Characteristics of the modern theories of international trade

Business

Characteristics of the Modern Theories of International Trade International trade involves economic transaction where goods, capital and services are exchanged across territories and countries. Modern international trade theories have been developed by economists over time to enhance a comprehensive understanding, as well as guide the government towards policy making. This has increased profitability in businesses. Some of the modern theories of the international trade include competitive advantage by Michael Porter, Resource and trade by Heckscher and Ohlin, standard trade by Paul Krugman and specific factor and the income distribution by Paul Samuelson and Ronald Jones (Gandolfo 1-98).

Resource and trade by Heckscher and Ohlin

Heckscher-Ohlin theory outlines the reasons for trade between countries based on the differences in resources. Comparative advantage in this case is dependent on the interaction between resources available in a certain country. According to this theory, the production technology influences relative intensity in utilization of different production factors. The theory presumes some factors in production of different goods and the implications when two countries involved in trade produce similar items (Gandolfo 1-98). This theorem explains the trade patterns with emphasis on variation of quality defining the variation in requirements. This theory has enhanced specialization where a country exports products that it can produce rather than the products that are unsuitable for production. As a result, the countries involved will benefit from the trade within the international business environment (Gandolfo 1-98).

Specific factor and the income distribution by Paul Samuelson and Ronald

Jones

The theory outlines two factors influencing the distribution of income. Firstly, immediate transfer of resources from a country without costs is impossible. Secondly, the difference in changes of production mix in relation to the production factors' demand varies depending on the industry. Another characteristic of the theory is that it points out that capital and territory are examples of specific factors, while labor acts as a mobile factor (Gandolfo 1-98).

In modern business environment, any country with less land and high capital abundance is characterized by an increase in the manufactured goods and decrease in the food products because of the increase in the marginal productivity. Two countries in trade partnership have an integrated economy, and failure of one country to trade translates to equality in rate of production and consumption (Gandolfo 1-98).

Standard trade by Paul Krugman

This theory outlines curve of relative supply that results from production possibility. On the other hand, the theory implies that curve on relative global demand results from differences in preference of a certain product. In modern business, exchange rates are determined from the intersection of these two curves. The improvement in the exchange rate for a country means that the welfare of the country will rise substantially (Gandolfo 1-98). The increase in trade, in a certain country, translates into an increase in food consumption within that country. To maintain the equilibrium, more food products will be imported while manufactures will be exported. There is compensation to those who lose by those who gain in any trade. This

considers trade as a gain due to the expansion in the choices within the economy that promotes the redistribution of the income (Gandolfo 1-98).

Competitive advantage by Michael Porter

This theory evaluated the development stages of evolution of countries. The stages are based on factors, investments, innovations and prosperity. The diamond determinants included capacity of the internal factors, domestic markets, links between industries, and the domestic competition.

In modern business, this theory in considered as oversimplified where despite some industries breaking down into many segments, there is no addressing of the market by the competitors. This is contrary to the competitive advantage which is realized form discovery of new segments across the market (Gandolfo 1-98).

Works Cited

Gandolfo, Giancarlo. International Trade Theory and Policy. London: Springer, 1998. Print.