

# International business news analysis

Business



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Teacher News article about international trade: What to Do When the Invisible Hand Stops Working? What to Do When the Invisible Hand Stops Working? Does it mean that the market lost its magic? Well, if we are talking about the circus, the magician may be in trouble if the invisible hand stops working but since it is the international market, it just a proposition that the market's invisible hand may lost its ability to regulate and heal itself. But again, economist cannot meddle with nature as proposed by the article.

The article propose that the invisible hand may no longer work with certain conditions and floated an idea of the “ state of the art” mathematical models currently used by economists which presupposed that household and ideal firm optimize their behavior with perfect rationality. In the end they revert back to Ricardian and Smith's principle as a more plausible law to govern the market and international trade.

Adam Smith originally meant that the mechanism of the invisible hand is a result of the market settling the distribution of goods and the prices between what the producers want to produce and what the consumers chooses freely what to consume within a given economy and across economies. As a result, producers will have to create goods that are cheaper to produce undermining competition and gain market share. On a bigger picture, Adam Smith's invisible hand is comparable to David Ricardo's idea of Comparative Advantage which is the guiding principle behind globalization of free trading across economies. Ricardo posited that countries will be better off if certain goods and services will be exported by countries that can produce them most efficiently. This is the main principle of outsourcing where a poor country will naturally have a cheap labor serving as its comparative advantage and would be willing to work for wages lower than those their rich

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counterpart countries which may have been more expensive if done in other countries. As a result, industry will naturally move to these countries as they make more profits by discounting on the labor cost as afforded by the poor country. This is the invisible hand at work in international trade whereby the invisible hand will “ guide” and regulate international trade in the most beneficial manner by directing goods to be produced by more efficient countries so that everybody can benefit from it at a lower price and higher quality.

The article however proposed a scenario what if invisible hand and its mechanism of comparative will no longer work because some economists thought of some brilliant mathematical models that predicts the market behave in perfect rationality. Except that after much theorizing, they realize that trade is better off to be left alone and do its own thing of regulating itself and that its mechanism cannot be captured by econometrics. The proposed explanation of Robert Clower and Peter Howitt in the article even went back to Smith and Ricardo’s principle of the market’s ability to regulate itself when it mentioned that “ useful economic coordination comes about over time as people interact, discovering where to find the goods they like as well as the companies they trust and find useful”. This is in fact David Ricardo’s Comparative Advantage except that they made the wording fancy. In the final analysis, given that we have limited resources to satisfy our demands and unlimited wants, we have to find ways to produce these goods in a most efficient manner. Thus, no matter what econometric model will be proposed, buyers across economies will always look for value for their money which is getting the best quality possible for their products and services at the least possible cost. This will put pressure on businesses to find ways on <https://assignbuster.com/international-business-news-analysis/>

how to bring down cost and one way to do it is to outsource to countries that has cheaper materials and/or labor.

Thus, the invisible hand and comparative advantage will always impose its will in the market whether we like it or not because it is the natural order of things in international trade.

Link: <http://www.bloomberg.com/news/2013-06-05/what-to-do-when-the-invisible-hand-stops-working.html>