



Comm1150 global business environments

Global Business Environments (University of New South Wales)

Assessment Task	Weighting	Due Date*	Learning Outcomes
Assessment 1: Self-Reflection Video Responding to the impact of COVID and its aftermath on culture (BCom students: myBCom course points for PLO6)	20%	Week 3: 4:00pm Friday 30 September 2022 (AEST/AEDT)	CLO 3, 5, 6
Assessment 2: Lenses and Levels (Individual)	40%		CLO 1, 2, 3, 4, 5, 6
2a: Report outline	10%	2a: Week 5: 4:00pm Friday 14 October 2022 (AEST/AEDT)	
2b: Levels & Lenses Report (BCom students: myBCom course points for PLO3)	30%	2b: Week 9: 4:00pm Monday 7 November 2022 (AEST/AEDT)	
Assessment 3: Group Sustainability Presentation	40%		CLO 1, 2, 3, 4, 6
Group Sustainability Presentation (Group)	30%	Week 11: 4:00pm Friday 25 November 2022 (AEST/AEDT)	
Individual Presentation Engagement (Individual)	10%		

Week 1 : Introduction

The global business environment and decision making

- The business environment includes everything outside of the business, that is relevant to and can impact the business
 - includes current and future economic conditions, political influences, social issues, cultural values and norms, legal considerations and sustainability needs

Threats and Opportunities from the Global Environment

- A change in the environment can lead to threats associated with lower consumer demand, higher prices for supply, more competition
- A change in the environment can also lead to opportunities associated with new markets, new technologies, or new solutions to existing issues

Four features of the global business environment

- Heterogeneity (cultural diversity)
 - On a local level we see differences across the suburbs of Sydney which are socio-cultural, economic, political and natural. Zooming out, we also see that Sydney is different to every other city in Australia. Zooming out further we see that there are even greater differences between cities all over the world.
- Multiple Levels
 - For example, local, state, national, regional and global political institutions all have an impact on all businesses—even those that only operate within a local market.
- Change
 - For example, while interest rates change at the national level, the economic impact can reverberate around the world and within each municipality.
- Multiple lenses
 - For example, Sydney has its own culture, political dynamics, laws, economic conditions, social and natural environmental impact.

Different views of the business environment; levels and change

- The business environment might look different depending on the level of our perspective.
 - EG see that there are similar concentrations of hospitals around other major universities in Sydney. We see how hospitals are more concentrated in major cities than in regional parts of New South Wales. Or we see how hospitals are concentrated in wealthy countries such as Australia.

Four lenses on the global business environment

- socio-cultural
 - Diversity of cultures: different beliefs, ways of living and doing things
 - Culture across different levels: Global and local culture and everything in-between
- political-legal
 - The basic structure of the contemporary global world: the world of nation-states
 - Political and legal systems: Rules and regulation and their influences on individuals and organisations
- economic
 - Economic trends and fluctuations that shape economic behaviour
 - Economic development and growth; labour supply and consumption; fiscal and monetary policy

→ sustainability.

- The physical environment, interdependence and systems view
- The United Nations Sustainable Development Goals
- We should be approaching sustainability from an outside in approach (how is the outside going to impact the business)

Environmental sustainability

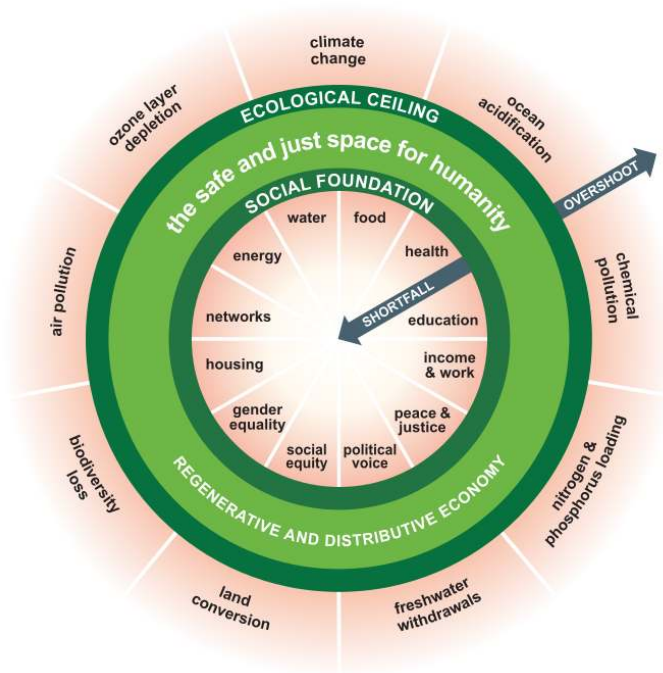
- Provisioning services: food, water, medicine
- Regulating services: climate, air quality, waste management
- Habitat or support: genetic diversity, habitat
- Cultural services: physical + mental health, tourism, art, spirituality

Social sustainability

- The goals of social sustainability are:
 - that people have the capacity to realise their full potential as a human being
 - meeting people's needs (across and within societies and generations)
 - social justice (intergenerational and intragenerational equity)
 - flourishing societies

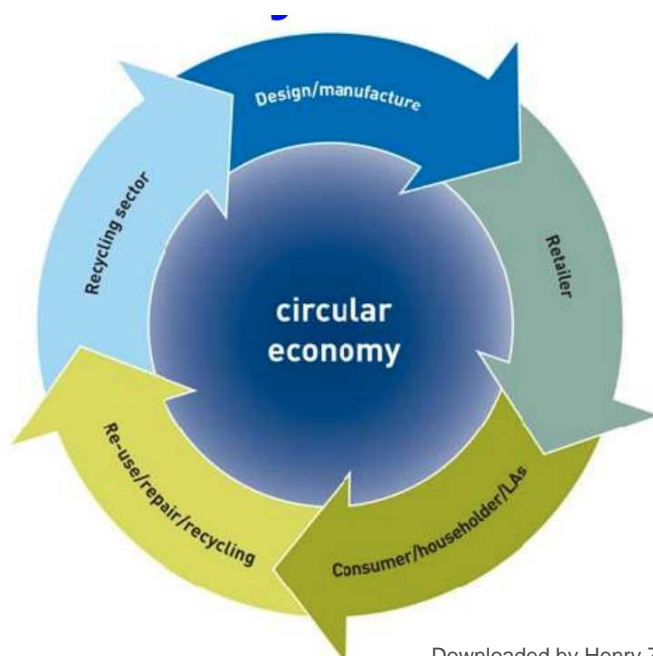
Sustainable development

- 2 key concepts
 - the concept of needs, in particular the essential needs of the world's poor, to which overriding priority should be given
 - the idea of limitations imposed by the state of technology and social organisation on the environment's ability to meet present and future need (Intergenerational equity)
- underpinned by UN 17 sustainable development goals



Circular economy

- aims to value add through the product life cycle without wasting – or ending up with waste.
- system-wide innovation redefines products and services to design waste out
 - Eg new focus on avoiding fast fashion



Zooming out

The World
Regional blocs
Nation-state (country)
State/Province
Regions within States/Provinces
Cities
...

Zooming in

Week 2 : Culture

Pre lecture

What is culture

- culture = The ideas, customs and norms / social behaviours of particular people or societies
- working through different economies, policies beliefs and differences can be costly
- Cultural diversity potentially brings out complexities in the international business environment
- developing cultural competence is crucial for global business
- Failure to recognise different cultural needs results in failure
 - Eg starbucks in aus. We have an appreciation for quality, organic coffee, as we already were exposed to small coffee vendors, so we were uninterested in starbucks. Resulted in 2/3 aus stores closing in 2008.

Heterogeneity and change

- people from different cultural contexts or influences do not think, (inter)act, and live alike
- In a highly global world in which people are frequently moving from one location to another, we are likely to encounter others influenced by different cultures
- cultural competence = the awareness of culture's diversity
- Understanding how and why culture changes would help organisations to adapt to the dynamic environment
 - EG COVID has changed the way we work, and companies could insist on the old way of doing things or adapt to this shift in work culture.

Pre Tutorial

- transplants fail especially when they do not adapt to the cultural environment (e.g., Starbucks)
- Successful cases sometimes change the very culture of the place in which they have settled (eg McDonalds)
- EG Italian, Mexican and Thai have adapted to the new continents it has moved into (eg Italy pizza and Aus pizza are different)
- New cultural trends include increasingly flexible and informal work spaces. Some organisations now let their employees decide their hours, and don't set a formal work dress or designated work space. Employees are encouraged to work in whatever way is beneficial and productive for them.

Lecture

Frameworks for Understanding (National) Culture

Hofstede's cultural dimensions

- Study of value dimensions based on a survey of 100,000 employees of a large corporation in 50 countries

Value dimension	Relevance to business context
Power distance (Distribution of Power)	Relations between superiors & subordinates; Degree to which less powerful accept power distribution
Uncertainty avoidance (Tolerance for Ambiguity)	Propensity for risk; threatened by unknown situations or ambiguity
Individualism vs. collectivism (Integration into groups)	Individual's identification with organization and group dynamics; Loose ties between individuals
Masculinity vs femininity (Achievement etc. vs. caring..)	Emotional gender roles are clear and distinct; men are supposed to be more assertive, tough, and focused on material success vs. emotional gender roles overlap and both men and women are supposed to be modest, tender, and concerned with quality of life.
Long- vs short-term orientation	Oriented toward future rewards (perseverance and thrift) vs. present and past orientation; Time horizon for decision making

The World Values Survey

- World is moving toward values that are increasingly rational, tolerant, trusting, and participatory

Culture at an individual level

- Avoid: Ethnocentrism: a belief that one's own group is superior to others
- Promote : Cultural awareness, recognition of cultural differences and making cultural adjustments as necessary

Week 3 : Political Legal Lens

Pre lecture activity

→ because different countries have different regulations and legal systems, the global political systems are a great source of complexity for international businesses to be involved in

The nation state

→ The nation-state system is fundamental to how we think and talk about the world. For example, import and export are about things (goods and services) moving in (import) and out (export) of the borders of a country. A domestic market falls within the borders of a country, and international markets refer to the ones that exist beyond the borders of a country

Sovereignty

→ Sovereignty in the international context means that all countries must respect the ultimate authority of other states and the supremacy of their authority within their borders. That is, sovereign countries recognise one another as such and do not interfere in the internal affairs of other sovereign countries.

→ This mutual recognition is manifested in the establishment of diplomatic interaction and relationships and in the membership in the United Nations.

The centrality of the state (government) in the global business environment

→ The political-legal environment is a great source of heterogeneity and change in the global business environment, creating the conditions, productive activities and shaping the opportunities and threats for organisations and individuals.

→ Central to all these basic ingredients of a functioning society and market and the globalising world are political and legal institutions, particularly, the state. The capacity and effectiveness of the state vary significantly across the globe: some states are able to develop and support a thriving environment for their citizens.

→ Moreover, collaboration among governments around the world has become ever more urgent. The grand challenges facing humanity and Planet Earth such as climate change, global inequality, modern slavery, and global health just to name a few require tighter relationship among countries.

Political Risk and business

→ Narrowly defined, political risk means the danger created by the actions of the state such as nationalisation of strategic industries and mismanagement of the economy or shifts in government policy (trade barriers or liberalisation, tax cuts etc) that could negatively impact businesses.

→ Political risk can be defined as the probability of any political action that could significantly impact businesses

Lecture

Political systems = A system of government and collective decision making and implementation

Legal systems = A system of rules and laws that regulate behaviour and the processes of enforcement

Political systems : Sources of heterogeneity

Democratic freedom = lack of political freedom can also restrict company actions; oppression can lead to instability (E.g., Google in China)

Unitary v Federal Systems = how many governments does the business need to deal with? (e.g., U.S. governors attracting foreign investments)

Political ideologies = may be pro or anti business

Policymaking = businesses need to know how policies are made and by whom and how to input policy processes

Government system = businesses need to know where power lies e.g executive or legislature

The extent of rule of law = the strength and stability of the legal system) provides businesses with less uncertainty and more stability

Political risk and its impact on business : 10 Types of Political Risk

1. Geopolitics: e.g., interstate wars, great power shifts

2. Internal conflict: e.g., social unrest, ethnic violence

3. Laws, regulations, policies: e.g., changes in foreign ownership rules, taxation

4. Breaches of contract: e.g., government reneging on contracts

5. Corruption: e.g., discriminatory taxation, systemic bribery

6. Extraterritorial reach: e.g., unilateral sanctions, criminal investigations

7. Natural resource manipulation: e.g., politically motivated changes in supply energy

8. Social activism: e.g., events or options that "go viral"

9. Terrorism: e.g., politically motivated threats or use of violence against persons, property

10. Cyber threats: e.g., theft or destruction of intellectual property, espionage



Political Risk at different levels



Political risk : Opportunities and threats



What is the definition of "Political Risk"

Political risk is the risk an investment's returns could suffer as a result of political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policymakers or military control. There are many kinds of political risks which can affect business: potential political and economic instability, labour problems, local product safety and environmental laws. Political risk analysis aims to provide insight into areas of the political process in which a business needs to intervene if it wants to change the business environment, mitigate its potential risks, or maximize its opportunities.

What are the "other players" in the political realm?

officials
Individuals
Activists
NGOs
Companies
Parties
International Organizations

What are some of the "new forces" behind political risk?

Technology
Social Media
Internet

State Capacity and Effectiveness

Failed/ Fragile state

→ states where the principles of territorial unity, legitimate monopoly over the use of force and constitutional law do not apply. Consequences = *Demographics* • Democratic Republic of Congo: 50% under age 14. *Refugees* • Somalia: 2 million people uprooted by conflicts *Illegitimate Governments* • Afghanistan: Taliban presence and flawed presidential election undermined the legitimacy. *Brain Drain* • Zimbabwe: 1 out of 5 fled the country in the past decade. *Public Services* • Niger: government lacks any ability to provide services such as education and health care. *Human Rights* • Sudan's south, east, and west are seeking autonomy because of government neglect and active persecution *Inequality* • Sudan: elites profit from resource wealth, but the majority are poor. *Security Forces* within a State • Somalia: Islamist militias, warlords, rival clan factions outside Mogadishu. *Factionalized Elites* • Somalia: Islamist and clan organizations vie for control unstable government. *External Intervention* • Afghanistan

What makes a strong state?

Meritocratic recruitment

→ Internalised shared norms and goals among equally qualified individuals
→ Identification with colleagues → less likely to succumb to corruption

Long-term career ladder

→ Increase competence in the long run
→ Less likely to be attracted to short-term gains through corrupt behaviour
→ Competitive salaries, promotion ladder, etc → disincentives for corruption

Corruption in global business environments

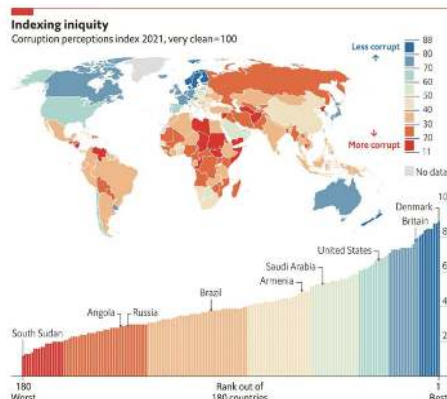
Corruption : Cultural understanding

Formal definitions:

- "Abuse of **public office** for **private gain** (e.g. bribing judges in a court case)" (Transparency International)
- "Perversion or destruction of **integrity** in the discharge of **public duties** by **bribery** or **favour**" (Oxford English Dictionary)
- "Public": individuals acting on behalf of the public, normally government officials at some level
- "Duties": corruption entails abuse of the trust and formal responsibility someone has undertaken by virtue of a position held in some organization

"What is seen as criminal dealing in one society may be accepted as normal in another."

- "Integrity" defined by social and professional norms that vary by time and place.
- "Bribery" is elastic and negotiable.
 - E.g., School teachers in China vs. Australia
- Bribery or Extortion: depends on who initiates.
 - Bribery if initiated by citizens
 - Extortion if initiated by officials
 - Difficult to tell in reality
- The level of corruption depends on:
 - Effectiveness of **legal system** and law enforcement
 - **Social/cultural** attitudes towards corruption
 - **State capacity**



Gifts, hospitality and expenses

→ Giving of gifts, hospitality and other expenses is in itself not illegal under Australian law.

→ Whether these items are a bribe depends on whether it amounts to a benefit or business advantage that is not legitimately due to the recipient with the intention to secure a business advantage that is prohibited.

→ Otherwise, so long as any gift, hospitality or expense payment is reasonable and proportionate to the business relationship between the parties, and is unconnected to any discretionary decisions such as the award of a licence or a contract sought by tender, such payments are legal

Pre Lecture

- All lenses are interrelated, and businesses must look at both local and broader economic trends when making decisions
- Recent phenomena = globalisation of trade causing global economic growth
 - In the past, most consumable goods were produced close to where they were sold. Now we buy a shirt in Australia, that was produced in China, from cotton farmed in Brazil
 - We also have access to services from other countries (eg bank companies may have headquarters in other countries)
- people are wary of the effects of increased international trade and globalisation
 - trade war between the United States and China and the recent economic sanctions on some Russian exports
- a key area where hyper-globalisation and national sovereignty became incompatible with democratic politics (in industrialised Western countries) with the rise of the labour movement
 - led to popular support for trade restrictions aimed at protecting higher wages and better working conditions for low-skilled workers in developed countries. This meant "hyper-globalisation" was not compatible with having both democratic politics in these countries and the national sovereignty that allows them to enact trade restrictions.

Globalisation and deglobalisation in the long run

<https://www.core-econ.org/the-economy/book/text/18.html#181-globalization-and-deglobalization-in-the-long-run>

- Services that are commonly traded across borders are tourism, financial services, and legal advice
- traded services make merchandise trade easier or cheaper—for example, shipping services, or insurance and financial services
- Nowadays, countries also export educational services (for example, people travel from all over the world to study in US or European universities), consulting services, and medical services
 - India has become a major exporter of software-related services.

→ In the right circumstances, globalisation can benefit both exporting producers and importing consumers.

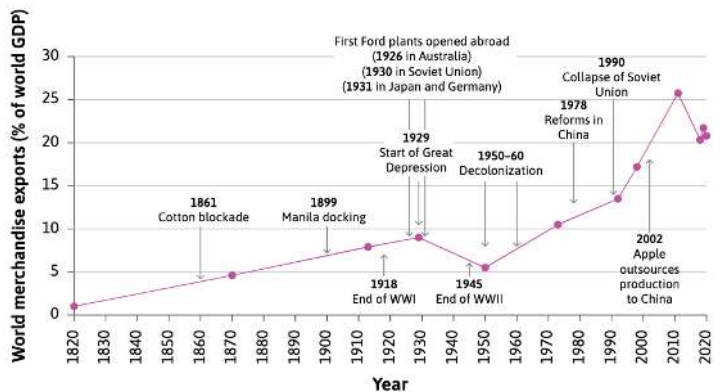
- It does so by bringing them closer together, and it leads to an increase in both the supply of exports and the demand for imports.
- concept of **arbitrage** explains why the price gap should tend to equal the sum of all trade costs
 - Buy low, sell high = profit
 - When traders engage in arbitrage in this fashion, they lower the supply of the good in the export market, driving up its price, and they increase the supply of the good in the import market, lowering its price

→ Globalisation should lead to:

- falling import prices
- Rising export prices
- Declining price gaps between import and export
- A higher index represents higher trade costs and less globalisation
 - graph suggests that commodity market integration over the past 150 years was one of interrupted integration
 - Attempts by countries to address their unemployment problems after the 1929 Great Depression seem to have led to a decline in globalisation

Methods of measuring globalisation

- It is common to measure trends in the share of imports, exports, or total trade (imports plus exports) in GDP as an indicator of globalisation, so as to take account of the growth of GDP as well as trade.
- measure the additional costs associated with exporting goods relative to selling them domestically
 - When the costs of trading between countries fall, then in economic terms, the world has shrunk.



Lecture

→ Why do countries trade

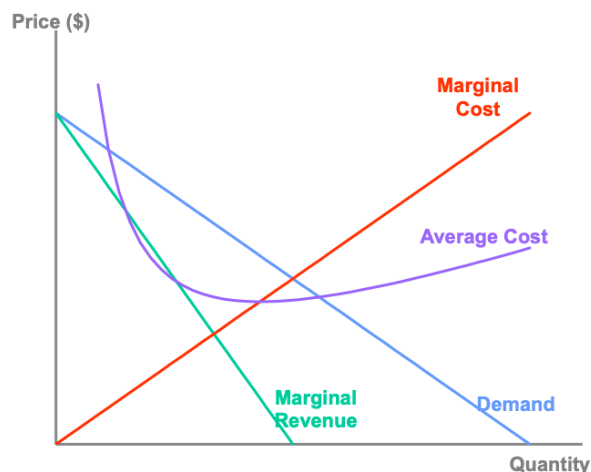
- To realise benefits of specialisation according to comparative advantage.
- To take advantage of economies of scale

→ Absolute v comparative advantage

- The **opportunity cost** of an action is the value of the next best alternative to that action
- **Absolute advantage** is the ability to carry out an activity with fewer resources than someone else
 - EG wages in aus are higher because workers are more productive
- **Comparative advantage** is having a lower opportunity cost of carrying out an activity than someone else.
 - EG Aus has an abundance of photovoltaics engineers

→ Economies of scale

- when the average cost of output falls as a firm or industry increases output.
- Economies of scale can exist at the:
 - Firm level: Average cost depends on the size of the firm (internal EOS)
 - lead to imperfect competition
 - Product differentiation and internal economies of scale give rise to intra-industry trade (Countries trade similar products in both direction)
 - Industry level: Average cost depends on the size of the industry (external EOS)
 - Where external economies of scale exists, many small firms typically cluster in one place (eg The entertainment industry in Hollywood)
- producing near customers reduces trade costs.
- Firms want to concentrate production in one place to maximise economies of scale.



How do Countries Benefit From Trade?

1. Gains from specialisation according to comparative advantage
2. Efficiencies from economies of scale
3. Access to differentiated products and specialised inputs
4. Competition leads to lower markups
5. Access to larger markets increases incentives to innovate
6. Beneficial selection of better-performing firms.

Trade Also Creates Losers

1. Local comparative disadvantage industries die.
2. Concentration of production leads to shutting down factories.
3. Competition reduces profits and incentives to innovate.
4. Worse-performing firms go out of business.
5. Pollution havens and the environmental impact of the shipping industry.

But, the overall gains generally outweigh the losses.

Pre tutorial

Pushing back on "the end of globalisation"

<https://www.minneapolisfed.org/article/2022/pushing-back-on-the-end-of-globalization>

→ nations are "trying to retreat into separate corners, looking to protect themselves by withdrawing from the global economy."

- Disagree : after the first couple of months (of the pandemic) when everything shut down. We have never traded more in the history of the globe
- It's finance, it's universities, it's various forms of technology: Google or Facebook/Meta—these are platforms that are global in scale and that's not going away.

→ supply chains that we're working with today and we've been working with the past couple years are like having all of your eggs in one basket. People are saying, OK, supply chains are all messed up; we're all uncertain about what's going to happen in the world, let's diversify and spread the risk. It's going to show up as more trade.

→ Countries like the middle east are continuing to import things they can't produce, like food, so governments subsidise this stuff (as prices go up). So then the government has to start paying for that, taking on sovereign debt, and these countries can't pay their debts.

→ China sanctions and the impact it's having on the consumer : there are large swaths of what we are importing from China that are facing tariffs, and we just kind of went right through it. Consumers absorbed this, manufacturers absorbed this. We went through this massive shock, and we still demanded all these goods and services from China.

Pre Lecture

Intellectual property law

- Protects interests in law and personal property
 - Includes goods and intangible properties (super, contractual rights, trust properties)

Corruption and bribery

- offering, receiving or soliciting of something of value for the purpose of influencing the action of an official
- Consequences:
 - Loss of money / property for company
 - Inferior product or service being provided as a result of the bribe, leading to a drop in productivity
 - Loss of confidence between customers and staff
 - Decreased confidence in the share market → devalues the company
- Transparency International publish yearly an index on perceived corruption levels around the world

Employment law

- encompasses basic common law rights as an employee and a range of significant legislation in relation to human rights as an employee
- Includes:
 - Right to a safe work environment
 - Right to equal opportunity
 - Protection against unfair treatment
 - Protection against discrimination
 - Workplace health and safety

Competition Law and Consumer Protection

- Competition and Consumer Act 2010
 - govern the operation of competition and consumer law in Australia
- ACL = consumer protection provisions in Schedule 2 of the Act
 - deals with these types of conduct that most affect consumers and provides remedies and penalties for individuals and corporations when there is a breach
 - includes a general prohibition on:
 - misleading or deceptive conduct
 - unconscionable conduct
 - unfair practices, conditions and warranties
 - product safety information
 - manufacturer's liability for goods with safety defects.

Technology Challenges of Political and Legal Norms

- the 'World Wide Web' has evolved a multidimensional internet with many positive uses in commerce, research and communications
- internet and digital technology have improved organisational performance worldwide and can provide global exposure to fraudulent activities in organisations that were previously dealt with 'in-house.'
- Good:
 - In recent years the social media platform has demonstrated strong political, social and cultural impact on society and has been a powerful component in political elections.
- Bad:
 - lack of media independence and political integrity, as well as electoral misconduct, has recently dominated international headlines where activist organisations have misinformed the electorate as to polling results and/or committed or coordinated electoral fraud.

The rule of law

- a durable system of laws, institutions, norms, and community commitment that delivers accountability, just law, impartial government and Accessible and Impartial Justice (no one is above the law)
- The World Justice Project has a rule of law index, which measures how rule of law is experienced around the world.

The rule of law

→ Factors:

- Constraints on government powers
- Absence of corruption
- Open government
- Fundamental rights
- Order and security
- Regulatory enforcement
- Civil justice
- Criminal justice



Accountability

The government as well as private actors are accountable under the law.



Just Law

The law is clear, publicized, and stable and is applied evenly. It ensures human rights as well as contract and property rights.



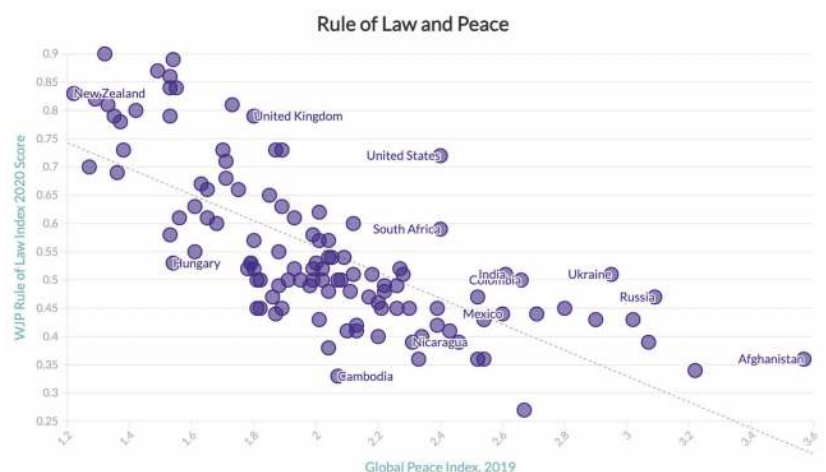
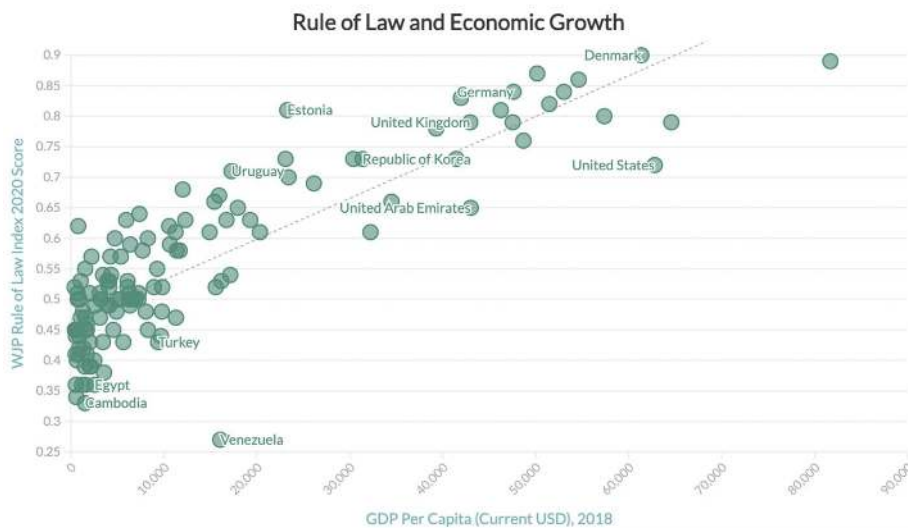
Open Government

The processes by which the law is adopted, administered, adjudicated, and enforced are accessible, fair, and efficient.



Accessible and Impartial Justice

Justice is delivered timely by competent, ethical, and independent representatives and neutrals who are accessible, have adequate resources, and reflect the makeup of the communities they serve.



Legal risk and policy stability in global business environment

→ **Legal risk:** Likelihood of a legal system failing to provide safety (to businesses) and the likelihood of a lack of legal knowledge or understanding and/or illegal, reckless behaviour negatively affecting business

- Contractual risks in overseas markets
- Risks of liability for injuries or defective products and litigation
- Risks of corruption in the legal system
- Violation of property rights, including intellectual property
- Risk of infringement of data protection requirements (importance to e-commerce).

→ Stability of the legal system

- Rule of law: supremacy of law over government and citizens (Principle of equality before the law)
- Independence of judiciary/degree of corruption
- Judicial system load (potential delays)/costs
- Implementation/enforcement of laws/regulations
- Extent of appeals procedure.

Policy stability

→ Based on ability of actors to enact policy change when preferences change

→ Policy risk (feasibility of policy change) emerges when there are no or few political constraints

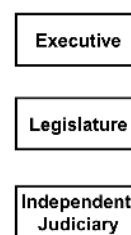
→ political system preferences (the less the similarity, the greater the political constraints, and the lower the policy risks)

- Liberal
- Nationalistic
- Conservative
- Socialist

→ Individual levels in political systems (higher the level, the greater the political constraints, and the lower the policy risks)

- Executive
- Upper legislature
- Lower legislature
- Independent judiciary
- Sub-national actor

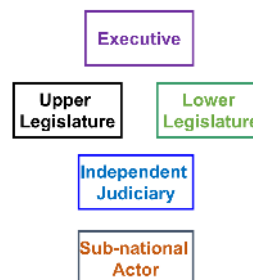
Example: High policy risks



Key Features

- Multiple Levels**
 - Potential for constraints.
- No effective opposition**
 - Preferences aligned.
 - Executives preferences match others.
 - Uncertain environment for businesses.

Example: Low policy risks



Key Features

- Multiple Levels**
 - Potential for constraints.
- Substantial opposition**
 - Preferences not aligned.
 - Certain environment for businesses
 - Has a status quo bias.

Types of Law in Global Business Environment

→ **Contract law**

- conditions under which exchange is to occur and specifies the rights and obligations of the parties to the contract
- Defines the nature (when/price/quantity) of an exchange, are incomplete (cannot define all contingencies) are imperfectly enforceable and difficult to monitor
 - Enforcement depends on the robustness of the legal system (more complete, enforceable and easier to monitor)

→ **Intellectual property rights**

- Knowledge economy looks at:
 - Growing importance of high tech in international trade
 - Economy based on production and distribution of knowledge
 - Innovation and knowledge production through multinational relationships
- Patents
 - granted by the government to inventors, for a fixed period of years, to exclude other persons from making, using or selling a patented product or using a patented method or process.
 - rewarding the creator with a potentially valuable limited monopoly
 - protected under the Commonwealth Patents Act 1990 (Cth)
 - valid only within the territory of the state granting it.
- Copyrights
 - Exclusive right to copy a particular form of literary, dramatic, musical or artistic work
 - protected under the Copyright Act 1968 (Cth)
- Trade mark (**Decker v Australian Leather 2021**)
 - distinguishes goods or services dealt with or provided by a particular trader in the course of trade
 - provides information to consumers of goods regarding the commercial origin of goods
 - The owner of an unregistered trademark has limited protection from it being used by others
 - Trade Marks Act 1995 (Cth).
 - S. 21 provides that a registered trademark is personal property

International Law and Global Business Environments

- International law = the body of legal rules, norms, and standards that apply between sovereign states and other entities that are legally recognized as international actors
- Customary rules and treaty rules that are legally binding among sovereign political entities
- General international law
 - Air & space law, maritime boundaries, antarctic law
- International security law
 - Legal constraints on use of military, international humanitarian law, disarmament, safeguarding of weapons of mass destruction
- International human rights law
- International trade law
- World trade organisation
 - Aims to ensure trade flow as freely as possible
 - Provide forum for trade negotiations and settle trade disputes
 - Monitor and enforce agreements

WTO's Three Agreements: GATS & TRIPS

- General Agreement on Trade in **Service** (GATS)
 - Substantially higher rates of tariffs for services than goods
 - Extends GATT principles to services
 - Member countries commit to schedule for market access
 - Has been extended to cover new sectors (e.g., Telecoms, financial institutions)
 - Still behind access for goods
 - Council for Trade in Services
- Trade Related Aspects of **Intellectual Property Rights** (TRIPS)
 - Extends GATT principles to IP
 - Specifies norms of protection for forms of IP (e.g., copyright, patents, etc.)
 - Sets out obligations for domestic enforcement of IP rights
 - Most comprehensive, global minimum standard, and enforceable through trade sanctions
 - Lots of national differences and controversy especially in the public health system and agricultural support
 - Copyright for 50 years and patents for 20 years
 - No global system for copyright and patents

Measuring the economy

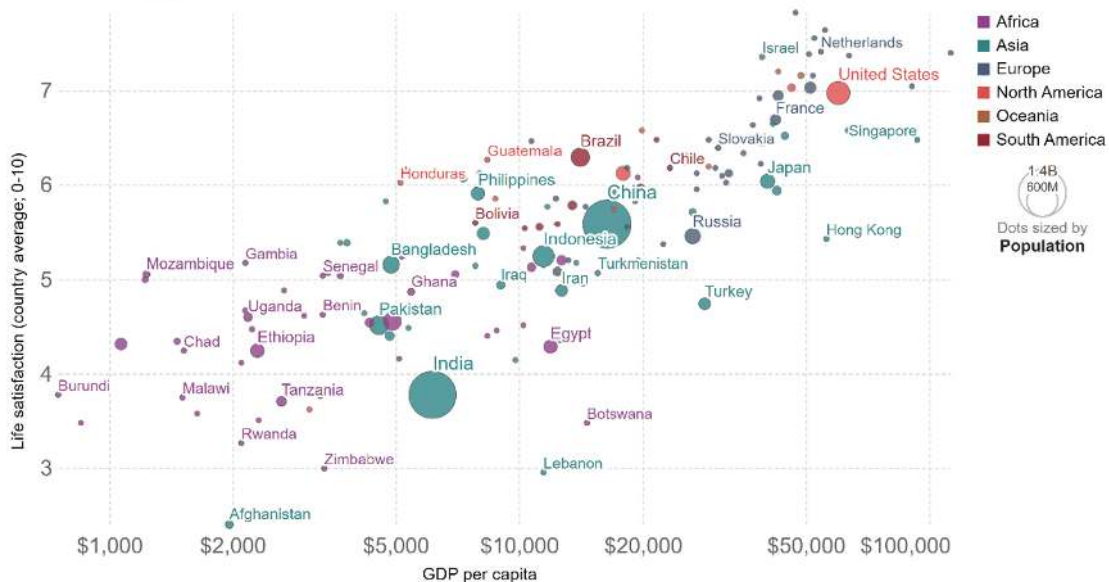
- Key indicators of economic activity
 - Gross Domestic Product (GDP)
 - Price Indices and the Inflation Rate
 - The Balance of Payments
 - The Unemployment Rate
 - Interest Rates
 - Exchange Rates

Gross Domestic Product (GDP)

- most commonly used method to measure the size of the economy
- GDP = The total production of goods and services in the economy
- Measured using:
 - Production = outputs - inputs
 - Income = total income generated by households and businesses during production
 - Expenditure = total spending on final goods and services by households, businesses and government
- does not measure
 - Domestic activities
 - Individual welfare
 - The cost of natural resource depletion or environmental degradation
- measure the value of final goods and services, not the value of intermediates
- RBA show how much each Australian state contributes to total GDP.
- real GDP is often referred to as GDP measured at constant prices, while nominal GDP is referred to as GDP measured at current prices.
 - real GDP adjusts nominal GDP for changes in prices by calculating the value of goods and services using prices from a given base year.
 - When we divide real GDP by population, we get real GDP per capita, which is the most common and readily available measure of the standard of living in a country (not a true reflection of each individuals personal economic situation)
- Higher GDP generally translate to higher self-reported life satisfaction (below)

Self-reported life satisfaction vs GDP per capita, 2020

The vertical axis shows the national average of the self-reported life satisfaction on a scale ranging from 0-10, where 10 is the highest possible life satisfaction. The horizontal axis shows GDP per capita adjusted for inflation and cross-country price differences.



Source: World Happiness Report (2022), Data compiled from multiple sources by World Bank
OurWorldInData.org/happiness-and-life-satisfaction/ • CC BY

The Balance of Payments

→ record transactions between the residents of one country and the rest of the world.

$$Y = C + I + G + EX - IM$$
$$= C + I + G + \text{trade balance}$$

→ The balance of payments divides transactions into two broad accounts:

- the current account (current account captures the net flow of money that results from Australia engaging in international trade)
- the combined capital and financial account (Australia's net change in ownership of assets and liabilities)

→ The current account

- Trade balance - The value of goods and services that Australian residents export less those that they import.
- Primary income balance - The income that Australian residents earn from, less that they pay to, the rest of the world from working
- Secondary income balance
 1. The income that Australian residents earn from, less that they pay to, the rest of the world from the government
 2. Current transfers: transactions between Australian residents and the rest of the world where one party provides something to be consumed by another party without receiving anything in return

→ The Capital and Financial Account

- capital transfers = one party has transferred ownership of something to another party without receiving anything in return; capital transfers include conditional grants for specific capital projects (e.g. a foreign aid project to build roads) and forgiveness of debt
- non-financial, non-produced assets = includes intangible assets (e.g. brand names) as well as rights to use land or water (e.g. for mining or fishing).

→ The Relationship Between the Accounts

- current account is always offset by the capital and financial account so that the sum of these accounts – the balance of payments – is zero
- The value of whatever is traded (recorded in the current account) is offset by a movement of some form of asset to pay for it (recorded in the capital and financial account)
 - The capital flowing into Australia is recorded as a credit in the balance of payments and has been associated with a capital and financial account surplus. This surplus is matched by a current account deficit (recorded as a debit)

Unemployment rate

→ people who would like a job but cannot find one

→ Criteria:

- Have not worked in the previous week
- Be actively looking for work
- Be immediately available for work

→ The labour force participation rate is the share of the working age population that is in the labour force

→ employment rate is the share of the working age population that is employed.

→ underemployment rate = not just those who are unemployed but those who are working but who are available and would like to work more hours

$$\text{Unemployment rate} = \frac{\text{Unemployed}}{\text{Labour Force}}$$

$$\text{Participation rate} = \frac{\text{Labour force}}{\text{Working age population}}$$

$$\text{Employment rate} = \frac{\text{Employed}}{\text{Working age population}}$$