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Answer ALL questions

Your firm produces handbags and exports 80% of its goods abroad. Some of the raw materials are imported. The exchange rate for the pound influences your costs of production and the prices for which you sell the handbags.

In order to keep expanding, your firm needs to find new export markets. There are several aids to exporting which you have found useful:

- Trade fairs where you display your handbags to prospective buyers.
- Export subsidies which the government provides for sales in certain foreign countries.
- Export Credit Guarantee Department (ECGD) which removes much of the uncertainty surrounding payment.
- Overseas agents who advertise and sell on your behalf.

Your task is to decide which of these export aids is the most useful to your firm.

Sources of information

At the end of this examination paper, there are various sources of information on trade. You should study all of them and then use the information, together with your own knowledge and understanding of commerce, to prepare a report for your company. The report has been divided into a series of tasks on the following pages.

You should use commercial concepts and terms you have learnt during the course, not just information in the sources you have studied.

1. My task is to advise the firm about

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(Total 2 marks)

Q1



2. Consider the following data:

UK Payments current account (£ billions)

	1996	2001	2006
Export of goods	167	189	245
Export of services	58	84	125
Import of goods	181	230	329
Import of services	47	70	95

(a) Define:

(i) goods

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 (1)

(ii) services

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 (1)

(iii) exports

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 (1)

(iv) imports.

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 (1)



(b) What has happened to the UK's trade between 1996 and 2006?

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(2)

Q2

(Total 6 marks)



3. (a) Calculate how much a £10 handbag will sell for in India if £1 = 80 rupees (India).

Show your workings.

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(2)

(b) How would a change in the exchange rate

(i) influence your firm's import costs

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(2)

(ii) affect the selling price to overseas customers?

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(2)

(Total 6 marks)

Q3



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(iii) Export aid:

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(6)

(b) Assess which of the aids to exporting would be most suitable for a new market.

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(8)

Q4

(Total 26 marks)





TOTAL FOR PAPER: 40 MARKS

END



Sources of Information

Source A – Problems facing exporters

 <p>“Prices – high British labour costs and transport charges can make goods uncompetitive.”</p>	 <p>“Technical restrictions – left-hand drive cars, safety and other regulations in some countries.”</p>
 <p>“Language difficulties, negotiations, advertising abroad, instructions and after-sales service.”</p>	 <p>“Getting up-to-date information on local needs and good local agents.”</p>

Source B – Exchange Rates

Country	Currency/Exchange Rates		
	Dollar (\$)	Euro (€)	Pound (£)
Egypt (e£)	5.45	8.52	10.88
India (Rs)	40.04	62.60	79.89
Pakistan (rupee)	62.80	98.18	125.29
Singapore (S\$)	1.38	2.16	2.76
UK (£)	1.99	0.78	–
USA (\$)	–	1.56	1.99

Closing Prices 4 April 2008



Source C – International Trade

The United Kingdom (UK) has always been a major trading nation. In the past it imported food and raw materials, using the latter to make manufactured goods. These goods were then exported to earn foreign exchange to pay for necessary imports.

However, in the last fifty years, the UK has increasingly imported manufactured goods, particularly from economies with cheap labour costs. UK exports are now more likely to be services, rather than goods, and the City of London's financial institutions have contributed significantly to this.

Source D – Extract from UK Balance of Payments Current Account

	1996	2001	2006
	£ billions		
Export of goods	167	189	245
Exports of services	58	84	125
	225	273	370
Investment income	91	139	240
Transfers	20	14	16
	336	426	626
Import of goods	181	230	329
Import of services	47	70	95
	228	300	424
Investment income	91	129	222
Transfers	25	21	28
	344	450	674



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