Advantages and limitation of international trade

Business

International Trade Simulation and Report

Abstract

International trade has a definitive influence on the economy of all countries, spread across the world. Increase in international trade is de rigueur, given the onset of globalization with its fiercely contested challenges. This paper will list one advantage and one limitation of international trade and identify four key points from the reading assignment emphasized in the simulation. In addition, this paper will define absolute and comparative advantage and describe the influences affecting foreign exchange rates. This paper will also list the finding of the team's debate surrounding international trade, the concept summary results of the assessment and the findings from the evaluation of the effect of government policy on economic behavior. Finally, this paper will briefly describe the World Trade Organization (WTO), one trade topic indentified by the WTO, and what the team learned researching the WTO.

Issues Surrounding International Trade:

The Theory of Comparative Advantage. If two countries X and Y trade in two goods G and H, both can benefit by specialising in the good in which they have comparative advantage and then trading them. This has been proved valid even when country X has an absolute advantage in both goods due to the complexities of intra-country distribution of resources (Bumbu, 2008).

Distribution of Gains and Losses from Trade. If goods G and H use two inputs, K and L (capital/ labour), at given prices, production of goods will probably utilize inputs in different ratios. If G uses a higher ratio of K to L than H, production of that good becomes K-intensive, relative to H. Here, if G is K-intensive, it will mean that H is L-intensive. If country X's inputs of production have a higher ratio of K to L than country Y, then X is K-abundant and Y is L-abundant, relatively (ibid).

A country will tend to export products which are intensive in factors that country has in abundance. A labour-abundant country (say country Y), will tend to export labour- intensive products. Also, country X's capital intensive exports will rise. As it does so, the relative price of the abundant factor in that country will rise. The L-abundant country will see labour prices rising, i. e. wages will rise. Purchasing power of owners of labour will rise; purchasing power of owners of capital will fall (ibid).

International trade will tend to equalize the relative prices of the two factors in the two countries (ibid).

Concept Summary Results for the Assessment:

Cesar: The simulation detailed the complex and often confusing economic theories of comparative and absolute advantage; open and closed economies; opportunity cost; regulatory trade restrictions, quotas and tariffs like anti-dumping margins; and the advantages of a Free Trade Agreement. Since Rodamia, in the simulation, could specialize in DVD players and cheese production with a lower opportunity cost than corn products and watches, which required higher opportunity cost, it would be more cost effective to produce more cheese for export and import corn from elsewhere. Moreover, Rodamia had an open economy to export and import goods. Thus, Rodamia could implement tariffs and quotas judiciously to accomplish trade balance.

Denise: The simulation explained the extreme effects that Government policies on tax, own spending, and interest rates, etc., could have on economic behavior, both positive and negative. The effects of government policy on economic behavior showed that consumption increases in response to vast government spending. Since there would be no economic growth if government spending was set at zero, the rationale behind Government spending became lucid. However, government spending requires finance choices, affecting related factors such as welfare and unemployment programs, with undesirable connotations like encouraging individuals to choose leisure over work, given the incentive to remain unemployed. The government must focus on rationalizing spending behavior, thereby allowing the economy to perform better.

Works Cited

Bumbo. (2008, June 27). Some basic economic issues surrounding international trade and
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