

Theory of absolute advantage

Countries can produce some goods more effectively and efficiently than others.

Theory of comparative advantage

Free trade can increase global output even if one country has an absolute advantage in the production of all products

Trade pattern theories

Theory of country size	Large depend on export less than small. Large = varied climates and more resources, so more self sufficient.	Russia, USA, Brazil, India, China are large
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Size of economy	Developed countries more likely to trade. Top 10 export/importers developed countries. Developed economies produce more so have more to trade, incomes are high so people buy more.
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With whom trade theories

Country-Similarity theory	Developed trade mostly with each other because they - produce and consume more, create new products to compete, produce differentiated products and services
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Specialisation and acquired advantage	Provide other countries an advantage over domestic producers. Specialise to gain advantage, eg Germany = machinery & equip
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Product differentiation

Cultural similarity	Importers and exporters find it easier to trade with countries they are similar in language and or culture
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Political relationships / economic agreements	May discourage or encourage trade
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Overcoming distance	Transport costs
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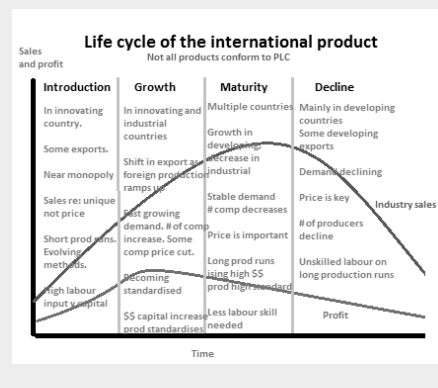
Specialisation assumptions (valid?)

Full employment	Everyone who wants a job has one
Economic efficiency	Minimisation of real and opportunity costs of production by exploiting comparative advantages rather than necessarily absolute advantages
Division of gains	Ops for gains: resource owners benefit by sale of one output for other, more highly valued goods.
Two countries, two commodities	Simplified version of reality
Transport costs	Reduce the benefits of specialization
Statics and dynamics	Relative conditions in a country change
Production networks	bits of products made in different countries
Mobility	Assume resources can move domestically to where they are needed. Not always valid.

Free trade results in

Specialisation - natural advantage	Soil, natural resources, fish in seas, minerals, wildlife, rainforests
Specialisation - acquired advantage	Product or process technology

International PLC Theory



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Free trade results in (cont)

Increased efficiency
Increased global output

What type of products are traded

People and land Countries with high people to land ratio trade labor with wheat and wool for example

Manufacturing Places which need lots of room manufacture in places where there is a lot of room.

Capital, labor rates and specialisation Production factors are not homogenous, vary within and among countries coz of training/edu differences

Process theory results varied) Companies may substitute capital for labour, depending on the cpst of each.

Product tech New products req \$\$\$ in R & D so most come from developed countries

According to the factor proportions (FP) theory - factors in abundance are cheaper than factors in scarcity. Assumes homogeneity in countries.

Production possibilities curve

Graphical representation of all combinations of goods and services an economy can produce.

An economy's factors of production are scarce; they cannot produce an unlimited quantity of goods and services.

Importing and exporting probs

Financial risks Most SMEs site 'shortage of working capital to finance export' as big barrier. Offers low profitability in light of unexpected costs and unknown financial constraints

Customer management With high speed connections customers want immediate answers.

Scant IB expertise Difficulties of understanding foreign business practices. Limited knowledge of competitors, unfamiliarity with local customs etc

Marketing barriers High shipping costs / logistic demands, difficulty price matching & promoting. Discouraging for exporters.

Importing and exporting probs (cont)

Top management commitment International outlook and risk orientation. Most focus on domestic rather than foreign. Exporting and importing places tough demands on mgmt. Firms with agarness and surplus resources to trade internationally are rare.

Trade regulation Inefficiencies due to delays, documents and admin fees. Regulations differ from one country to the next. Homeland security also can be a problem.

Trade documentation Lots of it. Including: duty rates, customs clearance and entry processes. Values declarations, duty management, Mistakes spawn costs and it can get \$\$\$ to manage

Why import?

Specialisation of labour

Global rivalry

Local unavailability

Diversification

Top managements outlook



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