International trade simulation and report persuasive

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International trade is the exchange of goods, capital, and services across international borders or territories. In most countries this trade represents a significant share of their (GDP) gross domestic product. This type of trade has political, economic, and social importance to all nations involved. There are many factors surrounding international trade, such as, advantages, limitations, foreign exchange rates, and others.

As we review these factors, this will allow us to better understand how international trade truly functions. Advantages and Limitations International trade is based on having a comparative advantage. Countries produce products that are easier for them to produce, then other countries. A country having an advantage, can come from many different factors, availability, natural resources, relative efficiency of factors of production, and the state of technology. Each country offer a different set of advantages, like labor, land, capital, and entrepreneurship. If a country has a strong labor intensive work force, and has fertile soil, and a good climate suitable for growing, that country will excel, and have an advantage of producing agricultural goods.

There are some limitations to international trade as well. Some of the limitations are trade barriers, which include government imposed restraints on the flow of goods or services, tariffs, and quotas. Tariff is a tax imposed on a product or service, and apart of a government's policy to control trade between nations. For political reasons, tariffs are normally imposed on imported goods. Four Key Points While doing the International Trade Simulation there were four key points that were found. " A tariff is a tax imposed by a government on imports.

” (R. Glenn Hubbard & O’Brien, 2010, p. 1013). These taxes are imposed between countries therefore raising the price of a good.

Tariffs increase the price of the product once it is imported, also there is a law about dumping it’s called the Anti-dumping Agreement. According to World Trade Organization (n. d.), “ If a company exports a product at a price lower than the price it normally charges on its own home market,” (Anti-dumping, para.

1). China has been found guilty of being a currency manipulator but President Obama administration has backed away from confrontation them over the issue. R. Glenn Hubbard & O’Brien, 2010).

According to R. Glenn Hubbard and O’Brien (2010), ‘” By illegally subsidizing its exports through the undervaluation of its currency by 30 percent or more, China distorts the gains from trade, creates barriers to free and fair trade, harms the US industries, and has destroyed millions of US jobs’”. China has been twisting its financial information to gain more, and the action of China is a clear example of anti-dumping, therefore a quota should be placed on China for all of its imports until the country shapes up. A quota is a limit on the quantity of a good that can be imported.

” (R. Glenn Hubbard & O’Brien, 2010, p. 1013). But since China is a major creditor to the U. S. , it seems nearly impossible for there to be any action of major proportions.

Trade restrictions have been known to happen; an example of this is the trade barrier against Cuba. Miller (n. d.), ” When the government of Country

“ A” puts up trade barriers against the goods of Country “ B”, the government of Country “ B” will naturally retaliate by erecting trade barriers against the goods of Country “ A”.

The result are, a trade war in which both sides loose, but all too often a depressed economy is not the only negative outcome of a trade war” (Trade Wars: Both Sides Lose, para. 11). This is true but with governments like China sometimes we need to have trade restrictions in order to limit their advantages. Absolute and Comparative Advantage International trade is important to nearly all economies around the world. Most economies are open, which means interactions in trade and finance with other countries. Trade is buying and selling products or services.

If an individual or country has an absolute advantage over another, this is the ability to produce more of a good or service using the same number of resources available. If an individual or country has a comparative advantage over another, this is the ability to produce a good or service at a lower cost than others. Possessing a comparative advantage in trade is very important because, an individual or country can produce a product or service and make more money on that item or service. The individual or country can than import other items the individual or country does not have or does not make as much profit on.

Maximizing profits is most important for an individual or country, and trading to obtain other items is good business. Foreign Exchange Rates The foreign exchange rates are influenced by supply and demand of currency. When companies purchase services and products from other countries, they need to convert their money into the currency from the country they bought the product or service from. The value of the money is the exchange rate.

When there is a demand for one countries currency the price of the currency rises, but because of that demand of another country, the demand will be less, and their currency with sink. For example if the United States buys a large amount of products from China that will increase the demand and China currency will rise. Because the United State will have to put the dollar on the market to purchase China’s bank notes. This will cause the dollar to drop. If a country does not believe that its economy will remain strong, other countries are less likely to invest in that country’s securities and that country’s dollar will depreciate. Debate Summary International trade is great because it brings new things into the country from different cultures that you would never otherwise experience.

With free trade the prices of those items are driven down, but sometimes with cheaper prices the quality is not the same. A good example of international trade is in the U. S. The country of China and India can beat the U. S.

and Europe in production cost. They pay lower wages to their employees, keeping the cost of labor down. The U. S.

and Europe have to pay their workforce a much higher wage to work, which drives the labor cost up. Some countries that pay lower wages they also tend not to provide benefits, such as health insurance or retirement plans. This allows countries like India, and China to make more profit on production, then the U. S. or Europe. Concept Summary Results The debate on free trade versus trade restrictions, both of which you saw in Rodamia, is an ongoing one.

Though there is an agreement on the fact that in terms of the overall welfare, free trade is better than imposing trade restrictions; there are situations in which trade restrictions are preferred. Protecting a developing domestic industry from competition from abroad or preventing dumping are two such situations. However, in general, bilateral or multilateral trade agreements that reduce trade barriers among countries generally lead to increased benefits for countries concerned. Bodies like the (WTO) World Trade Organization that have been set up to increase the growth of international trade will also play an important part in the continuing evolution of international trade. ConclusionInternational trade and the Simulation, allows you to better understand how the trade process really works.

The goals of most countries through international trade are for the most part pretty similar. The process of reaching those goals can be different, and depend on many different circumstances. Most countries tend to have their own distinct advantages, in one way or another. Maximizing your advantage, and understanding the limitations, and advantages of your trade partners is crucial to developing a sound international trade strategy.