

BUS2200

Chapter 2 - Political Economy

FMA INTRO NIGHT

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6:00 PM – Room 1280

Political Economy

- The interdependence of three country-specific systems:
 - Political
 - Economic
 - Legal

Political Economy

- **The interdependence** of three country-specific systems:
 - Political
 - Economic
 - Legal

Political System

- Two dimensions, expressed in a continuum:

Collectivism

Individualism

Totalitarian

Democratic



Political System

- Two dimensions, expressed in a continuum:

**Stresses the primacy of
collective goals over
individual goals**

Collectivism

Individualism

Totalitarian

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Political System

- Two dimensions, expressed in a continuum:



Socialism

- In the early 20th century, socialism split in two:
- Communism: violent revolution followed by totalitarian dictatorship.
- Social Democrats: achieved through democratic means – State ownership of most production of goods and services (example: many European countries.)
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Political System

- Two dimensions, expressed in a continuum:

Individuals has freedom in his own political and economic pursuits

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THE INDIVIDUAL VS THE COLLECTIVE

Every man is an end in himself, not a means to the ends of others.

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Representative Democracy

We the People
of the United States,
in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common Defense, and promote the general Welfare, and secure the Blessings of Liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America.

Political System

- Two dimensions, expressed in a continuum:

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form of government in which one person
or political party exercises absolute
control over all spheres of human life
and prohibits opposing political
parties

Four major forms of totalitarianism exist today

1. **Communist totalitarianism** – found in states where the communist party monopolizes power
2. **Theocratic totalitarianism** - found in states where political power is monopolized by a party, group, or individual that governs according to religious principles
3. **Tribal totalitarianism** - found in states where a political party that represents the interests of a particular tribe monopolizes power
4. **Right-wing totalitarianism** - permits some individual economic freedom, but restricts individual political freedom

The Link

Political ideology and economic systems are connected

Countries that stress individual goals are likely to have market based economies

In countries where state-ownership is common, collective goals are dominant

Economic System

- There are three types of economic systems
 - 1. **Market economies** - all productive activities are privately owned and production is determined by the interaction of supply and demand
 - government encourages free and fair competition between private producers

Economic System

2. **Command economies** - government plans the goods and services that a country produces, the quantity that is produced, and the prices at which they are sold
 - all businesses are state-owned, and governments allocate resources for “the good of society”
 - because there is little incentive to control costs and be efficient, command economies tend to stagnate

Economic System

3. **Mixed economies** - certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning
 - governments tend to own firms that are considered important to national security

Legal System

- **Legal system** - the rules that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained
 - the system in a country is influenced by the prevailing political system
- Legal systems are important for business because they
 - define how business transactions are executed
 - identify the rights and obligations of parties involved in business transactions
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- There are three types of legal systems
 1. **Common law** - based on tradition, precedent, and custom
 2. **Civic law** - based on detailed set of laws organized into codes
 3. **Theocratic law** - law is based on religious teachings

Contract Enforcement

- **Contract** - document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved
- **Contract law** is the body of law that governs contract enforcement
 - under a common law system, contracts tend to be very detailed with all contingencies spelled out
 - under a civil law system, contracts tend to be much shorter and less specific because many issues are already covered in the civil code

Choice of Law

- The United Nations Convention on Contracts for the International Sale of Goods (CIGS)
 - establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between buyers and sellers who have their places of business in different nations
- Ratified by the U.S. and about 70 countries
 - but, many larger trading nations including Japan and the U.K. have not agreed to the provisions of CIGS and opt for arbitration instead

Property Rights

- **Property rights** - the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource

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Property Rights

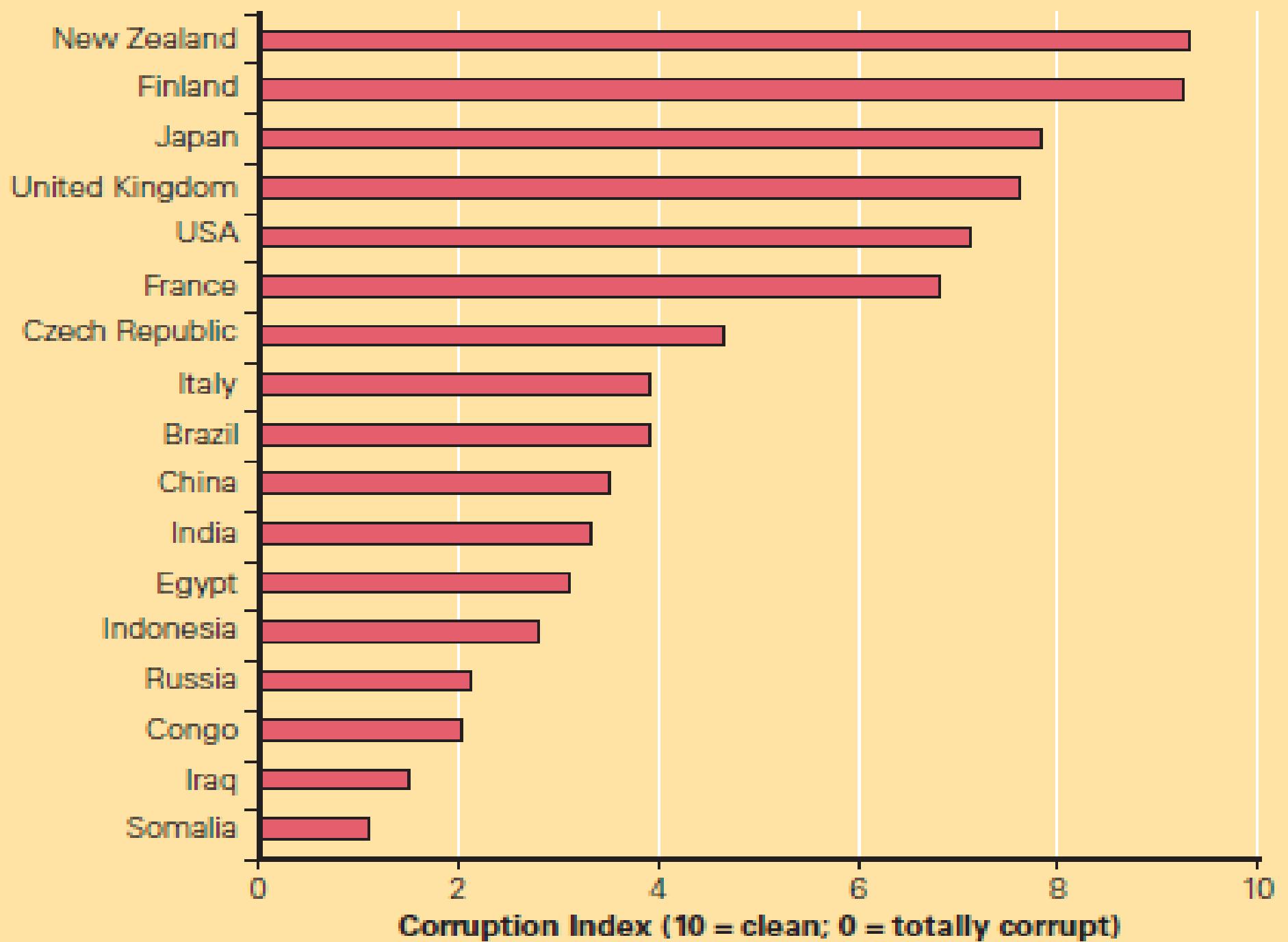
- **Property rights** - the legal rights over the use put and over income that that resource

?

- Property rights can be violated through
 1. **Private action** – theft, piracy, blackmail
 2. **Public action** - legally - ex. excessive taxation or illegally - ex. bribes or blackmailing
 - high levels of corruption reduce foreign direct investment, the level of international trade, and the economic growth rate in a country

- The Foreign Corrupt Practices Act makes it illegal for U.S. companies to bribe foreign government officials to obtain or maintain business over which that foreign official has authority

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 - **facilitating or expediting payments to secure or expedite routine government action are permitted**



IP Protection

1. **Patents** – exclusive rights for a defined period to the manufacture, use, or sale of that invention
2. **Copyrights** – the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit
3. **Trademarks** – design and names by which merchants or manufacturers designate and differentiate their products



IP PROTECTION IS A TYPICAL IB ISSUE

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Video Case Study on Connect





Counterfeit

Real





- Protection of intellectual property rights differs from country to country
 - World Intellectual Property Organization
 - Paris Convention for the Protection of Industrial Property
- To avoid piracy, firms can
 - stay away from countries where intellectual property laws are lax
 - file lawsuits
 - lobby governments for international property rights agreements and enforcement

- Product safety laws set certain standards to which a product must adhere
- Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage
 - liability laws tend to be less extensive in less developed nations

- **Question:**
 - Does the high cost of liability insurance in the U.S. make American companies less competitive?
- **Question:**
 - Is it ethical to follow host country standards when product safety laws are stricter in a firm's home country than in a foreign country?
- **Question:**
 - Is it ethical to follow host country standards when liability laws are more lax in the host country?

- The overall attractiveness of a country as a potential market and/or investment site for an international business depends on balancing the benefits, costs, and risks associated with doing business in that country
 - Other things being equal, more attractive countries have democratic political institutions, market based economies, and strong legal systems that protect property rights and limit corruption