Economics in business course work

Business, Company

Factors influence a country's level of exports and imports

The main factors determining demand levels for imports are the national income and the level of competitiveness of locally manufactured tradable goods and services. An increase in income will also lead to an increase in the demand of imports and a decrease in national income will lead to less demand for imports. Another factor that can affect imports is an increase in the price of imports compared to locally manufactured substitutes. If the former is cheap, it will lead to a fall in demand for imports. The fall increase in the price of imports compared to locally manufactured substitutes will lead to increase in the demand for imports. Furthermore, the price of imports depends on the world prices and the rate of exchange, so that a rise in general prices or depreciation of rate of exchange will cause a rise in import prices.

Where LM is Money demand, BP is Balance of payment and IS being Money Supply. A change in the exchange rate has real effects in all the four cases.

Another factor influencing the country's imports and exports is the exchange rate. The demand for exports and imports depends on the value of rates of exchange. An appreciation of the country's currency will make exports become more expensive and imports to be cheaper. This will negatively affect the exporters and raise the leakages from the circular flow of income. If a country's currency were to depreciate, the opposite effect would occur. It should be noted that if a country has to export and the country's domestic currency is strong then its local products is more expensive for its buyers, and if the country is importing and its local currency becomes weak then the products she is importing becomes more expensive.

Cost of production is another variable that influences a country's imports and exports. If the cost of production in the country is high, relative to a foreign country importing products, then the quantity of exports will reduce significantly. If the cost of production in the country is low then the export demand will be high.

Another factor that certainly affects imports and exports is marketing. Most firms may not be aware of the immense effects marketing has on businesses. That is why not many businesses invest in marketing that much. Unfortunately, for these same firms have not experienced the benefits of the most essential factor in any business; marketing. If customers are to be aware of products and services, they must have information. After all, how can someone be able to buy a product that he has not heard of? Marketing is an indispensable business tool, and most especially in the import and export commerce. From firms that invest heavily in marketing, it evident that they export more when compared to firms that do not invest heavily in marketing. In starting up an import and export business, it is essential, therefore, to acknowledge the importance of marketing and invest time, effort, and resources for the facilitation of marketing strategies.

Logistics is another factor influencing country's imports and exports. The distribution requires deliberate considerations, especially if commodities to be imported or exported are perishable.

Government regulations are critical to the export and import sector. It is necessary to bear in mind that international trade is regulated by many policies imposed by governments around the world. With this fact, it is particularly necessary to comply strictly with government rules at all times to avoid trading restrictions.

Increase in government expenditure and interest rates lead to increased imports and vice versa.