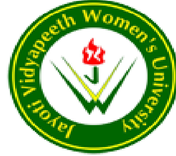

JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR

FACULTY OF LAW & MANAGEMENT

Department of Law

Faculty Name : JV'n Dr. Shahnawaz Alam

Program : B.COM LLB V SEM / B.COM (H) V SEM

Course Name : International Economics

Academic Day starts with saying

'Namaste' by joining Hands together following by 2-3 Minutes Happy session, Celebrating birthday of any student of respective class and **National Anthem**.

Lecture Starts with Review of previous Session

Topic to Be Discussed Today: Basics of International Trade or international economics

Basics of International Trade:

International economics refers to a study of international forces that influence the domestic conditions of an economy and shape the economic relationship between countries. In other words, it studies the economic interdependence between countries and its effects on economy. The scope of international economics is wide as it includes various concepts, such as globalization, gains from trade, pattern of trade, balance of payments, and FDI. Apart from this, international economics describes production, trade, and investment between

countries. International economics has emerged as one of the most essential concepts for countries.

Over the years, the field of international economics has developed drastically with various theoretical, empirical, and descriptive contributions. Generally, the economic activities between nations differ from activities within nations. For example, the factors of production are less mobile between countries due to various restrictions imposed by governments. The impact of various government restrictions on production, trade, consumption, and distribution of income are covered in the study of internal economics. Thus, it is important to study the international economics as a special field of economics. International economics is divided into two parts, namely, theoretical and descriptive.

Meaning of trade : Trade is a basic economic concept involving the buying and selling of goods and services, with compensation paid by a buyer to a seller, or the exchange of goods or services between parties. Trade can take place within an economy between producers and consumers. International trade allows countries to expand markets for both goods and services that otherwise may not have been available to it. It is the reason why an American consumer can pick between a Japanese, German, or American car. As a result of international trade, the market contains greater competition and therefore, more competitive prices, which brings a cheaper product home to the consumer. The trade broadly classified in two parts regional trade and international trade.

Internal Trade Regional Trade:

Transfer of goods and service from one place to another places within the geographical boundaries of the countries are call regional trade that further divided in two parts retail trade and whole trade. Retail trade is the business activity associated with the sale of goods to the final consumer, the ultimate customer. It is the link between wholesalers or manufacturers and the customers of the product. Typically retailers sell goods in small quantities to consumers

for personal use, not for resale or business us. Other hand Wholesale trade is a form of trade in which goods are purchased and stored in large quantities and sold, in batches of a designated quantity, to resellers, professional users or groups, but not to final consumer

International Trade:

International Trade describes and predicts patterns of production, trade and investment across countries. It also looks at the effect that trade has on both the level and distribution of incomes within and across countries. It analyses different trade policies, the effects of 'regionalism' (regional trading blocs) and the potential effect of multilateral trade negotiations conducted by World Trade Organization (WTO).International Finance examines the effects of financial flows between countries. It looks at the effect of such flows on the balance of payments and the exchange rate.

It also evaluates the implications of different exchange rate regimes and considers the appropriate role of international institutions such as the International Monetary Fund (IMF).Students of International Economics can make use of the skills and tools learned in a wide range of career paths, such as journalism, consultancy, government agencies and international institutions, while at the same time enjoying the ability to make sense of some of the most important and complex issues of our times. There are three components involved in international trade export, import and enter port.

Importance of international trade:

1. **Absolute Advantage :** To Make use of abundant raw materials some countries are naturally abundant in raw materials – oil (Qatar), metals, fish (Iceland), Congo (diamonds) Butter (New Zealand). Without trade, these countries would not benefit from the natural endowments of raw materials. A theoretical model for this was developed by Eli Heckscher and Bertil Ohlin. Known as the Heckscher–Ohlin model (H–O model) it

states countries will specialize in producing and exports goods which use abundant local factor endowments. Countries will import those goods, where resources are scarce.

2. **Comparative advantage** : The theory of comparative advantage states that countries should specialize in those goods where they have a relatively lower opportunity cost. Even if one country can produce two goods at a lower absolute cost – doesn't mean they should produce everything. India, with lower labour costs, may have a comparative advantage in labour-intensive production (e.g. call centres, clothing manufacture). Therefore, it would be efficient for India to export these services and goods. While an economy like the UK may have a comparative advantage in education and video game production. Trade allows countries to specialize. More details on how comparative advantage can increase economic welfare. The theory of comparative advantage has limitations, but it explains at least some aspects of international trade.

3. **Greater choice for consumers:** New trade theory places less emphasis on comparative advantage and relative input costs. New trade theory states that in the real world, a driving factor behind the trade is giving consumers greater choice of differentiated products. We import BMW cars from Germany, not because they are the cheapest but because of the quality and brand image. Regarding music and film, trade enables the widest choice of music and film to appeal to different tastes. When the Beatles went on tour to the US in the 1960s, it was exporting British music – relative labour costs were unimportant. Perhaps the best example is with goods like clothing. Some clothing (e.g. value clothes from Primark – price is very important and they are likely to be imported from low- labour cost countries like Bangladesh.

However, we also import fashion labels Gucci (Italy) Chanel (France). Here consumers are benefitting from choice, rather than the lowest price. Economists argue that international trade often fits the model of monopolistic competition. In this model, the important aspect is brand differentiation.

4. **Specialization and economies of scale** : Another aspect of new trade theory is that it doesn't really matter what countries specialize in, the important thing is to pursue specialization and this enables companies to benefit from economies of scale which outweigh most other factors. Sometimes, countries may specialize in particular industries for no over-riding reason – it may just be a historical accident. But, that specialization enables improved efficiency. For high value- added products, multinationals often split the production process into a global production system. For example, Apple designs their computers in the US but contract the production to Asian factories. Trade enables a product to have multiple country sources. With car production, the productive process is often even more global with engines, types, design and marketing all potentially coming from different countries.

5. **Service sector trade**: tends to conjure images of physical goods import bananas, export cars. But, increasingly the service sector economy means more trade is of invisibles – services, such as insurance, IT services and banking.

   Even in making this website, I sometimes outsource IT services to developers in other countries. It may be for jobs as small as $50. Furthermore, I may export a revision guide for £7.49 to countries all around the world. A global economy with modern communications enables many micro trades, which wouldn't have been as possible in a pre- internet age.

6. **Global growth and economic development:** International trade has been an important factor in promoting economic growth. This growth has led to a reduction in absolute poverty levels – especially in south east Asia which has seen high rates of growth since the 1980s. Difference between International Trade and Internal Trade: Trade means exchange of goods. What difference, then, does it make to the theory of trade whether these goods are made in the same country or in different countries? Why is a separate theory of international trade needed? Well, domestic and foreign trade is really one and the same. They both imply exchange of goods between persons. They both aim at achieving increased production through division of labour. There are, however, a number of things which make a difference between foreign trade and domestic trade and necessitate a separate theory of international trade. They are as under:

7. **Immobility of Factors of Production:** Labour and capital do not move freely from one country to another as they do within the same country. "Man", declared Adam Smith, "is, of all forms of luggage, the most difficult to transport much more so when a foreign frontier has to be crossed.

   Hence differences in the cost of production cannot be removed by moving men and money, the result is the movement of goods. On the contrary, between regions within the same political boundaries, people distribute themselves more or less according to opportunities. Real wages and standard of living tend to seek a common level, though they are not wholly uniform. As between nations, however, these differences continue to persist for wages and check population movements. Capital also does not move freely from- one country to another. Capital is notoriously shy.

8. **Different Currencies :** Each country has a different currency. India for instance, has the rupee, the U.S.A. the dollar, Germany the mark, Italy the lira, Spain the peso, Japan the yen, and so on. Hence, buying and selling between nations give rise to complications absent in internal trade.

9. **Restrictions on Trade :** Trade between different countries is not free. Very often there are restrictions imposed by custom duties, exchange restrictions, fixed quotas or other tariff barriers. For example, our own country has imposed heavy duties on import of motor cars, wines and liquors and other luxury goods.