product is made in Canada and explain why you might have chosen your product over the product made in Canada.



The Globalization of Food and Plants (1 of 2)

<u>Food: Where Did It Come From?</u>

Take a look at your evening meal and what do you see? Common foods that are so much a part of daily sustenance - you would hardly suspect that they originally came from another country, but some of them probably did!

The Globalization of Food and Plants (2 of 2)

Food: Where Did It Come From?

Most of the foods that we commonly eat today are the product of globalization. Next time you eat one of the foods mentioned below, imagine what life would be like if that food had never left its home country! Consider these food items.

“Where Does The Money Go?”

How has Globalization Influenced Canada's Economy and Cultural Development?

- Article by Trev Lau - Milliken Mills High School, York Region District School Board (Handout)

- Assignment #2 – Consumer Choices & Attitudes
  - How do you feel consumer choices and attitudes affect Canadian business decisions? How does the consumer benefit from these decisions? Are there any disadvantages that occur as result of these decisions? Write your opinion in paragraph format.

Fair Trade

According to the International Federation for Alternate Trade, fair trade is a trading partnership based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers - especially in the South.

Assignment #3 – The Fair Trade Federation

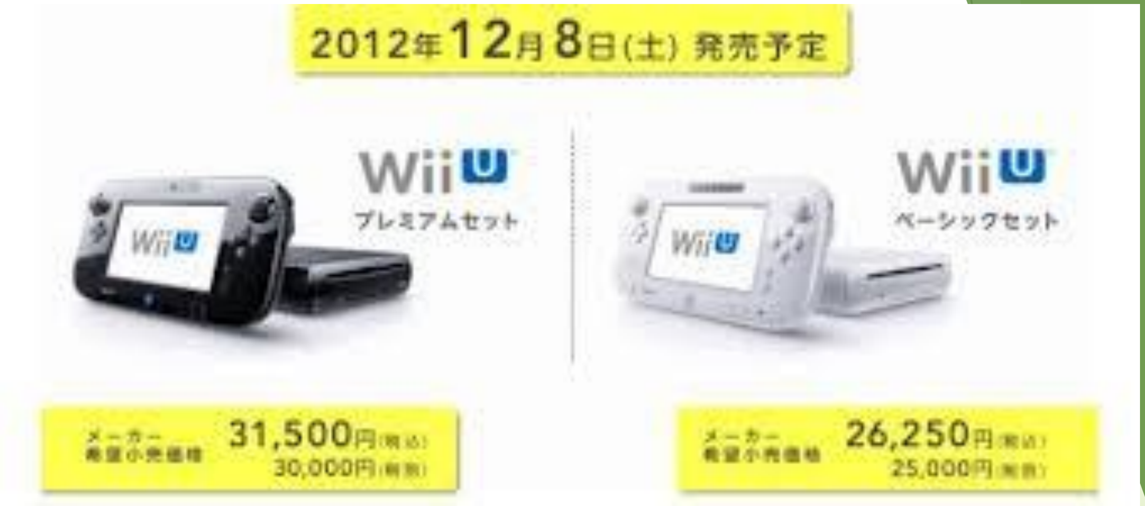
Complete the following assignment and submit your work at the end of class.

- The Fair Trade Federation has seven basic principles. Locate those principles and create an electronic poster that records those principles and illustrates what those principles mean. Refer to the rubric to get an idea of what your poster needs to look like.

Lesson 5 - Currency Exchange

Today, we will identify major world currencies, examine changes in currency values in the short and long term, and calculate currency values.

Currency Exchange



Would you pay three million yen for a brand new Nissan Altima Hybrid at a dealership in Yokosuka, Japan? What about 25 pesos for a Big Mac at a McDonald’s in Monterrey, Mexico? Is five euros for a soft drink from a vending machine in the Rome airport a good value?

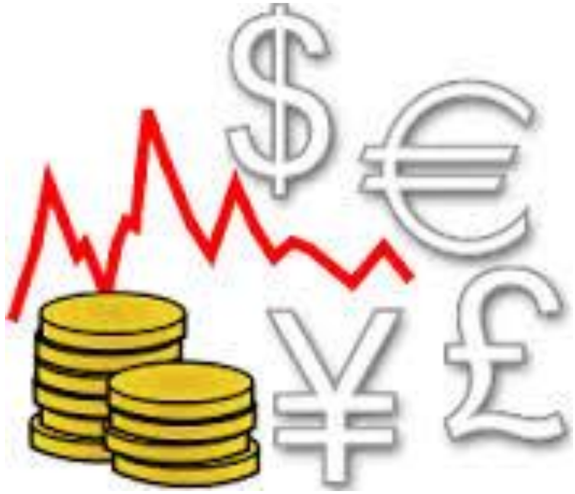
These are real prices. Japanese car dealers ask for yen. Mexican McDonald’s franchisees pay their staff, suppliers, and all other expenses in pesos. That vending machine in the Rome airport only accepts euros.

Currency Exchange cont'd

Countries have different currency systems so a method of determining the value of one nation's money in terms of another's is necessary in order to conduct international trade. Generally a business requires payment in the currency of its home country although there are exceptions to this rule. The process of converting one currency into another is called currency exchange. The exchange rate is the value of one currency in relation to another. It is common for the Canadian dollar, for example, to be quoted in terms of major currencies such as the U.S. dollar, the British pound or the euro. In February 2002, one Canadian dollar was equivalent to 62 U.S. cents. Put another way, it took about 1.59 Canadian dollars to purchase one U.S. dollar. In 2007, the currencies traded almost on par.

Currency Exchange cont'd

The price of a currency depends on supply and demand, which are affected by many factors, including interest-rate differentials, relative inflation, export competitiveness, economy growth, deficits, and debt. Canada, as well as most developed countries, operates a floating exchange rate, meaning that the price of currency fluctuates according to market conditions.



Currency Exchange cont’d

The exchange rate of the Canadian dollar has a direct impact on most Canadians. It determines in part whether they purchase domestic or foreign-made products, or whether they vacation abroad or in Canada. A devalued dollar makes it more attractive to foreign customers to buy Canadian goods, which boosts sales for Canadian exporters, but it also makes it more expensive for Canadians and Canadian businesses to buy foreign products.

Currency Exchange

What would it have taken in Canadian money to buy a U.S. dollar in 2002?

In January, 2002 one Canadian dollar was worth 62 cents in the United States.

If 62 U.S. cents equals $1 Canadian dollar, then divide $1 Canadian by 62 cents U.S. The answer is $1.613 was necessary to buy one U.S. dollar in 2002.

Assignment #1 – Currency Conversion

- See Handout

What Drove the Canadian Dollar Higher After 2002? (1 of 4)

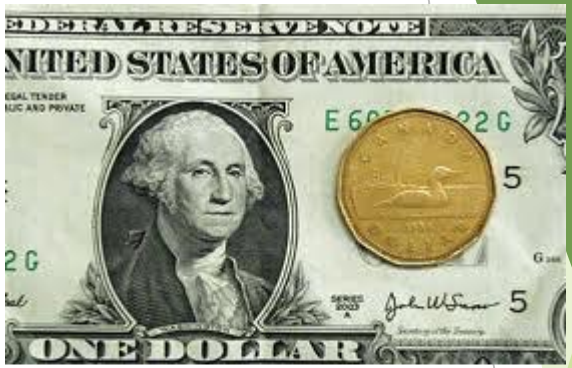
Things have changed since then, let's examine why:

1. Higher Canadian Interest Rates

What has been the history of Canadian interest rates since 2002?

The prime interest rate in 2002 was 3.75%. It rose briefly to 5% in 2003 before returning to 3.75% in 2004. Since 2004 the rate has climbed steadily to 6% in 2007.

What Drove the Canadian Dollar Higher After 2002? (2 of 4)



2. The Canadian Dollar is a Secondary Currency

What does it mean to be a "secondary currency"?

The value of the Canadian dollar is closely tied to the American dollar. If the American dollar appreciates against other world currencies, the Canadian dollar tends to do the same. Likewise, if the American depreciates the Canadian dollar tends to follow. The Canadian dollar is said to be a secondary currency in relationship to the United States dollar.

What Drove the Canadian Dollar Higher After 2002? (3 of 4)

3. Supply and Demand

- **Are Canadians investing more abroad than foreigners are investing in Canada?**

- Canadians have been investing in foreign markets to a far greater degree than foreigners have invested in Canada. Canada has a net investment surplus with the rest of the world.

What Drove the Canadian Dollar Higher After 2002? (4 of 4)

<u>4. Canadian Government Policy</u>

What does the Bank of Canada say is the reason for the high value of the dollar?

Canada has no set value for our currency compared with any other currency. The exchange rate is affected by supply and demand for Canadian dollars in international exchange markets. If demand exceeds supply, the value of the dollar will go up. If the supply exceeds demand, its value will go down. On an average day, CAN$100 billion is bought and sold on the international exchange markets.

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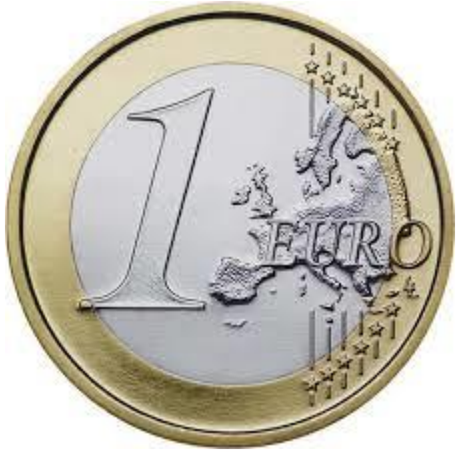
CONTINUED ON NEXT SLIDE…

Several factors influence the supply of, and demand for, Canadian dollars. If interest rates are higher in Canada than in other countries, investors may choose to invest in Canada, increasing demand for the dollar, provided that the expected rate of inflation is not higher in Canada than among our trading partners. If our inflation rate is higher, investors are less likely to prefer Canada—even with higher interest rates—because of the expectation that the value of the dollar will be eroded by inflation.

Our trade balance also affects our dollar. If world prices for what we export rise in comparison with the cost of our imports, we will be earning more for our exports than we pay for our imports. The more favourable these "terms of trade," the more demand there will be for the Canadian dollar.

If investors are confident that the Canadian economy will be strong, they will be more likely to buy Canadian assets, pushing up the dollar's value.
Source: Bank of Canada, 2007

The Euro



The euro is the currency of fifteen European Union countries, stretching from the Mediterranean to the Arctic Circle (namely Belgium, Cyprus, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia and Finland).

Euro banknotes and coins have been in circulation since 1 January 2002 and are now a part of daily life for 315 million Europeans living in the euro area.

Assignment #2 - Euro

Answer the following and submit your work when you are finished.

- What is the euro?
- What does the symbol mean?
- When did the euro replace the old currencies in the member countries?
- Would it not have been better for European Union members with stable currencies like Germany to keep their own currencies? Why or why not?
- What economic advantages do participating member states enjoy over non-participating members?
- Why did the United Kingdom not adopt the euro?

Automatic Currency Conversions Highlight Sweet Deal For Banks, Brokers

- Read Article by Rob Carrick (Handout)
- Complete Assignment 3