

International trade

13-1. Definition of International trade: It is the exchange of goods and services across international borders or territories.

13-2. International trade theories:

Several different models have been proposed to predict patterns of trade and to analyze the effects of trade policies such as tariffs.

13-2.1. Ricardian model: The Ricardian model focuses on comparative advantage and is perhaps the most important concept in international trade theory. In a Ricardian model, countries specialize in producing what they produce best.

13-2.2. Heckscher-Ohlin model: The Heckscher-Ohlin model was produced as an alternative to the Ricardian model of basic comparative advantage. The theory argues that the pattern of international trade is determined by differences in available factor of production. So that countries will export those goods that make concentrated use of locally abundant factors and will import goods that make concentrated use of factors that are locally scarce.

13-2.3. Gravity model: The gravity model, in its basic form, predicts trade based on the distance between countries and the relations of this countries. The model copy the law of gravity for chemical elements which also considers distance and physical size between two objects. But in economic approaches use through econometric analysis. Other factors such as income level, diplomatic relationships between countries, and trade policies are also included in the model.

13-3. Regulation of international trade:

- Traditionally trade was regulated through bilateral treaties between two nations. For centuries under the belief in Mercantilism most nations had high tariffs and many restrictions on international trade. In the 19th century, especially in Britain, a belief in free trade became dominant.
- Free trade is usually most strongly supported by the most economically powerful nations, though they often keep in selective protectionism for those industries which are strategically important such as the protective tariffs applied to agriculture by the United States and Europe.
- The regulation of international trade is done through the World Trade Organization at the global level, and through several other regional arrangements such as MERCOSUR in South America, NAFTA between the United States, Canada and Mexico, and the European Union between 27 independent states.

Questions:

1. Give the Definition of International trade?
2. List the International trade theories?
3. Give the Definition of Gravity model?
4. True or false:
 - a. International trade is the exchange of goods and services inside borders of country.
 - b. Heckscher-Ohlin model focuses on comparative advantage.
 - c. The gravity model, in its basic form, predicts trade based on the relations between countries and the distance between this countries
 - d. The Ricardian model focuses on that the pattern of international trade is determined by differences in available factor of production.
5. List the world Organizations considers as regulation of international trade ?
6. Translate the following paragraph:-

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The history of international free trade is a history of international tradefocusing on the development of open markets. It is known that various wealthy world cultures throughout history have engaged in trade. Based on this, theoretical rationalizations as to why a policy of free trade would be beneficial to nations developed over time. These theories were developed in its academic modern sense from the commercial culture of England, and more broadly Europe, over the past five centuries. Before the appearance of Free Trade, and continuing in opposition to it to this day, the policy of mercantilismhad developed in Europe in the 1500s. Early economists opposed to mercantilism were David Ricardo and Adam Smith.