

## **Answer on Question #44607 - Economics – Finance**

Local and international trade has expanded in recent years, posing, both, as a threat and as an opportunity to households and firms, What are the threats and what are the opportunities?

### **Solution**

To the firm and household, entering the international arena, there are a lot of opportunities. This is explained by the following reasons:

- Foreign markets may provide more opportunities of growth (due to the greater population and other trends).
- Domestic markets may be disadvantageous because of its abundance or stagnation.
- A retailer may offer products, services or technologies that are not famous on the foreign markets.
- The level of competition in foreign markets may be lower than in the domestic market.
- Foreign markets can be used as a supplement to the domestic market, not instead of it.
- Foreign markets may provide tax or investment advantages.
- In a number of reasons (for example, government policies, or special economic conditions), many countries provide foreign companies with preferential treatment.
- Means of communication are improved. Global information network allows retailers "cover" consumers living far beyond the domestic markets of these companies.
- High food prices, which can lead to direct adverse effects on visible indicators of inflation and balance of payments of countries that are net importers of food.

A global trade provides with the following threats, due to several reasons:

- The existence of certain cultural differences between domestic and foreign markets.
- The management style is not always easy to adapt to local conditions.
- The governments of individual countries impose restrictions on certain operations.
- In foreign markets there is extremely unequal distribution of income among different groups of consumers.

- Inadequate distribution systems and technologies (e.g., poor road network, lack of refrigeration, inefficient postal system). In some cases, it negates the effectiveness of the Web as a sales tool (for lack of a specific part of providing value chain).
- Institutional formats in different countries vary considerably.
- Households and firms use exchange rates to convert prices abroad in prices expressed in local currency. Once the price of local and imported goods obtained expression in the same currency, households and firms have the opportunity to calculate the relative prices that affect international trade flows.