ECO-HE-6026: INTERNATIONAL ECONOMICS

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Unit-1. Introduction

What is international economics about?, subject matter of International Economics, An overview of world trade- its changing pattern.

**1.Q. What is International Economics about ?**

Ans. International economics is the field of economics that is concerned with the economic interactions of different nations as well as the economic interactions between nations and international institutions. A big part of international economics concerns trade between nations. Today, all nations import (buy) goods and services from other nations and export (sell) goods and services to other countries.

**2.Q. Give the Meaning of Trade.**

Ans. Trade is one of the powerful forces of economic integration. The term ‘trade’ means exchange of goods, services or merchandise among people.Trade is of two types. They are: a) Internal Trade and b) International Trade.

**3. Q. Give the meaning of Internal trade and international trade.**

Ans. 1. Internal Trade

It refers to the exchange of goods and services within the political and geographical boundaries of a nation. It is a trade within a country. This is also known as ‘domestic trade’ or ‘home trade’ or ‘intra-regional trade’

2. International Trade

It refers to the trade or exchange of goods and services between two or more countries.

In other words, it is a trade among different countries or trade across political boundaries.

It is also called as ‘external trade’ or ‘foreign trade’ or ‘inter-regional trade’.

4. Q. Discuss the subject matter of International economics.

Ans. The subject matter of International Economics includes large number of segments which are classified into the following parts.

1. Pure Theory of Trade

This component explains the causes for foreign trade, composition, direction and volume of trade, determination of the terms of trade and exchange rate, issues related to balance of trade and balance of payments.

2. Policy Issues

Under this part, policy issues such as free trade vs. protection, methods of regulating trade, capital and technology flows, use of taxation, subsidies and dumping, exchange control and convertibility, foreign aid, external borrowings and foreign direct investment, measures of correcting disequilibrium in the balance of payments etc are covered.

3. International Cartels and Trade Blocs

This part deals with the economic integration in the form of international cartels, customs unions, monetary unions, trade blocs, economic unions and the like.

It also discusses the operation of Multi National Corporations (MNCs).

4. International Financial and Trade Regulatory Institutions

The financial institutions like International Monetary Fund IMF, IBRD, WTO etc which influence international economic transactions and relations shall also be the part of international economics.

5. Q. **Why International Economics as a distinct branch of Economics? Justify.**

Ans.

International economics is a subfield within economics which concerns itself with the

economic activities of different countries around the world and its global effects. In other

words, international economics is a field concerned with economic interactions of countries and

effect of international issues on the world economic activity.

Over the years, the field of international economics has developed drastically with

various theoretical, empirical, and descriptive contributions making it a distinct branch of

Economics. As International economic relations differ from interregional economic relations

(i.e., the economic relations among different parts of the same nation), international economics

requires somewhat different tools of analysis. The following arguments justify international

economics as a distinct branch of economics.

1. Nations usually impose some restrictions on the flow of goods, services, and factors

across their borders, but not internally.

2. International flows are to some extent hampered by differences in language, customs,

and laws.

3. International flows of goods, services, and resources give rise to payments and receipts

in foreign currencies, which change in value over time.

4. The impact of various government restrictions on production, trade, consumption, and

distribution of income are covered in the study of international economics. Thus, it is important

to study the international economics as a special field of economics.

5. Normally, factors of production are mobile within a country but are not as mobile

internationally. However, with the advent of globalization, international mobility of factors

of production has become much easier which in turn affects the comparative advantage of

nations. Under such economic reality, it requires the theoretical concepts and tools of

international Economics to understand what impact the increasing mobility of the factors of

production has on comparative advantage.

**6.Q. Discuss the Nature and Scope of international Economics**

Ans.

The Subject Matter of International Economics that comes under its scope deals with the

economic and financial interdependence among nations. The scope of international economics is

wide as it involves various concepts, issues and theories. Nature and Scope of international

Economics can be studied as below:

1. International trade theory: International trade theory analyzes the basis and the gains

from trade. International trade policy examines the reasons for and the effects of trade

restrictions. Theoretical international economics is grouped into two categories as:

(i) Pure Theory of International Economics: The pure theory of international

economics deals with trade patterns, impact of trade on production, rate of consumption, and

income distribution. It involves microeconomic part of international economics.

(ii) Monetary Theory of International Economics: The monetary theory of

international economics is concerned with issues related to balance of payments and international

monetary system. It involves macroeconomic part of international economics.

2. Descriptive International Economics: Descriptive International Economics deals

with institutional environment in which international transactions take place between countries.

Descriptive international economics also studies issues related to international flow of goods and

services and financial and other resources.

3. International finance or open-economy macroeconomics: International Economics

deals with international finance which studies how capital flows between international by

applying macroeconomic principles. Areas that fall within the remit of international finance are:

(a)Balance of payments: The balance of payments measures a nation’s total receipts

from and the total payments to the rest of the world.

(b)Foreign exchange markets: Foreign exchange markets are the institutional

framework for the exchange of one national currency for others.

4. International trade policy: International trade policy examines the reasons for and

the effects of trade restrictions. The impact of various government restrictions on production,

trade, consumption, and distribution of income are covered in the study of international

economics.

5. International economic institutions: International Economics studies the functioning

of various emerging international economic institutions, such as World Trade Organization

(WTO), International Monetary Fund (IMF), United Nations Conference on Trade Development

(UNCTAD) and World Bank

6. Globalization: With the advent of globalization, there is a rapid increase in the free

flow of goods and services, capital, labor and finance between nations. Globalization has led to

increase in employment opportunities, International Competition and standardization of

international economic laws and policies. Thus, the advent of globalization has widened the field

of International Economics.

**7.Q. Discuss briefly factors affecting pattern of world trade.**

Ans.

Many macroeconomic factors impact the formation and variation of world trade patterns. Here are some key Factors Affecting World Trade Patterns:

1. Economic Structure: The structure of an economy, whether it is industrialised, developing or agriculture-based, significantly influences its trade patterns.

2. Exchange Rates: These affect the cost of exports and imports, which influences trade patterns.

3. GDP and Economic Growth Rate: Countries with larger or rapidly growing economies tend to trade more, influencing global trade patterns.

4. Trade Policies: Government policies on trade can significantly shape trade patterns by encouraging or preventing trade with certain countries or areas

**8. Q. What do you mean by pattern of trade?**

Ans. World trade patterns refer to the manner in which global trade—import and export of goods and services—occurs between countries, considering factors such as volume, direction, composition, and interdependency amongst nations.

**9. Q. Explain the causes of international trade.**

Ans. Reasons for International Trade

(1) Production

 It is not possible for every single country to produce equally at a cheap cost.

 That is why international trade is taken into account.

(2) Factors of production

 Factors of production include labour, capital, and raw material for producing goods and services that are available at different rates in different countries.

(3) Cost of production

 Each country finds it advantageous to produce only those goods and services that can be produced efficiently.

The rest of the activities are assigned to other countries at a lower cost.

(4) Resource distribution

 Many times, companies face problems due to the limitation of natural resources.

 There is an unequal distribution of the resources in the country.

(5) Examples

 Different countries are specialised in different sectors like in India, Maharashtra is involved in textiles, West Bengal in jute products, Haryana and Punjab in food products, Kerala in spices, etc.

**10. Q. Explain the importance of international trade.**

Ans. Importance of

International trade between various nations is an essential factor that is responsible for the increase in the standard of living, creating employment, and empowering consumers to enjoy different kinds of goods. Few other important factors that are influenced by international trade are:

 Utilisation of raw materials: Some countries are naturally blessed with an abundance of raw materials, like Qatar is for oil, Iceland for metals and fish, etc. Without international trade, these countries would never benefit from their natural resources or raw materials.

Greater choice for consumers: More international trade results in more choices of products.

Specialisation and economies of scale – greater efficiency: This means that it does not matter what a country is specialised in, and the essential thing is to pursue a specialisation that allows companies to make a profit that outweighs most of the other factors.

Global growth and economic development: International trade influences the economic growth of a country. This increase also leads to the reduction of poverty levels.

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**12.Q. State the similarities between internal and external trade.**

Answer:

International trade and internal trade are more or less similar in many ways. Some of the similarities between international and internal trade are described below.

1. Both international and internal trade involve the exchange of goods and services between two parties, typically located in different geographical areas.

2. Both types of trade require the use of money and other forms of currency as a medium of exchange.

3. Both international and internal trade is regulated by governments, which set tariffs, quotas, and other restrictions on the movement of goods and services.

4. Both types of trade involve the risk of losses due to fluctuations in currency exchange rates and other market conditions.

5. Both international and internal trade rely on networks of suppliers, buyers, and other intermediaries too.

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