

Answer on Question #44005 – Economics – Finance

Local and international trade has expanded in recent years, posing, both, as a threat and as an opportunity to households and firms. Carry out research, presenting the opportunities of international trade, and how it benefits households and firms

Solution

International trade has flourished over the years due to the many benefits it has offered to different countries across the globe. International trade is the exchange of services, goods, and capital among various countries and regions, without much hindrance. The international trade accounts for a good part of a country's gross domestic product. It is also one of important sources of revenue for a developing country.

With the help of modern production techniques, highly advanced transportation systems, transnational corporations, outsourcing of manufacturing and services, and rapid industrialization, the international trade system is growing and spreading very fast. International trade among different countries is not a new concept. History suggests that in the past there were several instances of international trade. Traders used to transport silk, and spices through the Silk Route in the 14th and 15th century. In the 1700s fast sailing ships called Clippers, with special crew, used to transport tea from China, and spices from Dutch East Indies to different European countries.

The economic, political, and social importance of international trade has been theorized in the Industrial Age. The rise in the international trade is essential for the growth of globalization. The restrictions to international trade would limit the nations to the services and goods produced within its territories, and they would lose out on the valuable revenue from the global trade.

David Ricardo, a classical economist, in his principle of comparative advantage explained how trade can benefit all parties such as individuals, companies, and countries involved in it, as long as goods are produced with different relative costs. The net benefits from such activity are called gains from trade. This is one of the most important concepts in international trade. Adam Smith, another classical economist, with the use of principle of absolute advantage demonstrated that a country could benefit from trade, if it has the least absolute cost of production of goods, i.e. per unit input yields a higher volume of output.

According to the principle of comparative advantage, benefits of trade are dependent on the opportunity cost of production. The opportunity cost of production of goods is the amount of production of one good reduced, to increase production of another good by one unit. A country with no absolute advantage in any product, i.e. the country is not the most competent producer for any goods, can still be benefited from focusing on export of goods for which it has the least opportunity cost of production. Benefits of International Trade can be reaped further, if there is a considerable decrease in barriers to trade in agriculture and manufactured goods.

International trade gives firms and households access to world markets for goods, services and knowledge, expands employment opportunities, and generates consumption gains by lowering prices and increasing the quality and variety of goods and services.