

Answer on Question #51306, Management, Other

Explain some of the limitations of early trade theories.

Explanation:

Among the founders of the theory of foreign economic activity that is the basis for management concepts belong to the classical economist's directions and their followers. The views of these economists, although they are based on today's reality, but today have theoretical value, forming the nucleus of modern concepts of foreign economic activity.

The basis of the foreign trade policy always has been the concept of international trade as an attempt to theoretical understanding and explanation of international commodity exchange, its dynamics, structure, efficiency and development prospects. At present, one can distinguish groups of concepts of international trade: mercantilism (early and late), benefits (absolute and relative) the factors of production.

The first attempt to study the theoretical reasons directions, the efficiency of international trade and the development of recommendations on foreign policy was the concept of mercantilism. Early mercantilism, whose ideology was William Stafford (UK), emerged in the late XV century and based on the doctrine of "cash balance" - the accumulation of money for the export of goods under prohibition (or subjective limitations) withdrawal. Proponents of this theory hold the idea, according to which the state should sell in the foreign market as much as possible of any goods and to buy - as little as possible. At the same time, the country should accumulate gold, which in those days was identified with the wealth of the nation.

Theory of the late mercantilism evolved in the second half of the XVI century until the middle of the XVIII century. The main content of this field doctrine of "trade surplus", which could be achieved by activation of foreign trade in excess of export earnings, compared with the cost of imports, as well as by the development of intermediate trade (resale of foreign goods, the provision of transport services, loans for the purpose of additional revenue from operations in foreign markets). To this end, the state had to limit the import of foreign goods by increasing the rates of customs duties, as well as to formulate rules of export of domestic goods, mainly using financial methods to encourage exports.

Development of international trade in the post of the transition countries leading to large-scale machine production has led to the emergence of the theory of absolute advantage. Its author was Adam Smith criticized the mercantilism. Scientists argue that the state can be beneficial not only sales, but also the purchase of goods in foreign markets. In addition, an attempt was made to determine what products profitable to export, and what - import: "If any foreign country can supply us any goods at a cheaper price than we ourselves can make it, better buy it (this product) into it to a certain share of the product of our own industrial labor, which is attached to the area where we have an advantage." According to the principle (or model) of the absolute advantages of the country it is advisable to specialize in the production of goods for which it has the lowest, compared to other countries, the cost of production.

A necessary condition for the application of the theory of absolute advantage is the free trade. However, Adam Smith did not consider the situation in which a country has an absolute advantage in all commodities. This was done by David Ricardo, who formulated the principle of mutually beneficial trade and international specialization, including as a special case of model A. Smith.

Ricardo created a model of international trade, which showed that the non-compliance of the principle of Adam Smith is not an obstacle to mutual advantage: the country should specialize in the export of goods, in the production of which it has the largest absolute advantage (the absolute benefits relatively few goods) or smallest absolute not benefit (i.e. absolute not benefits one of goods). Ricardo proves the possibility of winning a country with a common, less efficient production at the expense of imports of goods, national issue costs are higher compared to those goods, the export of which compensates for the payment of such imports. The theory of absolute advantages, based on the theory of comparative advantage lay labor theory of value, as a prerequisite for barter advocated free trade.

Theory of production factors was substantiated in the 30s of the XIX century, including such factors labor, capital and land, which together determine the cost of production. The main provisions of the concept can be represented as follows: essential for rational exchange of goods between the two countries there is a difference in the ratio of these factors of production (the presence of large size and land productivity, significant resources and cheap labor force, compared to a larger operation in terms of performance and structure capital).

Country objective is focused on the export of these goods and services for the specialization for which it has a relatively better the factors of production, and vice versa - is dominated by imports of goods and services, which in this country is relatively scarce. Export and import of high international stability can be reduced by moving the factors of production (labor or capital) of the country with their excess to countries with shortages.

Based on the above information we can note some limitations of early trade theories.

The limitations of mercantilism imply that the field of study chosen only the sphere of trade. Early mercantilists identified with a wealth of gold and silver, later understood, as wealth surplus products, which remained after the needs of the country but to be on the foreign market to monetize. Due to lack of money their function early mercantilists drove to the storage means, and later mercantilists saw the money as a medium of exchange and. At the same time, defending the intermediary trade, later mercantilists essentially treated the money as capital.

The main arguments put forward by opponents of protectionism against this theory are as follows:

- 1) Protectionism has a certain illogical aims to achieve a positive balance of trade, protectionism restrains import operations. This causes a similar reaction of international partners, resulting fold volumes of export operations and the situation does not lead to surplus, and unbalancing the balance of trade;

2) In terms of protection of the domestic economy, protected by its barriers, lose the incentive to develop, since the mechanisms of competition damped, and the desire for progress and innovation capabilities are destroyed to maintain high levels of income and monopoly privileges;

3) Protectionism has a certain multiplier effect: the relationship between technological industries leads to the fact that if, for some sectors of the technological chain introduced protection on, it will also require technology and related industries;

4) Protectionism is detrimental to the economic interests of consumers: domestic consumers to pay higher prices for imported as, duty free goods and goods for the domestic industry;

5) In terms of protectionism national economy cannot take advantage of deep international specialization, as cheaper imported goods cannot get into the country due to the restrictions imposed.

Critics of the protectionism usually indicate that customs duties raise the cost of imported goods within the country, from which consumers may suffer. In addition, an important argument against protectionism is a threat of monopolization: protection from foreign competition can help monopolist's complete control of an internal market. Some economists are trying to develop a neutral view on protectionism, free trade, considering their impact on the growth of national well-being through the analysis of gains and losses. In their view, the benefits of the use of export and import duties may be contrasted industrial and consumer losses arising from distortion motives of both producers and consumers. However, it is possible case, where the benefits of improved terms of trade after the applying the foreign tax exceeds the loss of it. The main premise of improved terms of trade from the introduction of fees - the presence of the country's market power, that is, the ability of one or a group of sellers (buyers) in the country affect the prices of export and/ or import prices.