**10.1 International Marketing / International Exchange Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Part I: Going Global**

McDonalds Big Mac sandwich is basically the same around the world. It not only has the same look and taste, but it also uses the same ingredients and processes. So, in theory, all Big Macs should cost about the same in every culture. The international business journal The Economist has been using a Big Mac index since 1986. It compares the average of Big Mac prices among countries based on the idea that each country’s currency should reflect its purchasing power.

In 2005, a Big Mac’s average cost in countries using the Euro was €2.92. the average price in the United States was $3.06. This comparison showed that Europeans spent $1.05 more than Americans, indicating that the euro was overvalued by 17 percent against the dollar. Price differences can come from costs other than ingredients, such as rent and labor costs. Rent and labor is much higher in Switzerland ($5.05 Big Mac) than in China ($1.27 Big Mac). Differences in prices also can exist because currencies do not reflect true exchange rates.

The Big Mac index has shown some relevance. Purchasing Power indexes can give a direction to where currencies are headed over the long run. The Economist introduced a new Tall Latte Index based on a cup of Starbucks coffee. This index also showed the euro as being overvalued.

**Why is a Big Mac a good product for comparing international currencies? Other than a tall latte, what else could The Economist use?**

**Terms / Concepts to Know:**

Money Currency Hard Currency Soft Currency Float Peg

Demand Supply Exchange Rate Law of Supply & Demand Transactional Demand

Eurodollars Speculative Demand Economic Confidence Economic Confidence

**Currency Questions:**

**Would you rather have a pocket full of Monopoly money or US Dollars? *Explain why.***

If Monopoly money was made a legal tender in the United States (tradable currency) along with the US Dollar, would you have a preference on which form of currency you used? **List the type of currency you trust the most & 1 reason as to why.**

**Law of Supply & Demand**

Create an individual demand schedule for your consumption of soda out of a machine per week. Fill in six different quantities demanded based on the prices below. Then plot the points of your curve on a demand graph. Ask two other classmates for their demand schedule & plot their responses as well.

**What happens to demand when it is shifted to the right or left?**

|  |  |  |  |
| --- | --- | --- | --- |
| **Price** | **Bottles Bought Per Week**  **By You** | **Bottles Bought Per Week**  **Classmate #1** | **Bottles Bought Per Week**  **Classmate #2** |
| 3.00 |  |  |  |
| 2.50 |  |  |  |
| 2.00 |  |  |  |
| 1.50 |  |  |  |
| 1.00 |  |  |  |
| .50 |  |  |  |
| .25 |  |  |  |

3.00

2.50

2.00

1.50

1.00

.50

.25

0

1 5 10 20 30 40

**Exchange Rate:** Use a website to complete the chart below based on the Exchange Rate for the US Dollar.

**How does the US Dollar compare in value to other countries?**

|  |  |  |
| --- | --- | --- |
| **US Dollar** | **Foreign Currency / Country** | **Difference in Value** |
| $1.00 | Canada |  |
| $1.00 | .8748 Euro | .1252 |
| $1.00 | Japan |  |
| $1.00 |  |  |
| $1,000,000 |  |  |

**What is the difference between a currency that is said to float versus a currency that is said to be pegged?**

**What do hard currencies typically do? Float or be pegged? Why do you think that is?**

**Four Major Factors that influence the exchange rates between countries**

1. Transactional Demand
2. Economic Confidence
3. Money Supply
4. Speculative Demand

**Explain or Illustrate how each factor can influence the marketplace**

**Economic Conditions**

**Transactional Demand**

**Money Supply**

**Speculative Demand**

**International Marketing: Activity 10.01 Exchange Rates: Which is better, a strong dollar or a weak dollar?**

Note: The dollar is “strong” when it can be exchanged for a relatively large amount of foreign currency. It is considered “weak” when it can be exchanged for a relatively smaller amount of foreign currency.

**The exporter’s point of view:**

You work for a company that exports blue jeans to France. Work through the numbers below to determine whether your company, as an exporter, would prefer a relatively strong dollar or a relatively weak dollar. Keep in mind that your company wants to be paid in U.S. dollars. Therefore, the company purchasing your product will have to exchange their currency for U.S. currency.

**The French will buy your jeans in lots of 100. Your selling price is $1500 per lot. How much will it cost in Euros if:**

Exchange rate Price in Euros at exchange rate

A: $1 = 0.7 Euros \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

B: $1 = 0.75 Euros \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

C: $1 = 0.8 Euros \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. In which case is the cost lowest for the French? Case # \_\_\_\_\_
2. In which case was the cost the highest for the French? Case # \_\_\_\_\_
3. In which case would the jeans be more attractive to the French company? Case # \_\_\_\_\_
4. In which case would the French be most likely to purchase more of your jeans? Case # \_\_\_\_\_
5. **As an exporter, would you prefer a strong dollar or a weak dollar? Why?**

**The importer’s point of view:**

You work for a company that imports wine from France. It is your job to purchase your product at the best possible price. However, you must purchase the wine with French currency (Euros). This makes it necessary to exchange your U.S. dollars for Euros. Work through the numbers below to determine whether your company, as an importer, would prefer a relatively strong dollar or a relatively weak dollar.

**The French will sell you wine for the price of 250 Euros per case. How much will it cost you in dollars if:**

Exchange rate Price in Dollars at exchange rate

A: $1 = 0.7 Euros \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

B: $1 = 0.75 Euros \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

C: $1 = 0.8 Euros \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. In which case is the wine the most expensive for you? Case # \_\_\_\_\_
2. In which case is the wine the least expensive for you? Case # \_\_\_\_\_
3. In which case would the wine be more attractive you? Case # \_\_\_\_\_
4. In which case would you be able to purchase more wine for your money? Case # \_\_\_\_\_
5. As an importer, would you prefer a strong dollar or a weak dollar? Why?

**Critical thinking question:**

Is it better for the dollar to be strong against foreign currency or weak against that currency?