

# International trade and investment concepts



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## **Introduction:**

The definition of economics is well known to everyone. The definition of economics is “ the social science that studies and identifies the scarce material to individuals, governments and to the nation”.

The above definition of economics makes little sense to the layman.

Therefore, economics with example would make it easy to understand the use and application of economics in real life. A few questions and the answers will help us to understand the definition and application of economics in real life scenarios. What will be the life like 2016 to 2026? What will you do after college? How much will you earn from the first job after college? Where will you live and who will be your friends (girlfriend/boyfriend)? Who might you marry? Will you buy a house in new few years, what will be the cost of the house?

The specific answers of the above question will help us understand the basic concept of economics. The salary of the job is discussed in the *opportunity cost*, i. e. the cost of an opportunity foregone. Answer to the question “ What will you do after college?” will give us the idea of the *state of economy* for that period. Whom will you marry has to do with the *cost and benefit analysis* of the persons you date. The answer of the question “ Will you buy a house in new few years, what will be the cost of the house?” will give us the idea of the *housing market* of that period of time. How many friend or girlfriends or boyfriends you have or will have, are connected to the theory and concept of *scarcity*.

**Discussion:**

We people do have to make choices to attain the ultimate goal of consumption. The wants are unlimited whereas the resources are limited. Due to the scarcity of the resources the allocation of the resources has to be made with great care. The firms and the government are also facing the same problem in allocation of the resources. We live in a world with limited resources be it labour, machine or natural resources. The trade of takes place as the society and the firm have to device about producing a good or service, as it would compel to produce less of other good and service (Chand, 2015). The trade-off will occur and the questions will be raised and to be answered for allocation of the resources judiciously and to produce goods and services according to the need of the society. The questions will be raised are;

- What good or the service to be produced?
- Where and How the good and service to be produced?

The decisions are taken by the individuals not be the society as a whole. The answer to the basic question “ what to be produced?” depends on the choices of the customers, firms and the government. Whether we choose iPhone or blue ray player, text book or tab entirely depend on the individual choice. The government also have to make choices whether to spend on defence expenses or education and basic healthcare. The basic problem is faced by the government and the firm is to choose the good or service by trading-off one good or service.

The choice of the good or service depends on the economic calculation of the cost known as opportunity cost. The opportunity cost is the most important

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theory of economics and the opportunity of the activity will be given up for the high value activity. If we go by example, if parsons decide to work as manager of a company, he can earn AED 50, 000 per month, instead he opens his shop. The opportunity cost for opening the shop is AED 50, 000 per month.

The production of the goods and services are also important issue. The firm has to choose whether to produce the good or service with increasing manpower or more machines to be installed. Whether the firm shall transfer its production unit to China or any other country is also one of the important decisions that have to be made (Hubbard, Garnett, Lewi, & Anthony, 2014).

The subject of economics is related to the study of production, distribution and consumption of goods. If the individuals, firm and the government do not make choices that what to be produced and what not then the society will produce infinite amount of gods and services to satisfy infinite needs of the society.

The term *comparative advantage* is used by the economists to describe opportunity cost. The opportunity cost of the firm producers one of the important part. The producer of the goods X need to give up X quantity of any other goods, i. e. the smaller opportunity cost of producing X. The loss of earning due producing one good instead of another good is considered as opportunity cost. The principal of the advantage establishes that the there is room for the gain from the specialisation of trade, but it leaves out some question about the comparative advantage and opportunity cost. The price

of the trade has to be determined between the parties and to be shared. The price of the trade between both the parties has to be determined.

The real example of trade between two countries would help us understand the relation of the comparative trade advantage and the opportunity cost. The goods produced overseas and consumed in the country is import and the goods produced in the country and sold overseas and consumed is export. Let see how two countries can benefit from the mutual trade. A worker in US is producing one car in a month whereas a worker in UAE can produce 200 gallon of oil in a month. The US worker can produce 150 gallon of oil in one month. The comparative trade of one car in US equals to 150 gallon of oil. The UAE worker takes 40 days to produce one car. Therefore it would be better for UAE worker to produce oil rather than concentrating manufacturing cars. US should produce more cars than producing oil.

However, the reality of the international trade is not easy to compare. The international trade is more complex in nature.

### **Globalisation, Trade and opportunity cost:**

The countries which opened up its market and welcomed international investment are most benefitted because of mutual investment. The GDP of these countries have posted robust growth in last two decades. The high growth helped these countries to tackle poverty. Any economic policy is not fool proof. There is nothing named flawless economic policy. The disadvantages of globalization are as follows:

The countries are extensively depending upon trade and investment of industrialized nations to set up business and industry. The local industries

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are eaten by the global multinationals. The setting up a company or industry and competing with the MNCs have become increasingly difficult. The globalization has somewhat created monopolistic business environment.

The multinationals have been dumping its goods at cheap rate to these countries. The low quality and cheap product are destroying small business and enterprises. The example of Wal-Mart can be drawn here, because of Wal-Mart so many retail business shops have closed down. The people who were employed at those shops have lost their jobs. It is difficult to find a perfect economy in the world which facilitates trade and investment and mutual transfer of technologies. The above factors play in the mind of the international investors whenever they decide to start cross border trade and investment with other country.

All of the above factors cannot be perfect any country, but the company's main focus area is demand of goods, cost related to production of goods and services, but the company will not invest in country where political system is not proper, favourable tax regime is not available. The several macroeconomic factors influence the business and industry and created economy of globalization. The government now days have become very proactive to push business and industry. The business and industry now-a-days cannot run in isolation and they are not insulated from the factors influencing global and domestic issues.

These factors discussed above have to be taken into consideration to set up a business in any country. These factors affect those companies which have global presence. Pure and proper understanding of these macroeconomic

factors is important to understand globalization. The globalization is the effect of integration of economies. It cannot be denied that the globalization has helped many poor countries to sell its products to the industrialized nations. The globalization has helped many countries to empower its residents. The globalization is the need of this hour.

#### Commodity Market and Trade:

Commodities such as agricultural products and minerals are traded in this market. There are 50 such markets in the world where hard and soft commodities are traded. This market is highly volatile market with huge risk involved. The commodities are traded in package of future contract. The commodity market trades in future and options of the spot prices of those commodities. Farmers had practiced the simple form of commodity trading in the centuries back to contain the losses arising from variations of prices in goods.

In commodity market derivatives are either exchange-traded fund or over-the-counter fund (OTC). The clearing houses clear and settles the transaction in commodity market.

In commodity market future contracts (futures) are traded on commodities exchanges. Over-the-counter (OTC) contracts are "contract between two parties in the trading of commodity. The movement in commodities determines the prices of various goods, many of which are part of essential commodities. Increase in commodity price in the global market creates inflation in various countries. Too much movement in the commodity market creates volatility inflation and interest rate (Schofield, 2011).

## **Environment and Opportunity Cost:**

The major issue is to calculate value of environmental economics. The example will help it to understand it better. Some species of plant and animal are at verge of extinction. The value the human could have generated because of the presence of these species called environment economics. The existence of these species could have done well to the society and to human, but the loss of these species has affected the future use and value creation by these species.

There are certain plants which have definite use in manufacturing drugs; the value of these plants can be measured by environmental economics. The environment economics is more concerned with the best possible use of the resources for the greatest good of people. The environmental economics is helps to calculate market failure. The market failure is related to unable to use best possible resources for the best possible benefit or value. The environmental economics is more concerned with accounting of the allocated resources for the best use of the society and environment.

No use values are usually estimated using different model of valuations.

There are certainly tow models top value the environment effect of some of the missing species. The contingent valuation method is one of the by which people are asked about their willingness to pay the amount to recreate the environment. There is another method to calculate value of the environment is known as Hedonic pricing. According to Hedonic pricing method the value of the economic decision like building houses, travelling will be added to calculate the economic value. There is similarity between environmental and



natural resources economies. These two fields are associated with sustainability.

The environmental economics has its influence in various fields like environmental finance, natural capitalism etc. The understanding of the opportunity cost suggests that if we put the scarce resources for production, the opportunity cost has to be counted. The benefit of the specific use of the scarce resources outweighs the opportunity cost. The principle of the opportunity cost mandates that the specific use of the resources and the environment provide the benefit that overcompensates the opportunity cost. The use of the environment for assimilative purposes cannot be continued, if the opportunity cost is greater than other benefits. There are several international bodies who are involved in maintaining the ecological balance and sustainability of the environment.

The Association of Environmental and Resource Economists (AERE), European Association for Environmental and Resource Economics (EAERE) are the notable agencies looking after the environmental sustainability and the value of the environmental economics on the society. The green activists are also playing an important role in sustainability, but it is to be understood that the calculation of the value of loss and effect of the various species and the loss of natural resources cannot be properly measured because the use of these natural resources in the future may give the society much better return. The factor like future impact of the loss of natural resources should also be part of environmental accounting.

**Conclusion:**

The economic activity of various countries depends on the trade and investment by various multinationals to other country. The factors that encourage, create and facilitate trade and investment in other countries are mainly macroeconomic factors.

Any economic activity is more concerned with the growth of business and enterprises in the country. The business that grows beyond international borders is called MNC (Multi-National Corporations). The concept of global village has changed the outlook of the business and economic activities of the business house or enterprises. Inland and international political movement decides the fate and scope of business.

For in-depth analysis of business and economics, it is better to understand what macroeconomics and areas that facilitates cross border trade and investment (globalization). To understand the factors influencing globalization the factors related to macroeconomics has to be understood. The trade has changed a lot after the inception of WTO. The mutual advantage of the country has become important for the trade.

The countries like China has built their economy based on the concept of the comparative advantage. The country is one of the largest exporters of manufactured goods. The natural resources for UAE like oil has been the core issue of its economy. The country has managed to grow due to export of oil to every corner of the world. The comparative advantage of trade is here for the country to grab.