



Maastricht Treaty

The Maastricht Treaty, named after the Dutch town in which it was signed, is also known as the Treaty of the **European Union**. In effect, the Maastricht Treaty created the European Union in the following way:

- It committed the then 12 member states of the European Economic Community to European monetary union and political union.
- It introduced a single currency, then known as the European Currency Unit or **Ecu** (which has since been replaced by the **Euro**).
- It established a European system of **central banks**.
- It created the **European Central Bank**.
- It broadened integration by including common foreign and security policies and cooperation in justice and home affairs.

The treaty itself, which was negotiated during 1991, was signed in February 1992, coming into force on 1 November 1993.

The Maastricht Treaty saw European monetary union as moving forward in three distinct phases. These were:

- 1 The ratification of treaty amendments which were required to establish the European monetary union, and the participation of the 12 states in the **Exchange Rate Mechanism** (it was suggested that this would last until 1 January 1994).
- 2 The establishment of a **European Monetary Institute** in order to support the single currency, and the creation of the European Central Bank (this was to be completed by 1 January 1999).
- 3 The fixing of irrevocable exchange rates and the transfer of powers to the European Central Bank (to be begun by 1 January 1999).

The Maastricht Treaty was the blueprint for what was to become the most fundamental change in Europe for centuries. Not only did it call for economic and monetary union, the creation of a single currency and the convergence of economic policy, but it also introduced the integration of employment and social issues. At the same time it introduced the concept of subsidiarity, which states that the European Union will not

take action unless it would be more effective than action taken either at local, regional or national level.

www.europa.eu.int/en/record/mt/top.html

Maker

A maker is an individual or a business which initiates a draft **bill of lading**.

Managed-float system

A managed-float system is a system in which the exchange rates between various currencies are determined purely by supply and demand. Literally, those currencies are allowed to float freely, whereas other currencies may be pegged to another currency, or managed by government intervention. Even in a managed-float system, governments may sometimes intervene in order to prevent a currency's value from radically changing.

Market forces can drive up the value of one particular currency and drive down the value of another currency in relation to the first currency. These fluctuations are of considerable concern for international businesses, since it is in the inherent nature of international business that its transactions require the conversion of funds from one currency to another. Indeed, considerable fluctuations within a managed-float system over a relatively short period of time can adversely affect the profitability of any given business transaction. International businesses, therefore, will seek the best means by which they can avoid any detrimental impacts that exchange rate volatility may present, whilst looking for opportunities to make an additional profit from a positive move in an exchange rate.

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Management network

A management network is simply a series of informal contacts and channels of communication between individual managers in a multi-national organization.

Market

'Market' is a generic term which is used to describe a group of potential customers who have similar needs. These potential customers are willing to purchase various products and services in order to satisfy their needs. The term 'market' can be used to describe both consumers and

other businesses, either as specific segments or target audiences, whether they are part of a population in a given country, or more widely spread across the world. The term can equally be applied, therefore, to UK home-owners and to airline operators. Both are markets: one is focused primarily in a single country, with specific criteria; the other is a more global target, which includes operators, large and small, often located in other countries.

Market economy

A market economy is a decentralized, flexible, essentially practical, but changeable environment in which businesses can operate. A market economy is based on the assumption that consumers can choose between competing products and services, whilst simultaneously there is freedom for businesses to begin, or expand, their operations and take responsibility for their own risks and rewards.

In essence, market economies are deemed to be the assertion of freedom, risk and opportunity and are typified by political democracies. Market economies are not without their own abuses and iniquities, but theoretically consumers play an important role in the overall working of a market economy. While consumers have limited budgets, they have to make careful considerations as to which products and services they will purchase. Businesses, meanwhile, depend on being able to satisfy customers by producing products and services which they wish to purchase. Businesses must also get the greatest value of outputs from their inputs in order to be profitable. In a market economy, if a business does not keep its production costs down it will have to charge higher prices for its products. This is against a backdrop of other businesses producing goods of similar quality but being able to sell them at a lower price because their costs are lower. Theoretically, at least, consumers then benefit from this competition between businesses; the higher the degree of competition, the lower the prices. Therefore consumers can actually purchase more and stay within their budget.

International trade makes a vital contribution to this productivity and prosperity as businesses not only need to be aware of domestic competitors, but also need to consider overseas competitors, who may be operating in completely different sets of circumstances. Undoubtedly, wage costs in certain countries are considerably lower, which is one part of the equation in being able to drive down relative costs and thus offer products and services at lower prices. High-wage industries, assuming that they have equivalent competitors in lower-wage countries under the market economy model, are under considerable threat.



One primary means by which domestic businesses, no matter how uncompetitive they may be, are protected is via taxation on imported goods, or some form of restriction as to how much can be imported. By imposing **tariffs** or **quotas**, a country in effect protects its manufacturers and its workforce, but on the negative side, ensures that prices of products and services remain artificially high.

As far as employees are concerned, a market economy in theory should offer them opportunities in accordance with their education and expertise. In reality, however, the more competitive a specific market may be, the more demanding the businesses are with regard to employee productivity. Whilst businesses have to offer competitive terms of both employment and remuneration, they will also demand a minimum level of productivity and only the most productive can command the highest wages. Again in terms of international trade, businesses have to be able to compete successfully in order to export to foreign markets: both domestically and internationally they will then be able to offer more career opportunities. By exporting goods, they give consumers a wider choice of products at competitive prices, but this also means that in that overseas market domestic producers will demand ever-greater levels of productivity from their own employees. Theoretically, a series of countries all connected by market economies should continually drive up productivity, whilst ensuring that prices remain competitive. Each new addition in the form of a new nation adds to those competitive forces, whilst offering existing businesses within the market system more opportunities to sell their products.

If a market economy is so efficient, then why do governments often interfere? Historically it has been shown that market economies are periodically affected by rapidly rising price levels. At other times they have high unemployment or high inflation. Governments therefore step in to attempt to re-stabilize their economies by making either more or less money available in order to drive or retard the flow of money in the economy.

Gillingham, John, *European Integration, 1950–2003: Superstate or New Market Economy*. Cambridge: Cambridge University Press, 2003.

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Market makers

Market makers are financial business services which connect potential investors and borrowers seeking finance. The financial service businesses either continue to act as intermediaries, or introduce the investor to the borrower so that the two parties can discuss the opportunities for the potential transfer of funds.

Market power

Market power exists when a single seller or buyer in a particular market has the ability to significantly influence the quantity of products or services which are being traded in that market. They may often be able to manipulate the prices at which those products and services are sold.

The market power situation can often occur when a single business has a **monopoly** in that market or is part of an **oligopoly**.

Market segmentation

Market segmentation involves the identification of specific target markets for broader-based products and services, in order to enable a business to develop a suitable **marketing mix** for each of its target segments.

Market segmentation probably came into existence in the 1950s when product differentiation was a primary marketing strategy. By the 1970s, however, market segmentation had begun to be seen as a means of increasing sales and obtaining a competitive advantage. In recent years more sophisticated techniques have been developed to reach potential buyers in ever more specific target markets.

Businesses will tend to segment the market for the following reasons:

- To make marketing easier in the sense that segmentation allows a business to address the needs of smaller groups of customers which have the same characteristics.
- To find niches, typically unserved or under-served markets, and be able to target these buyers in a less competitive environment.
- To increase efficiency in being able to apply resources directly towards the segments which have been identified by the business as being the best.

There are some common rules regarding market segmentation which determine whether the identified segments are significant enough or measurable. These are listed in Table 3.

In effect, there are two ways of segmenting a market. These are known as either *a priori* or *post hoc*. These two approaches are typified in the following manner:

- *A priori* segmentation is based on a mixture of intuition, the use of secondary data and analysis of existing customer database information. *A priori* segmentation takes place without the benefit of primary market research and may well produce relatively simplistic segmentation, such as male or female, young or old, regional segments or buyers and non-buyers.

Table 3 Market segmentation

Segmentation criteria	Description
Size	The market itself needs to be large enough to warrant segmentation. Once a market has been segmented, it may be revealed that each of the segments is too small to consider.
Differentiation	There must be measurable differences between the members of a segment and the market in general.
Responsiveness	Having segmented the market, marketing communications need to be developed to address the needs of each segment. If a business cannot develop marketing communications which can contact a segment and have an impact upon it, there is little value in knowing about the segment in the first place.
Reachability	Marketing communications need to be able to get through to the segments in order to be effective. There may well be a single best advertising medium or promotional device which can reach the individual segments and tell them the business's message.
Interest	Having established what benefits a segment is looking for, the business needs to be assured that this is precisely what the potential customers require and that the product or service matches these needs.
Profitability	A decision needs to be reached as to whether it is cost-effective to reach these segments, considering the cost which may be incurred in running multiple marketing programmes alongside one another. Existing products or services may need to be redesigned in order to match the specific needs of particular segments.



- *Post hoc* segmentation uses primary market research to classify and describe individuals within the target market, but segments are not defined themselves until after the collection and analysis period. The definition of each segment requires the placing of all members of the target market into specific segments.

There are a number of different types of information which are used extensively in market segmentation. These can be best described by category as in Table 4.

Table 4 Segmentation categories

Measured variable	Description
Classification	Broadly speaking, classification actually encompasses demographic, geographic, psychographic and behavioural variables. It requires a system of classifying individuals and placing them into segments by using a mixture of these variables.
Demographic	Demographic variables feature age, gender, income, ethnicity, marital status, education, occupation, household size, type of residence and length of residence, amongst many other demographically based measures.
Geographic	This broad range of variables includes population density, climate, zip or postcode, city, state or county, region, or metropolitan/rural area.
Psychographic	Another broad range of variables which include attitudes, hobbies, leadership traits, lifestyle, magazines and newspapers read, personality traits, risk aversion and television or radio programmes watched or listened to.
Behavioural	These variables encompass the current ways in which the target market views, buys and responds to products, services and marketing. The category includes brand loyalty, benefits sought, distribution channels used and level of use.
Descriptor	Descriptor variables actually describe each segment in order to distinguish it from other groups. The descriptors need to be measurable and are usually derived solely from primary research, rather than secondary sources of information. Descriptors will typically explain in shorthand the key characteristics of each segment and the members of that segment, so that these characteristics can be more readily exploited by subtle changes in the marketing mix. A descriptor variable may be featured as 'under 30, single, urban dweller, rented accommodation, medium to high income', etc.

Wedel, Michel and Kamakura, Wagner A., *Market Segmentation: Conceptual and Methodological Foundations*. New York: Kluwer Academic Publishers, 1999.

McDonald, Malcolm and Dunbar, Ian, *Market Segmentation*. Basingstoke: Palgrave Macmillan, 1998.



Market share

Sales figures do not necessarily indicate how a business is performing relative to its competitors. Changes in sales may simply reflect changes in the market size or changes in economic conditions. The business's performance relative to competitors can be measured by the proportion of the market that the firm is able to capture. This proportion is referred to as the business's market share and is calculated as follows:

$$\text{Market share} = \text{Business's sales} \div \text{Total market sales}$$

Sales may be determined on a value basis (sales price multiplied by volume) or on a unit basis (number of units shipped or number of customers served). While the business's own sales figures are readily available, total market sales are more difficult to determine. Usually, this information is available from trade associations and market research firms.

Market share is often associated with profitability and thus many businesses seek to increase their sales relative to competitors. Businesses may seek to increase their market share using the following:

- Economies of scale – higher volume can be instrumental in developing a cost advantage.
- Sales growth in a stagnant industry – when the industry is not growing, the business can still increase its sales by increasing its market share.
- Reputation – market leaders have power, which they can use to their advantage.
- Increased bargaining power – a larger market share gives an advantage in negotiations with suppliers and distributors.

The market share of a product can be modelled as:

$$\text{Share of market} = \text{Share of preference} \times \text{Share of voice} \times \text{Share of distribution}$$

According to this model, there are three drivers of market share:

- Share of preference – can be increased through product, pricing, and promotional changes.
- Share of voice – the business's proportion of total promotional expenditures in the market. Thus, share of voice can be increased by increasing advertising expenditures.
- Share of distribution – can be increased through more intensive distribution.

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From these drivers market share can be increased by changing the variables of the **marketing mix**.

- Product – the product attributes can be changed to provide more value to the customer, for example, by improving product quality.
- Price – if the price of demand is elastic, a decrease in price will increase sales revenue. This tactic may not succeed if competitors are willing and able to meet any price cuts.
- Distribution – adding new distribution channels or increasing the intensity of distribution in each channel.
- Promotion – increasing advertising expenditures can increase market share, unless competitors respond with similar increases.

Minter, Richard, *The Myth of Market Share*. London: Nicholas Brealey Publishing, 2002.

Marketing mix

The major marketing management decisions can be classified in one of the following seven categories:

- product
- price
- place (distribution)
- promotion
- physical evidence
- processes
- people

These variables are known as the marketing mix, or the 7 Ps of marketing. They are the variables that marketing managers can control in order to best satisfy customers in the target market. The marketing mix is portrayed in Figure 3.

The business attempts to generate a positive response in the target market by blending these seven marketing-mix variables in an optimal manner.

- *Product* – The product is the physical product or service offered to the consumer. In the case of physical tangible products, it also refers to any services or conveniences that are part of the offering. Product decisions include aspects such as function, appearance, packaging, service, warranty, etc.
- *Price* – Pricing decisions should take into account profit margins and the probable pricing response of competitors. Pricing includes not only the list price, but also discounts, financing, and other options such as leasing.





Figure 3 The 7 Ps of the marketing mix

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- *Place* – Place (or placement) decisions are those associated with channels of distribution that serve as the means for getting the product to the target customers. The distribution system performs transactional, logistical, and facilitating functions. Distribution decisions include market coverage, channel-member selection, logistics, and levels of service.
- *Promotion* – Promotion decisions are those related to communicating and selling to potential consumers. Since these costs can be large in proportion to the product price, a breakeven analysis should be performed when making promotion decisions. It is useful to know the value of a customer in order to determine whether additional customers are worth the cost of acquiring them. Promotion decisions involve advertising, public relations, media types, sales promotions, exhibitions, word of mouth and direct marketing.

- *Physical evidence* – This is a relatively new element of the marketing mix, which focuses on the environment in which service is offered.
- *Processes* – This refers to the way in which services are actually delivered.
- *People* – This highlights the fact that the quality of many products and services relies on the quality of those who deliver them.

Arguably, there are more than seven elements within the marketing mix, which has developed considerably from the original 4 Ps. Other Ps could include periodicity, profitability and effectiveness, positioning, planning and performance of the organization.

Table 5 summarizes the marketing-mix decisions, including a list of some of the aspects of the original 4 Ps.

Table 5 Marketing mix variables

Product	Price	Place	Promotion
Functionality	List price	Channel members	Advertising
Appearance	Discounts	Channel motivation	Personal selling
Quality	Allowances	Market coverage	Public relations
Packaging	Financing	Locations	Sales promotion
Brand	Leasing options	Logistics	Exhibition
Warranty		Service levels	Word of mouth
Service/support			Direct marketing
Tangible			

Mass customization

Mass customization is an increasing trend and of considerable importance to manufacturers. Mass customization involves the production of mass-produced, standard products, with slight variations or customizations for particular market or customer segments. As the manufacturing process has developed technologically, and become more flexible, it is possible to produce these personalized products without having a detrimental effect on profit margins. Indeed, these customized products can often warrant a premium price, thus providing a margin in excess of what had previously been enjoyed by the manufacturer. Manufacturers have therefore realized that mass customization is a means by which they can improve their profitability without the attendant loss of production or productivity. A prime example of mass customization is the computer manufacturer and distributor Dell.



Gilmore, James H. and Pine, B. Joseph II (eds), *Markets of One: Creating Customer-unique Value through Mass Customization* (A Harvard Business Review Book). Boston, MA: Harvard Business School Press, 2000.

Materials management

Materials management involves the planning, organization and control of all aspects of a business's physical inventory, including shipping, distribution, warehousing and dealing with work in progress. For international businesses the essential problem is to minimize the total of all of the costs involved and to maximize savings where those savings can be identified. For international businesses this requires an integrated materials-management or **logistics** organization which takes full responsibility for supply, production and distribution. Clearly any reduction in cost can contribute to profit.

Arnold, J. R. and Chapman, Stephen, *Introduction to Materials Management*. Englewood Cliffs, NJ: Prentice-Hall, 2003.

McDonaldization

McDonaldization originally referred to the technological advances in the preserving and storing of foodstuffs and the growing ownership of automobiles during the 1950s, coupled with the development of US suburbs, which transformed the way in which Americans shopped and ate. The larger supermarkets in the US succeeded in overwhelming many smaller and longer-established businesses; a trend which has been replicated in many other countries. The emphasis of service had moved from quality to price and efficiency. The key characteristics of McDonaldization are:

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- *Efficiency* – in as much as consumers can obtain what they need very quickly, with very little effort on the part of the business. The employees can perform their tasks more easily and, above all, quicker, thus serving customers more efficiently. Coupled with this increase in efficiency, the quality aspects are reduced, particularly given the fact that technologies which do not require the input of humans perform many of the tasks.
- *Control* – McDonaldization radically changed both the way in which employees were treated and expected to behave and the way in which customers were expected to interact with the business. For very much the first time, customers queued up at a cash register to collect their food, and cleared tables after they had finished eating.
- *Predictability* – was important as consumers knew exactly what they were purchasing, because to all intents and purposes, the product

was identical no matter which store or outlet the customers visited. This meant that McDonaldized businesses could more easily sell their business as a franchise operation.

McDonaldization has spread across the globe, not simply in the retailing of hamburgers and related products. The concept now revolves around the idea that the consumer can purchase standardized items at relatively low prices and that the quality of those products does not differ significantly in the various outlets scattered around the world. Given that there is a far greater availability of products and services on the global market, McDonaldization is said to have played an integral part in making these goods available to larger proportions of the population. Consumers, by purchasing standardized products, are able to obtain what they perceive they need without very much delay. Convenience and uniform quality have competed well against other economic alternatives, notably higher-priced customized products and services. In settling for standardized products, individuals in different countries around the world can now afford products and services which hitherto were beyond their means.

McDonaldization has been seen to be an ideal solution in providing faster, more efficient products and services to a working population which has considerably less free time than in the past. McDonaldized products provide a familiar, stable and safe alternative to taking risks in purchasing unknown products. It has also been a feature of McDonaldization that consumers can compare competing products easily.

Ritzer, George, *The McDonaldization of Society*. Thousand Oaks, CA: Pine Forge Press, 1996.

Mercantilism

Mercantilism makes the assumption that money will inevitably become scarce, which in turn would impede higher levels of output and have an impact upon employment. Mercantilists believe that low interest rates, which allow cheaper money to be available to businesses, is the ideal solution. Originally this was an economic viewpoint, dating back to the seventeenth century, and was very much a forerunner to the classical economics of the twentieth century. The classical economists, on the other hand, believed that in making money cheap, inflation would be created. Mercantilists were against **free trade** and they believed that protectionist policies, which would minimize imports and maximize exports, would create a trade surplus, thereby dealing with the problem of scarce money.



This viewpoint has largely been disproved as mercantilists believed that ultimately a nation's wealth was dependent upon its ownership or stock of precious metals. Later economic theorists undermined this view by stating that rather than precious metals being the most important consideration, it was a country's stocks of productive resources that were crucial. Each country's use of its land, labour and capital and how efficiently these were used would determine a nation's comparative wealth. With the increase in free trade, efficiency has also increased, which has allowed various countries to specialize in the production of products and services in which they have a **comparative advantage**. In other words, they use their land, labour and capital most efficiently in a particular way.

Vaggi, Gianni and Groenewegen, Peter, *A Concise History of Economic Thought: From Mercantilism to Monetarism*. New York: Palgrave Macmillan, 2002.

MERCOSUR

MERCOSUR, or the Southern **Common Market**, consists of Argentina, Brazil, Paraguay and Uruguay and came into force during the period 1994 to 1995. It was modelled on the European Community's **Treaty of Rome**, establishing common external **tariffs** and eliminating **trade barriers** in services.

Around 95% of MERCOSUR trade is carried out on a non-tariff basis. The MERCOSUR area covers some 12 million square kilometres (four times the size of Europe) and has a market of some 200 million people and a joint **gross domestic product** of \$1 trillion. Technically, this places MERCOSUR amongst the four largest economies of the world, after **NAFTA**, the **European Union** and Japan.

www.mercosur.org.uy

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Minimum efficient scale

The minimum efficient scale is taken to be the level of output at which a manufacturer's economies, achieved by an optimum level of production, have been eliminated by a scaling down of the output. The minimum efficient scale is the lowest output level which is economically viable, for the business to sustain, albeit for a short period of time.

Ministry of International Trade and Industry (MITI)

Japan's Ministry of International Trade and Industry (MITI) was created in 1949. It brought together the trade agency and the Ministry of Commerce

and Industry in a nationwide effort to control postwar inflation and provide leadership towards productivity and higher levels of employment. MITI had the primary responsibility of formulating and implementing international trade policy. This was achieved through a consensus of opinion, including inputs from the Japanese ministries of Foreign Affairs and Finance. MITI, in coordination with the Economic Planning Agency, the Bank of Japan and the ministries concerned with agriculture, construction, forestry and fisheries, health and welfare, post and telecommunications, and transportation, framed Japan's trade policies.

By the 1980s MITI had far less control over the formulation of international trade policy than it had in the past, due to the growing strength and importance of other Japanese government ministries. MITI was also responsible for exports and imports, as well as for domestic businesses which were not covered by other ministries (primarily investment in plant and equipment, energy and power, pollution control, foreign economic assistance and consumer complaints). MITI's work with Japanese industry succeeded in strengthening domestic manufacturing, providing it with a platform through import control to become competitive on the world market. MITI was also integral in liberalizing Japan's import policies and the opening of the Japanese market, while continuing to promote the domestic industry.

In recent years MITI has been primarily involved in the encouragement of imports of foreign products into Japan and the supervision of export financing programmes, including Japan's export-import bank.

www.miti.gov.my

Mixed economy

In a mixed economy, economic decisions concerning the selling and purchasing of products, services and labour are made partly by businesses and partly by the government. A mixed economy has both private sector businesses and businesses which are owned by the government. Both take part in economic activity. Different countries have a radically different mix of public and privately owned businesses. In the UK, for example, during the 1980s and 1990s, many publicly owned businesses were sold through a policy of privatization, thus reducing the mix between public and private enterprise.

Mixed economies tend to have the following characteristics:

- They have features of both market and command economies.
- Both the government and private individuals own the businesses.
- Either employees have freedom to negotiate their wage deals with



their employers or, in other cases, the government regulates these wage deals.

- The government has the option to regulate prices if it deems it necessary.
- The government has the option to decide what products are produced and how they are produced.

Harvey, J., *The Organisation in its Environment: Business in the Mixed Economy*. Basingstoke: Palgrave Macmillan, 1980.

Monetarism

Monetarism is a strand of economic theory which suggests that control of the money supply in a given economy leaves the rest of the economy capable of balancing or taking care of itself. Monetarism is founded on the basis that inflation occurs when a government prints too much money. Milton Friedman argued his quantity theory of money, which suggested that governments need to keep a steady money supply, only expanding the money supply each year to allow for natural growth of the economy. This policy would allow market forces to control problems arising out of inflation, recession or unemployment.

Monetarism was eagerly grasped during the 1980s, primarily in the US and the UK. **Central banks** set targets for money supply growth and closely controlled the rates of interest. Since the 1980s the linkage between money supply and inflation has proved to be somewhat erroneous. At the time, the money supply was seen as a useful policy target, provided that the relationship between money and **gross domestic product**, and therefore inflation, remained predictable and stable. It was further believed that the money supply would necessarily affect both output and prices in as much as the money supply would determine how fast cash circulated around an economy. What monetarists had not considered was the speed at which money revolves around an economy (this is known as the velocity of circulation) and monetarists failed consistently to predict sudden changes. Gradually monetarists began to realize that the link between money supply and inflation was far more complex than they had believed. As a result, monetary targets set by central banks largely passed out of favour.

The natural alternative and successor to monetarist policy is the setting of inflation targets and manipulating the economy in order to achieve these targets.

See also monetary policy.

Vaggi, Gianni and Groenewegen, Peter, *A Concise History of Economic Thought: From Mercantilism to Monetarism*. New York: Palgrave Macmillan, 2002.

Monetary policy

The primary objective of monetary policy is to control inflation. A country will set a target for inflation and attempt to ensure that it does not deviate to any degree from this target. Since the UK left the **Exchange Rate Mechanism (ERM)** in September 1992, UK monetary policy has involved manipulating interest rates to control the level of inflation.

As the term 'monetary policy' suggests, it is a means by which the government controls the money supply. Adopting a monetarist policy relies on the belief that in controlling the money supply the price levels are also controlled. There are close links between interest rates, the money supply and the exchange rate. At times when the UK was tied to a fixed exchange rate system, both the rate of interest and the money supply had to be adjusted in order to maintain a **fixed exchange rate**. During the period between 1990 and 1992, when the UK was part of the ERM, the government effectively lost control of interest rates and the supply of money.

Monetarists realize that it is notoriously difficult to control interest rates, money supply and exchange rates simultaneously. In May 1997 the new Labour Chancellor, Gordon Brown, made the Bank of England independent, setting up the Monetary Policy Committee (MPC), and effectively taking the government and the Chancellor out of the decision-making loop with regard to interest rates.

In the US, monetary policy consists of efforts which are made by the US Federal Reserve (the **central bank** of the US) to influence the conditions of both money and credit in the US economy. It too has objectives in terms of stable prices, the maintenance of high employment and the promotion of maximum sustainable growth within the economy. The Federal Reserve formulates monetary policy by setting targets for Federal funds rates, which are the interest rates which banks charge one another for short-term loans. The Federal funds rate is what the banks pay when they borrow, and therefore affects the rates they charge when they lend. These rates, in turn, have an impact upon short-term interest rates in the economy and, ultimately, economic activity and the rate of inflation. In order to achieve this, the Federal Reserve uses open market operations, the purchase and sale of previously issued US Government securities, as a means by which they can influence how much banks can lend. This effectively raises or lowers the Federal funds rate. When the Federal Reserve buys securities, funds flood into the banking system; this gives them more money to lend and places a downward pressure on the Federal funds rate. When the Federal Reserve sells securities, the opposite occurs.

Walsh, Carl, *Monetary Theory and Policy*. Cambridge, MA: MIT Press, 2003.



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Monopoly

A monopoly is the ability of a single business to control the prices within a particular product market, or geographical area. This term can also be used to describe the ability of a business to exclude competitors from doing business within a given product market or geographic market.

Monopolies tend to exist in situations where there is no close substitute for a monopolist's product. Although there are few examples of truly monopolistic markets, as there are often substitutes for even unique products, not all substitutes are perfect substitutes. A prime example would be an electricity supplier, who may have a monopoly of supply in a given area. Theoretically the electricity supplier could be replaced by a gas supplier, but gas is not always an ideal substitute.

Monopolies also occur when entry into the industry is very difficult. This means that a monopolist does not have to worry too much about competition. Therefore a monopoly organization has discretion over how much it chooses to produce and what price it deems reasonable to charge its customers. In the UK, for example, a business which has over 25 per cent of a defined market is considered to have a monopoly power and will therefore be investigated by the Monopolies and Mergers Commission. In 2003 a case which was referred to the Monopolies and Mergers Commission involved just such a monopoly situation. When the supermarket chain Safeway became available for **acquisition**, a number of potential suitors were interested in purchasing the business. The Monopolies and Mergers Commission considered the relative **market share** of the main supermarket chains and after due consideration decided that the four largest supermarket chains in the UK should not be eligible, and they were thus barred from purchasing Safeway. It was considered in this case, as in most monopoly cases, that to allow a large share of a specific market to be controlled by a single business would not be in the public interest.

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Monopolies can occur naturally, usually through innovation, which requires businesses to take out international **patents** and **copyrights** to protect their products. This has become an extremely complex issue in the global market since individual patents and copyrights must be obtained in markets in which the business wishes to operate. In other cases monopolies are deliberately created by governments, such as the UK's National Lottery organizer, Camelot. Other nations have also decided to create their own monopolies in order to ensure that they have a national leader in a particular market. This is achieved by placing high **tariffs** on foreign imports, effectively preventing foreign competitors from entering the market.

Moore's law

Moore's law was suggested by a semi-conductor engineer, Gordon Moore, in 1964. He suggested that as the power of microprocessor technology doubles, the costs of production will halve every 18 months. He was speaking from a position of knowledge as he co-founded Intel some four years later. The logic behind his theory was that the amount of information that could be stored on a given amount of silicone had doubled every year since that technology had been invented. His theory held good until the late 1970s when the doubling period of microprocessor technology began to slow. With recent technological developments and the creation of better chips, the costs of production continue to fall broadly in line with his original theories.

Most favoured nation treatment

Under Article I of the **General Agreement on Tariffs and Trade (GATT)**, a country can extend the lowest possible **tariff** rates to another (most favoured) country, compared with all other tariffs it applies to other nations. When a particular country agrees to cut tariffs on a specified product imported from one country, the tariff reduction automatically applies to imports of the same product from any other country which is eligible for most favoured nation treatment.

Essentially this is a principle of non-discriminatory treatment of imports and did, indeed, appear on a number of bilateral agreements prior to GATT. There is no compelling obligation for any country to extend a most favoured nation treatment to another country unless they are both party to GATT. The most favoured nation treatment is one of the most important aspects in building the international trading system. The **World Trade Organization** does require member countries to give the same most favoured nation treatment that is given to the products of any one member, to the like products of all other members.

www.wto.org

Multi-domestic strategy

A multi-domestic strategy tends to lead a business with international operations to allow the operations in one country to be relatively independent of those in other countries. In essence, multi-domestic strategy emphasizes the unique conditions which apply to each country in which the multinational organization operates. This may involve separate design, production and sales operations.



In using multi-domestic strategy the business focuses upon local responsiveness to specific strategies wholly designed to suit that nation's market.

Multilateral Agreement on Investment (MAI)

The Multilateral Agreement on Investment (MAI) was negotiated by the **Organization for Economic Cooperation and Development (OECD)**. It is designed to make it easier for investors to move their assets across international borders. The negotiations got under way in 1995 and were finally passed in 1998.

Countries which ultimately sign the MAI will be required to fulfil the following obligations:

- Open all their economic sectors to foreign ownership.
- Treat foreign investors no less favourably than domestic businesses.
- Remove performance requirements which require investors to behave in particular ways in exchange for access.
- Remove restrictions on the movement of capital.
- Compensate investors if their assets are expropriated through seizure or regulation.
- Allow investors to sue a government for damages if that country's laws are in violation of the MAI rules.
- Ensure that all localities within their country comply with MAI.

Many of the 180 countries represented by the **World Trade Organization** objected to the MAI, which caused the negotiations to be transferred to the Organization for Economic Cooperation and Development. In contrast, the OECD represents 29 of the richest countries in the world, which are host to 95% of the total 500 trans-national corporations in the world. It is therefore unsurprising that many of the **lesser developed countries** were somewhat sceptical as to the true purpose behind the MAI.

www.oecd.org

M

Multilateral netting

Multilateral netting is a treasury management technique which is used by many larger international businesses in order to manage their payment processes, which often involve transactions in a multitude of different currencies. If multilateral netting is used, then businesses can expect to make huge savings in foreign exchange trading and improve

the settlement of bills between different parts of the organization. In Figure 4, a complex organization has a situation where each overseas subsidiary settles its own obligations directly and individually with another part of the organization. Each time a payment transaction is made, the business incurs transaction costs. There is no overall base currency and payment is based on the current rate of exchange.

In Figure 5, the organization has reconfigured its payment systems and has established a netting centre, through which all transactions are routed. Each overseas subsidiary pays or receives a single local-

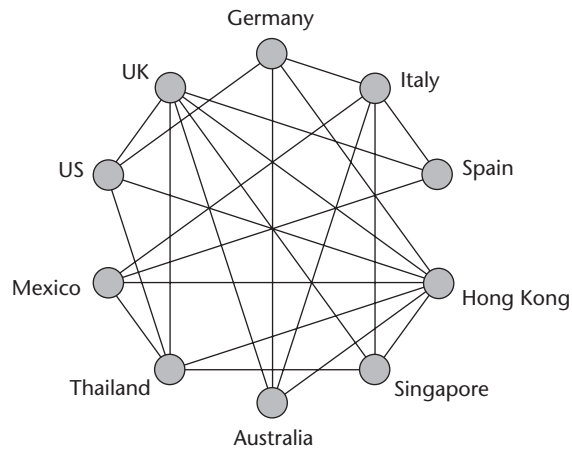


Figure 4 Multilateral trading patterns

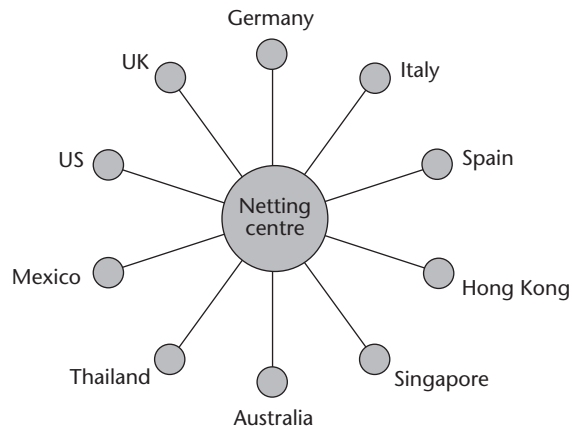


Figure 5 Multilateral netting centre



currency balance to or from the netting centre. The netting centre can then credit or debit one of the other subsidiaries automatically.

Multinational enterprise (MNE)

A multinational enterprise is a business which owns separate operations in at least two countries. Businesses become multinational enterprises and develop their foreign markets for a number of different reasons. These can be typified as being either proactive or reactive in nature. The key proactive (or pull) factors include the desire:

- to increase global **market share**;
- to satisfy demand for a unique product or service in a foreign market;
- to generate greater profits by reducing costs or acquiring new resources;
- to achieve greater **economies of scale**;
- to spread risks by diversifying their sources of sales and inputs;
- to satisfy managerial targets;
- to take advantage of potential tax benefits.

The key reactive (or push) factors are:

- to offer an alternative to the competitive pressures present in a domestic market;
- to seek an alternative to declining domestic sales;
- as a response to increasing costs of production in the domestic market;
- to seek alternative markets in a saturated domestic market;
- to provide a market for unused managerial or production capacity;
- to seek a market to sell excess stock due to over production in a domestic market;
- to prolong the life cycle of products which are reaching the end of their life cycle in the domestic market;
- to copy, for strategic reasons, their key competitors.

M

Multipoint competition

Multipoint competition arises when two or more international businesses compete with one another in different national markets or industries. They make these moves in order to keep their opponents in check, attempting to match one another's moves, so that globally a competitor does not acquire a distinct advantage in any given market. This is an increasing trend of international rivalry between **multinational enter-**

prises. The competition across borders gives international businesses the option to respond to an attack by a rival not only in the challenged market, but in any other market in which the two businesses compete.

Multipoint pricing

Multipoint pricing refers to situations where an international business's pricing strategy in one particular overseas market has a direct impact on a rival's pricing policies in another market. Should one international business choose to adopt an aggressive pricing policy in one market, then a rival may respond by adopting an aggressive pricing policy in another market that is vital to the first business.

Mutual recognition agreement

Mutual recognition agreements, or MRAs, are usually negotiated on a sector-by-sector basis. Under MRAs, testing and certification processes in sectors such as telecommunications, pharmaceuticals, chemicals and processed foods take place in the exporting country. Under MRA a European country would obtain a product certificate which would be applicable in the United States, thus enabling it to sell its products freely throughout the United States. The MRA requires a notified body to undertake some of the testing responsibilities, perhaps having recourse to a third country's testing laboratory. MRA exists between the **European Community** and the United States and between Japan and the **European Union**.

www.europa.eu.int/comm/enterprise/international/indexb1.htm

www.mofa.go.jp/region/europe/eu/agreement.html

