International trade theory

Business

International trade theory and policy Several theories have been in put in place by governments in trying to enhance the economic stability of their nations. Some of the theories such as Mercantilism explain how excessive exports lead to inflation. On the other hand, if a country imports more than what it produces then, the prices of such commodities goes down resulting into economic imbalance and this lowers the living standard (Pomfret 107). Based on the theory of absolute advantage, Adam Smith clarified that, it is possibility for a country to make higher production than an opponent given same condition. Therefore, a country should only specialize in the production of its efficient commodity. Interpreting this account to the illustration on chart 4-10, Ghana specializes in the production of cocoa for commercial purposes than Korea who takes its advantage based on rice. Ghana being 4 times more efficient in cocoa productivity than Korea who specializes in rice gives absolute advantage of each other in trade negotiations. Besides, the theory of comparative advantage illustrates that country’s exports should not be measured by quantity but efficiency to avoid market dominancy. For instance, if 4tones of cocoa were exchanged by 4tones of, rice from Korea then Ghana would be susceptible compared to Korea (Pomfret 107).
Clusters or networks of similar companies in the same industry are always encouraged as this harmonizes competitive advantage of the countries involved by creating room for innovations otherwise improving productivity. Cluster is also very essential for the promotion f a particular good or service believed to be efficiently located (Pomfret 107).

Works cited:

Pomfret, Richard. 2008. Lecture notes on international trade theory and policy. Hackensack, NJ: World Scientific. 2008. Print.