Ricardian theory: international economics and finance assignment

Economics

There are differences between these two theories In explaining international trade patterns. First Of all, the Arcadian model is much simpler compared to the factor endowment theory. In the Arcadian theory, each country is faced with a constant set of trade-offs and that trade is done from the differences in labor productivity where labor is the only factor of production. On the contrary, the factor endowment theory assumes that there are more factors of production which are capital and labor.

Furthermore, in the Arcadian theory, it assumes that technology is constant and because of that, there are no learning effects of production which makes industries and firms to not have a chance to come productive over time (Gerber 2011). Conversely, the factor endowment theory states that each output has a different technology for its production since it has multiple factors of production and therefore requires different combinations and levels of the various inputs.

Besides that, the Arcadian theory assumes that only labor is mobile and can move easily between industries but not across national boundaries. However, in the factor endowment theory, it has more factors of production (capital and labor) that cannot move between countries compared to only one in Arcadian theory. Additionally, the Arcadian theory assumes that the nation as a whole gained from trade without considering the potentially harmful effects of trade.

Whereas in the factor endowment theory, it does not assume that the nation as a whole gained from trade because it’s much more complex thus, forming a more realistic assumption that labor has two or more skill categories and other types of inputs can be included causing some groups within a nation to benefit more than others while some will be harmed (Gerber 2011 Lastly, due to the fact that the factor endowment theory states that a country has ultimate factors of production, the assumption of a production possibility curve (PC) with a constant cost like in the Arcadian theory cannot be applied any longer.

This means that the economy have an increasing costs. In Conclusion, these two theories differ from each other and therefore have their own advantages and disadvantages. 2 A) According to Australia's trade with East Asia (2010), the information stated that the major exports to Malaysia is crude petroleum, copper coal and aluminum. Crude petroleum has the highest exports, which is A$495 million. Copper exports ASSES million, while coal exports A$260, lastly aluminum exports A$226 million.

Australia's trade with East Asia (2010) stated that the major imports from Malaysia is crude petroleum, monitors, projectors and TV's, computers and telecoms equipment and parts. Crude petroleum has the highest imports, which is million. Monitors, projectors and TV's import are A$893 million while computers import is A$839. Lastly telecoms equipment and parts import is A$271 million. The cost of imports and exports stated in Australia's trade with East Asia (201 0), includes A$379 million of influential items such as sugar and also tax or tariff for 10% of total exports. B) Based on the Australia's trade with East Asia 2010 report, there is a noticeable trade pattern which is made between both trading countries. One Of the patterns that can be noticed in the trading report between Australia and Malaysia is that Australia imports more goods and services from Malaysia, and does not export as much goods and services that Malaysia does. This is probably due to the fact that Malaysia labor rates is cheaper compared to Australia, therefore more manufacturing which requires labor is one in Malaysia and thus exported to Australia.

Besides that, one of the noticeable patterns in the trading between Australia and Malaysia is that the major exports from Australia to Malaysia in majority are natural resources which are extracted from the ground. This shows that Australia is more abundant in natural resources compared to Malaysia. Malaysia’s major exports to Australia however, in majority are manufactured goods which requires a more intensive amount of labor. This may be due because of the cheaper cost of labor in Malaysia compared to Australia.