Specialisation Cheat Sheet

by Natalie Moore (NatalieMoore) via cheatography.com/19119/cs/2202/

Theory of absolute advantage

Countries can produce some goods more effectively and efficently 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

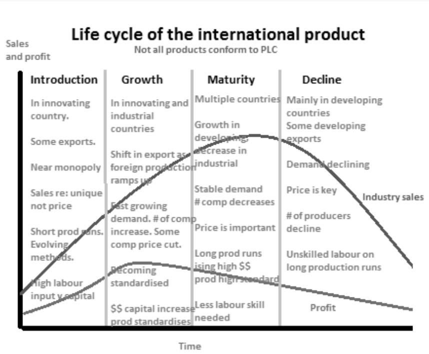
Trade pattern theories

Theory of country size	Large depend on export less than small. Large = varied climates and more resources, so more self sufficent.	Russia, USA, Brazil, India, China are large
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.	

With whom trade theories

Country-Similarity theory	Developed trade mostly with eachother because they - produce and consume more, create new products to compete, produce differentiated products and services
Specialisation and aquired advantage	Provide other countires an advantage over domestic producers. Specialise to grain advantage, eg Germany = machinery & equip
Product differntiation	
Cultural similarity	Importers and expoerters find it easier to trade with countries they are similar to in language and or culture
Political relationships / economic agreements	May discourage or encourage trade
Overcoming distance	Transport costs

International PLC Theory



Specialisation assumptions (valid?)

Full employment	Everyone who wants a job has one
Economic efficiency	Minimisation of real and opportunitiy costs of production by exploiting comparative advantages rather than nessessarily 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 - aquired advantage	Product or process technology

Free trade results in (cont)

Increased efficency

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 locations	Places which need lots of room manufacture inplaces 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 tech (FP 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 homogenity in countries.

Production possibilities curve

Graphical representation of alt 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 lcoal 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	Inefficencies 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, dute management,. Mistakes spawn costs and it can get $$$ to manage

Why import?

Specialisation of labour

Global rivalry

Local unavailablity

Diversification

Top managements outlook

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