

Lesson 7 - The Canadian Government and International Business

In this activity we will examine the role of the federal government in encouraging and supporting Canadian businesses engaged in international business as well as the role the Canadian government plays in supporting foreign investment in Canada.

Canada and International Trade (1 of 2)

Foreign Affairs and International Trade Canada helps Canadian companies expand and succeed internationally by promoting Canada as a dynamic place in which to invest and do business, and by negotiating and administering trade agreements.

There are three key business programs offered by Foreign Affairs and International Trade:

- ▶ exportsource.ca
- ▶ InfoExport
- ▶ Invest in Canada



Canada and International Trade (2 of 2)

The hallmark of exportsource.ca is the Team Canada program. Team Canada Inc is a network of federal departments and agencies working with the provinces, territories and other partners to help Canadian businesses prepare for the global marketplace. The federal government describes it as, “your first stop en route to the information, skills and assistance you need to make your export venture a success.”

Team Canada offers a wide range of tools designed to help Canadian business become export-ready, develop its export potential or expand into new markets.

Assignment #1 - Team Canada

See Handout:

Research the most recent Team Canada Mission accomplishments. Then document what you would like to see Team Canada accomplish on its next mission. State why you think this is important for Canadian Businesses.

Canadian High Commissions, Embassies & Consulates

InfoExport provides Canadian businesses with help at more than 140 cities worldwide. Canadian representatives assess export potential, identify key foreign contacts, and obtain relevant advice, and intelligence.

Through a network of offices in over 180 countries, the Government of Canada fosters relations with other nations and offers services to promote trade, Canadian business and culture abroad. Canadian High Commissions are located in countries that are members of the Commonwealth; Canadian Embassies are located in the capital cities of countries abroad; while Canadian Consulates are located in cities other than capitals.

Assignment #2 - Embassies and Consulates

See handout - answer related questions.

Lesson 8 - Trends in International Business

In this lesson we will examine the trend toward consolidation in international business as evidenced by the trend towards use of international currencies and the problem of valuation of those currencies.



Dollarization

Read Article and Complete Assignment #1 (see handout)

Purchasing Power Parity Theory (1 of 3)

There is a theory that states, “the exchange rate between one currency and another is in equilibrium when their domestic purchasing powers at that rate of exchange are equivalent.” For example, the rate of exchange of $\text{CDN } \$1 = \text{US}\$.65$ would be in equilibrium if $\$1\text{CDN}$ will buy the same goods in Canada as $\$.65$ will buy in the USA. If this holds true, purchasing-power parity exists.

1983 June

1\$ = ¥1.99
monthly average



1983

US DOLLAR TO CHINESE YUAN

2013 June

1\$ = ¥6.18
monthly average



2013

EXCHANGE RATE

1983 vs 2013

What can you buy with \$1 in China?



≈ Grade Cup of
Coke × 0.3



≈ Apple × 0.6

Exchange Difference

¥4.19



Grade Cup of
Coke × 1



Apple × 2

Purchasing Power Parity Theory (2 of 3)

The Swedish economist, Gustav Cassel, proposed the theory in 1916. The basic mechanism implied by the theory is that, given complete freedom of action, if 65¢ buys more in the USA than \$1 does in Canada, it would pay to convert Canadian dollars into U.S. dollars and buy from the USA rather than in Canada. The switch in demand would raise prices in the USA and lower them in Canada, and at the same time lower the Canadian exchange rate until equilibrium and parity were re-established. Cassel interpreted the theory in terms of changes in, rather than absolute levels of, prices and exchange rates.

Purchasing Power Parity Theory (3 of 3)

In practice, the theory is not valid because exchange rates, which are determined by the demand and supply of currency in the foreign-exchange markets, are related to such forces as balance of payments, monetary policy, capital transactions, and speculation. Many goods and services do not enter into international trade, and so their relative prices are not taken into account in the determination of the exchange rate.

But that doesn't stop the theory from engaging our interest!

The Big Mac Index (1 of 3)

Two all beef patties special sauce lettuce cheese pickles onion sesame seed bun.

You know what that is!



The Big Mac Index (2 of 3)

The Big Mac, the world's most popular sandwich, was created in 1967 by a McDonald's franchisee, Jim Delligatti, in Uniontown, near Pittsburgh, Pennsylvania. Today it's a consumer good that is sold at over 31,000 McDonald's restaurants in 120 countries around the world. Because of its popularity, the Big Mac allows you to make (completely unscientific) comparisons of exchange rates and relative prices in countries around the globe. This "Big Mac Index" helps explain variation in exchange rates and prices.

The Big Mac Index (3 of 3)

Since 1986, The Economist magazine has tracked the price of the Big Mac around the world. Information about local Big Mac prices has been combined with foreign exchange rates to serve as an unscientific indicator of future movements in currency exchange rates. Purchasing power parity theory is applied to the current dollar price of Big Macs in countries around the world to determine the extent to which currencies are over or undervalued.

There are other Purchasing Power Parity indices. The Economist magazine has calculated a Starbucks's Tall Latte Index!

