

THEORIES OF INTERNATIONAL TRADE



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TRADE

Any trade is broadly

1. Domestic trade
2. International Trade

DOMESTIC TRADE

- **Domestic trade**, also known as **internal trade** or **home trade**, is the exchange of domestic goods within the boundaries of a country.
- May be of broadly
 1. Retail trade
 2. Wholesale trade.

IMPORTANCE OF DOMESTIC TRADE

- It facilitates exchange of goods within the country
- Makes sure that factors of production reach to the right places so that the economy of the country can grow.
- Improvement of standard of living
- Employment
- Raw material availability.

FOREIGN TRADE AND INDIA

- Ancient maritime trading nation
- Bay of Bengal was once known as CHOLA LAKE
- Exports touch \$155 billion in 2007-08
- India is among the top ten in services exports
- The export basket

INTERNATIONAL TRADE

- **Imports** are the goods and services that we buy from people in other countries.
- **Exports** are the goods and services we sell to people in other countries.

WHY DO NATIONS TRADE?

- Absolute advantage –
- Comparative advantage -



WHY DO COUNTRIES TRADE?

1. Differences in their resources

- Each country has a different allocation of natural and human resources.
- A given country will be well suited to the production of some goods and totally unsuited to the production of others.

2.MORE COMPETITION AND CHOICE

- **Perfect competition** is considered to be the most efficient **market structure** because it is the most competitive. Competition puts pressure on firms to keep their prices low, and therefore their costs, down.
- The more open to foreign imports a country is, the more competition the home producers will face and the more efficient they will have to be. This is not only good in an economic sense (greater efficiency) but domestic consumers enjoy lower prices and, therefore, increased **consumer surplus**.

3.ECONOMIES OF SCALE

- Once a firm in a given product market is subject to international competition, often the only way to survive is through growth and **economies of scale** (*producing more*).

INTERNATIONAL TRADE RESTRICTIONS

- Governments restrict international trade by using three main tools:
 1. Tariffs
 2. Subsidies
 3. Quotas

INTERNATIONAL TRADE RESTRICTIONS

- When India imposes a tariff on car imports:
 - The price of a car in rises.
 - The quantity of cars imported decreases.
 - The government collects the tariff revenue.
 - Producer surplus increases.
 - Consumer surplus decreases.
 - Total surplus decreases – a deadweight loss

INTERNATIONAL TRADE RESTRICTIONS

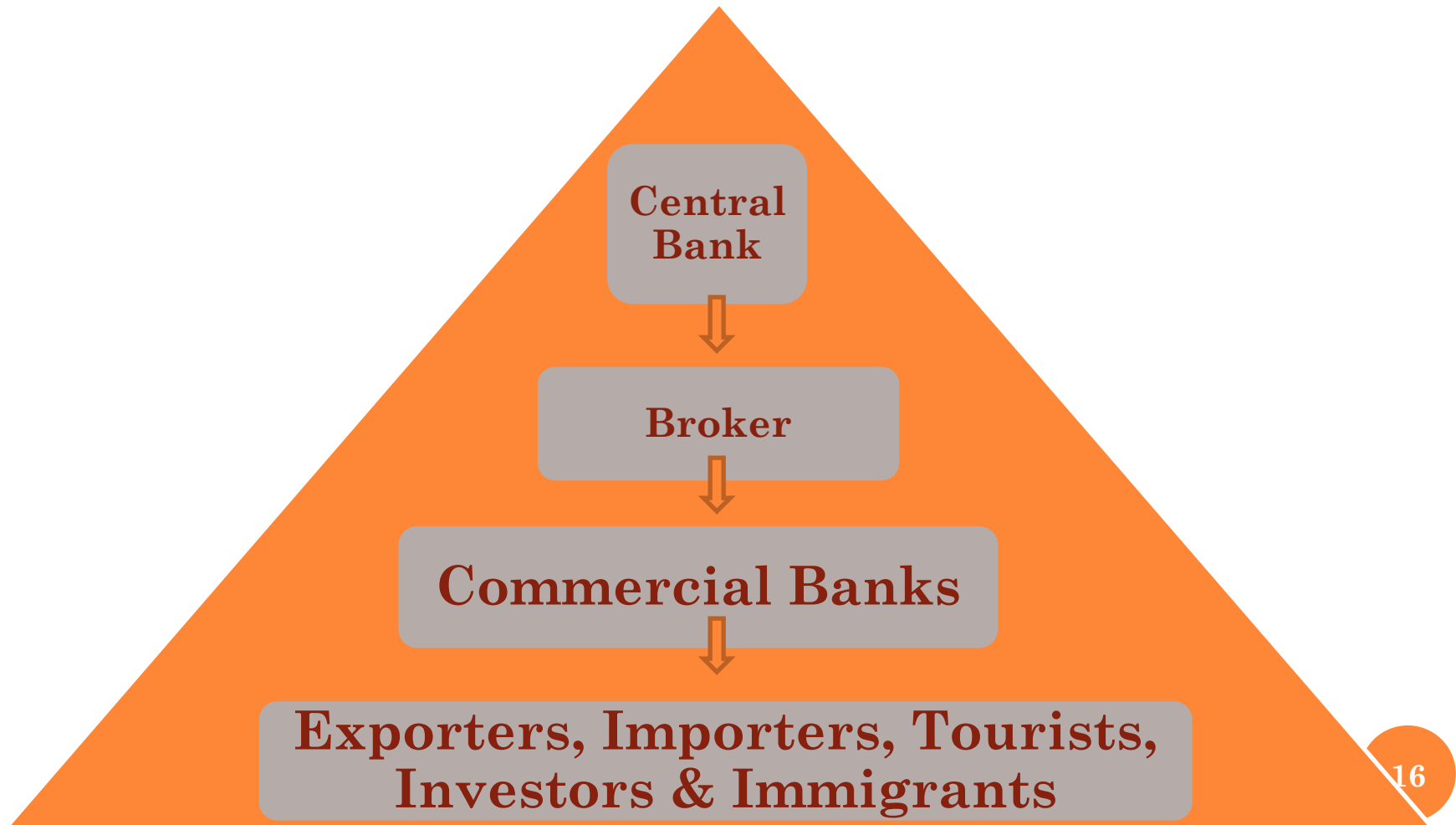
- How subsidies work
 - A subsidy shifts the supply curve rightward, lowers the price, increase the quantity, and creates a deadweight loss from overproduction
 - If a subsidy is granted on an export or an import it changes the amount of international trade

FREE TRADE

- The unrestricted purchase and sale of goods and services between countries without the imposition of constraints
- EU zone.

Foreign Exchange Market

STRUCTURE OF FOREIGN EXCHANGE MARKET



KINDS OF FOREIGN EXCHANGE MARKET

- i. **SPOT MARKET –**
- ii. **FORWARD MARKET -**
- iii. **ARBITRAGE –**

WHAT IS THE BALANCE OF PAYMENTS?

- The **balance of payments** (BOP) records financial transactions made between consumers, businesses and the government in one country with others.
- Positive BOP
- Negative BOP

Thank You