

International finance

International trade would be inefficient without foreign exchange markets. We are able to exchange dollars for any national currency we may desire. Thus an exchange rate is simply the price of one currency in terms of another.

We should recognize that the demand for foreign exchange is likely to have familiar downward slope, while the supply of foreign exchange will have the usual upward slope.

Exchange-rate changes have their own terminology. Depreciation of a currency refers to the fact that one currency has become cheaper in terms of another currency.

The other side of depreciation is appreciation, an increase in value of one currency as expressed in another country's currency. Whenever one currency depreciates, another currency must appreciate.

Exchange rates change for the same reasons that any market price changes. Among the important sources are:

- Relative income changes.
- Relative price changes.
- Changes in product availability.
- Relative interest-rate changes.
- Speculation.

All of these kinds of changes are taking place every minute of every day; thus keeping foreign-exchange markets active.

Places where foreign currencies are bought and sold are foreign-exchange markets.

Significant changes occur in currency values, however, only when several of these forces move in the same direction at the same time.

One way to eliminate fluctuations in exchange rates is to fix their value. To fix exchange rates, each country may simply proclaim that its currency is “worth” so much in relation to that of other countries. The easiest way to do this is for each country to define the worth of its currency in terms of some common standard. The standard that has been most popular is gold. Under a gold standard, each country determines that its currency is worth so much gold.

Launching and financing a business

There are numerous reasons that make people think about owning a business of their own. Personal independence, unlimited profit potential, the opportunity to work at something that really love and at hours they choose are some of the reasons people have given for trying entrepreneurship. Many business leaders begin their careers as entrepreneurs after four years of undergraduate college training and even additional graduate school training. Others become successful entrepreneurs without special training.

Many colleges now offer programs that teach students how to start and operate a business. Basic information is combined with hands-on experience and the advice of successful business consultants. These programs help potential entrepreneurs decide whether their own ideas are good and how to follow through with them. With the high rate of business failure, this approach can prevent personal financial losses.

A common way to learn about a business, and the opportunities for starting one similar to it, is to learn while working for someone else. It provides a source of steady income to people while they are planning to start their own businesses. About 50 percent of entrepreneurs start their businesses in industries in which they have some experience.

Evidence shows that people who come from families whose members were in business themselves are more likely to start their own companies.

Most of the money used by business comes from the sale of its products and services. Since these funds come from within the firm they are described as internal funds. The rest must come from outside, or external funds.

Business loans are generally classified as either short-term or long-term loans. For short-term loans, the principal (the amount borrowed) must be repaid within one year. Long-term loans mature (come due) in more than a year.

Short-term loans are used to finance the everyday costs of doing business, such as payrolls, raw materials and merchandise. Long-term loans are more likely to be used to purchase equipment, buildings and other high cost items.