



Principles of Business – Term 3

BA 1st Year – March-May 2020

Course summary

This Term 3 Principles of Business course is part of BA (Hons) Fashion Business 2019/2020 (Term 1,2,3) Level 4 Principles of Business Unit (30 Credit), and a direct continuation of Principles of Business course given by Veronique DULCHAIN in Term 1 and Business Economics course given in Term 2 by myself.

Our first course was a discovery of some economic law, with a goal of making you think like an economist.

This second course aims to move into more practical notions of organization and management.

Course plan

ISTITUTO MARANGONI - BA Fashion Business				
Principles of Business - Term 3 - 2019 / 2020				
Course n°	Date	Time	Duration (H)	Section content
1	2020-03-23	14h45-17h15	2,5	Globalization & Free trade Ricardo model Homework: review all the economics lectures
2	2020-03-24	11h15-13h45	2,5	Introduction to management and leadership Homework: complete the leadership exercises
3	2020-04-06	11h15-13h45	2,5	Organisational structures (U form, M form, Internal Matrix)
4	2020-04-07	8h30-11h	2,5	Business and stakeholders: Principles of win-win ; Negotiation skills
5	2020-04-27	8h30-11h	2,5	Decision making: How to make the right decisions
6	2020-04-30	14h45-17h15	2,5	Business Legal Structures and Modalities Limited liability, Sole Trader, SA, SAS.
7	2020-05-12	11h15-13h45	2,5	Final review session
8	2020-05-12	14h45-17h15	2,5	Mockup exam and Q&A
				Assessment period
	Total		20	

May change in case of pedagogical adaptation

Course assessment

Students will use the Term 3 part of the course for the Element 2 of Principles of Business assessment which consist in a 2 hours unseen exam also incorporating Term 1 course of Véronique Dulchain along with Term 2 course.



Principles of Business

Term 3 ; course n°1

Globalization & Free trade ; Ricardo model

BA 1st Year - 23/03/2020

What is globalization ?

Economic globalization

Three variables have typically been used to operationalize globalization in broadly cross-national panel studies of economic globalization: foreign trade, foreign direct investment and foreign portfolio investment. Foreign trade as a proportion of GDP is the ratio of imports plus exports to total economic activity within a country; when a country is more closely tied into global trade networks, it is more exposed to pressures emanating from the world outside its borders. Foreign direct investment as a proportion of GDP (FDI) is the ratio of active foreign investment (investment that implies some level of management involvement, typically defined as at least 10 per cent of a company) to total economic activity; it tends to vary widely year by year. Foreign portfolio investment as a proportion of GDP (FPI) is the ratio of passive foreign investment (investment that is motivated by speculative gain, with no implications for management control) to total economic activity; it is even more variable than FDI.

Source : Ritzer, G., 2007, The Blackwell Companion to Globalization, Wiley- Blackwell

Globalization : figures

Trade (% of GDP)

World Bank national accounts data, and OECD National Accounts data files.

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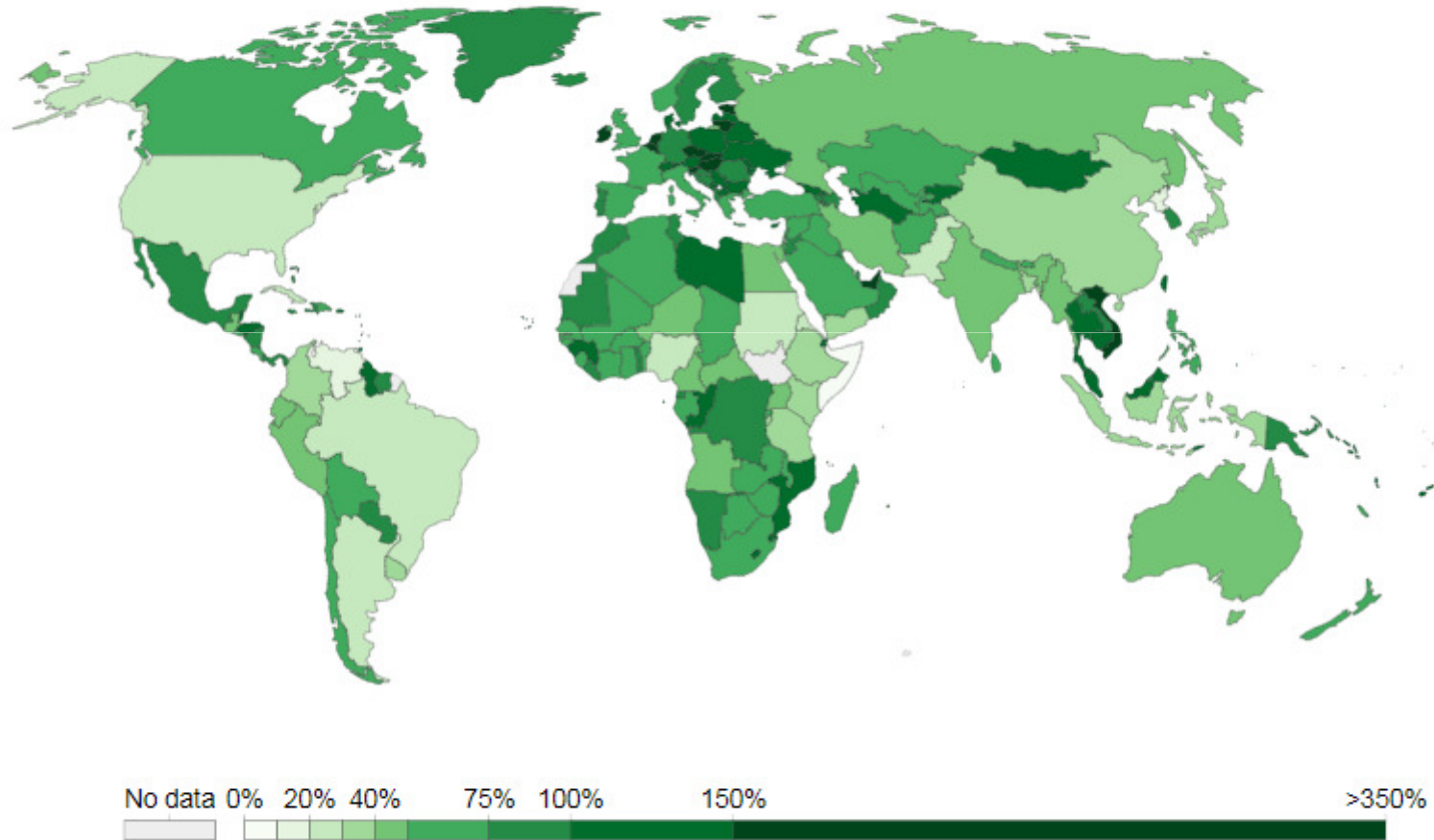


World total ; Source : <https://data.worldbank.org/indicator/ne.trD.gnfs.Zs>

Globalization : figures

Trade Openness, 2017

Trade openness is measured as the sum of a country's exports and imports as a share of that country's GDP (in %).



Source: Feenstra et al. (2015) Penn World Tables version 9.1

OurWorldInData.org/trade-and-globalization • CC BY

Globalization : figures

World	2018	59
Arab World	2018	87
Caribbean small states		
Central Europe and the Baltics	2018	128
East Asia & Pacific	2018	58
East Asia & Pacific (excluding high income)	2018	49
Euro area	2018	88
Europe & Central Asia	2018	84
Europe & Central Asia (excluding high income)	2018	64
European Union	2018	87
Fragile and conflict affected situations	2018	76
Heavily indebted poor countries (HIPC)	2018	61
Latin America & Caribbean	2018	47

Trade (import + export) as a % of GDP.
By group of countries

Source :
<https://data.worldbank.org/indicator/ne.trD.gnfs.Zs>

Globalization : figures

Latin America & Caribbean (excluding high income)	2018	45
Least developed countries: UN classification	2017	51
Middle East & North Africa	2018	86
Middle East & North Africa (excluding high income)	2017	61
North America	2018	31
OECD members	2018	58
Other small states	2018	109
Pacific island small states		
Small states	2018	107
South Asia	2018	42
Sub-Saharan Africa	2018	54
Sub-Saharan Africa (excluding high income)	2018	54
High income	2018	63
Low & middle income	2018	51
Low income	2017	56
Lower middle income	2018	55
Middle income	2018	51
Upper middle income	2018	

Trade (import + export) as
a % of GDP.
By group of countries

Source :
<https://data.worldbank.org/indicator/ne.trD.gnfs.Zs>

Globalization : figures

We can also use Wikipedia to find country by country data : https://en.wikipedia.org/wiki/List_of_countries_by_trade-to-GDP_ratio .

The data still come from the World Bank and is more synthetically presented and easy to use.

Major conclusions on trade to GDP figures : the smaller the country the greater the foreign trade. Correlation with income (GDP / capita) can be discussed.

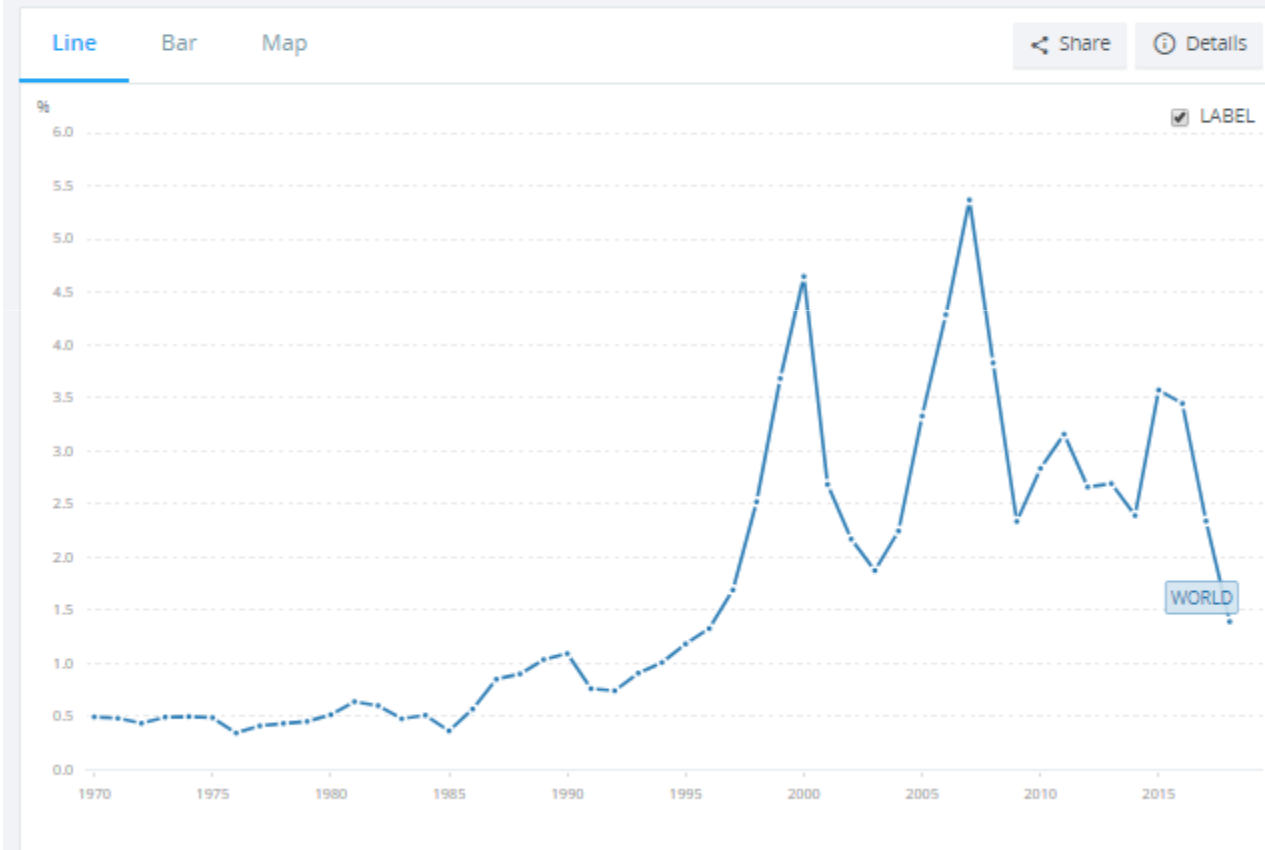
Results must be carefully analysed : USA is at 27% because it is such a big internal economy and we will see the same for China (40% but will reduce). UE is high at 87% (with Germany 87% and France 63%) because trade between union members is accounted for.

Globalization : figures

Foreign direct investment, net inflows (% of GDP)

International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, International Debt Statistics, and World Bank and OECD GDP estimates.

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World total

Source :

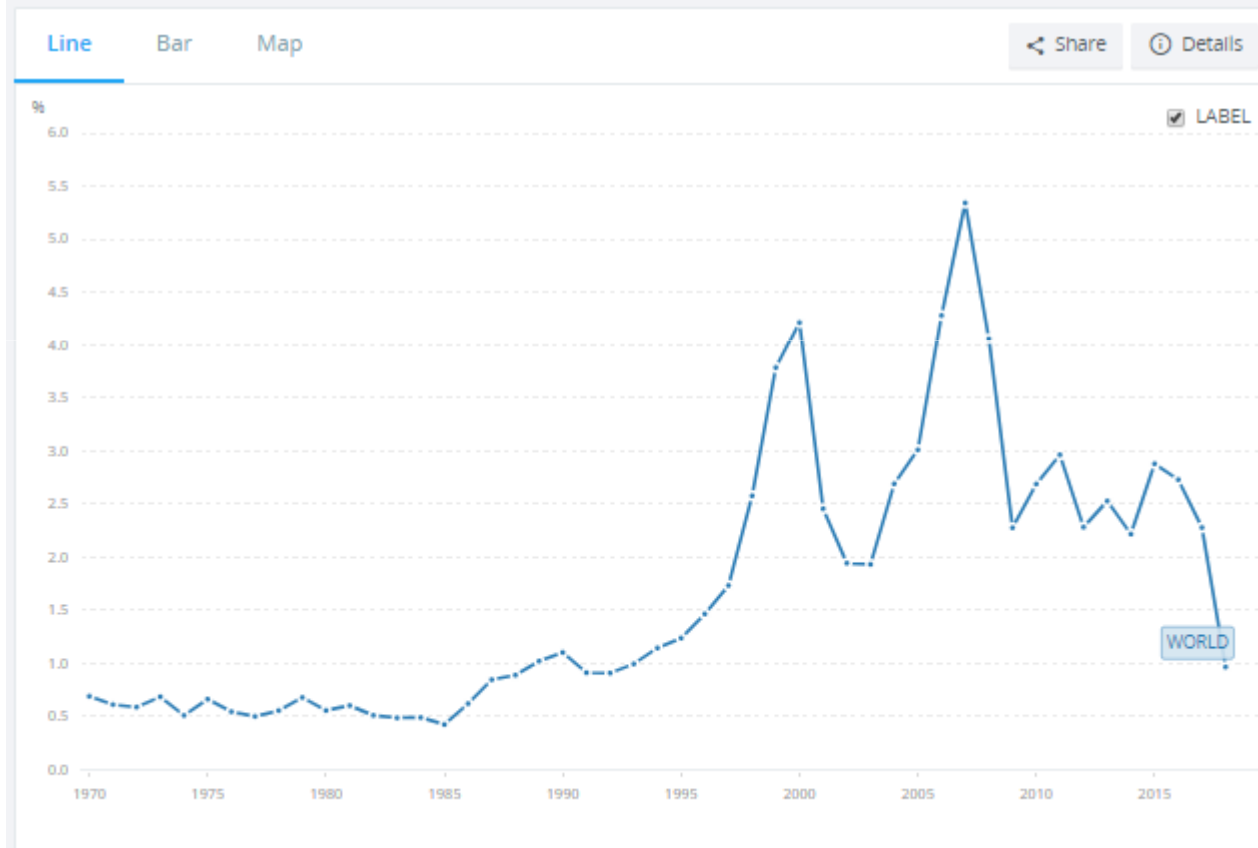
<https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS>

Globalization : figures

Foreign direct investment, net outflows (% of GDP)

International Monetary Fund, Balance of Payments database, supplemented by data from the United Nations Conference on Trade and Development and official national sources.

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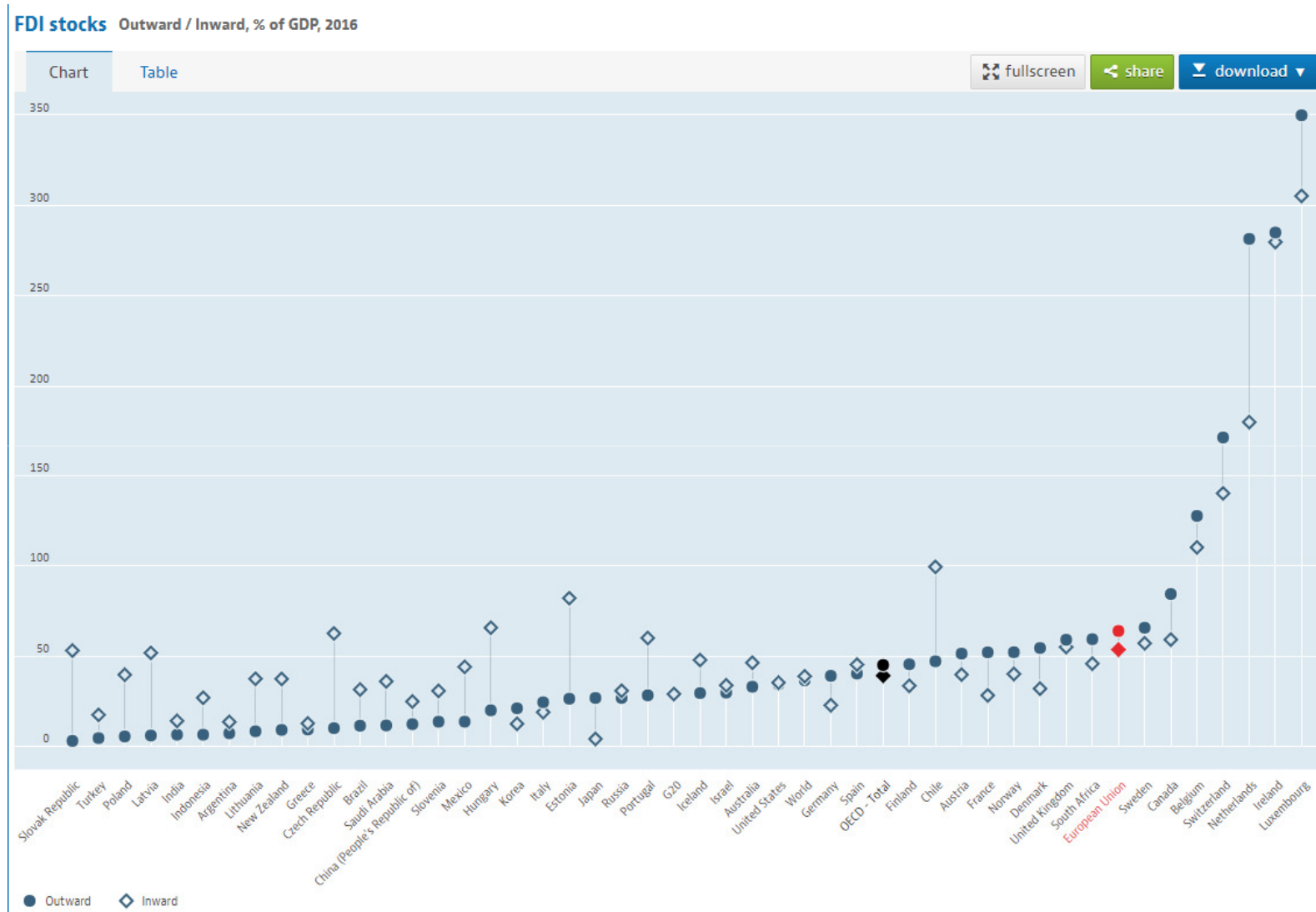
World total

Souldn't inflow and outflows match ?

Source :

<https://data.worldbank.org/indicator/BM.KLT.DINV.WD.GD.ZS>

Globalization : figures



Source : https://www.oecd-ilibrary.org/finance-and-investment/fdi-stocks/indicator/english_80eca1f9-en

Alexis Nass - 2020

Globalization : figures

Major conclusions on FDI to GDP figures : the annual growth rate of FDI to GDP is still higher than in pre 1995 period, but the speed is reducing since 2 years (2017 and 2018 latest available). Are we entering a more mature phase of globalization ?

We also see that European countries are the ones with the highest rate of FDI stock to GDP, because there are many inter-union investments.

Figures must be carefully analysed : Why FDI to GDP inflows are not matching outflows ? I just don't know. I know that countries are more likely to show inflow (money in the country) than outflows (money out the country) for political reasons.

Globalization : theory

Do you remember Ricardo from previous course ?

Founders of Economic science

David RICARDO, 1772-1823, *On the Principles of Political Economy and Taxation* (1817)



Globalization : Ricardo's comparative advantage theory

In a famous example, Ricardo considers a world economy consisting of two countries, Portugal and England, each producing two goods of identical quality. In Portugal, the a priori more efficient country, it is possible to produce wine and cloth with less labor than it would take to produce the same quantities in England. However, the **relative costs** of producing those two goods differ between the countries.

Cost is given in hours of work, consistent with the **work value theory** (please read previous course).

Hours of work necessary to produce one unit

Produce Country	Cloth	Wine
England	100	120
Portugal	90	80

England could commit 100 hours of labor to produce one unit of cloth, or produce **5/6** units of wine (100/120). Meanwhile, in comparison, Portugal could commit 90 hours of labor to produce one unit of cloth, or produce **9/8** units of wine. So, Portugal possesses an **absolute advantage** in producing cloth due to fewer labor hours, but England has a **comparative advantage** in producing cloth due to lower opportunity cost.

Globalization : theory

In the absence of trade, England requires 220 hours of work to both produce and consume one unit each of cloth and wine while Portugal requires 170 hours of work to produce and consume the same quantities.

England is more efficient at producing cloth than wine, and Portugal is more efficient at producing wine than cloth. So, if each **country specializes in the good for which it has a comparative advantage**, then the global production of both goods increases, for England can spend 220 labor hours to produce 2.2 units of cloth while Portugal can spend 170 hours to produce 2.125 units of wine.

Moreover, if both countries specialize in the above manner and England trades a unit of its cloth for $\frac{5}{6}$ to $\frac{9}{8}$ units of Portugal's wine, then both countries can consume at least a unit each of cloth and wine, with 0 to 0.2 units of cloth and 0 to 0.125 units of wine remaining in each respective country to be consumed or exported. Consequently, both England and Portugal can consume more wine and cloth under free trade than in autarky.

Globalization : theory

No trade : each country produce 1 unit of each production

	Hours of work			Production (in units)	
	Cloth	Wine	Total H of work	Cloth	Wine
England	100	120	220	1	1
Portugal	90	80	170	1	1

Trade : each country specialize into the production where he's the most efficient, allocating the same total amount of hours of work than in the no trade situation

	Hours of work			Production (in units)		Trade (in units)		Production + Trade (in units)			equivalent in hours of work		
	Cloth	Wine	Total H of work	Cloth	Wine	Cloth	Wine	Cloth	Wine	Total	Cloth	Wine	Total H of work
England	220	0	220	2,2	0	-1,1	1,078	1,1	1,078	2,18	110	129	239
Portugal	0	170	170	0	2,125	1,1	-1,078	1,1	1,047	2,15	99	83,8	183
exchange rate = between 5/6 to 9/8				0,83	1,125	1,96	0,98	0,98					

Exchange rate explanation : Its is the Cloth/Wine exchange rate meaning 1 unit of Cloth = X units of Wine.
 Because England needs 100h of work to make Cloth and 120h to make Wine they need to trade at a rate over $5/6 = 0,83$ to profit from trade ;
 Because Portugal needs 90h of work to make Cloth and 80h to make Wine they need to trade at a rate under $9/8 = 1,125$ to profit from trade

Teacher personal Excel Ricardo pricer available on www.alexisnass.com !

Globalization : final example

Ricardo comparative advantage model is not always easy to student because of the maths aspect than generate **mental block**.

It was the same for your modest teacher until my own university teacher gave me that example : “imagine that you are an university teacher and you work with a pedagogical assistant, and imagine than you are better in assistant work than your assistant, you still have interest into specializing into high added value university teacher work and work with an assistant”.

I apply this in my life today : i hired a professionnal painter for my house instead of doing it myself. Doing it by myself i would have saved the money for the painter, but i should rather hire a painter and use my time for a work that have an higher salary than the painter’s wages.

Student work

- 1) Reread Business Economics course on Ricardo Model
- 2) Download Excel Ricardo pricer and change the input in yellow.
- 3) Do a quick research work : which countries produce cloth at the moment ? What is the major change from 40 years ago ? What is the major change form 10 years ago ?

Sources for student work

- 1) https://www.persee.fr/doc/estat_0336-1454_1971_num_28_1_2144 ;
- 2) <http://www.textile.fr/wp-content/uploads/2019/06/chiffrescles20191.pdf>

About France, in french

- 3) <https://shenglufashion.com/2019/08/16/wto-reports-world-textile-and-apparel-trade-in-2018/>