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TOPIC :- IMPORTANCE OF THE STUDY OF INTERNATIONAL ECONOMICS

The study of international trade deals with the trading activities done among different countries or trade across political boundaries. These trading activities are done on the basis of the policies made under the theory of International Economics.

Before knowing about the importance of International trade we should necessarily know the difference between internal and international trade. By internal trade, we mean to say that transactions taking place within the geographical boundaries of a nation or region. It is also known as intra-regional or home trade. On the other hand, international trade is trade among different countries or trade across political boundaries. International trade, thus, refers to the exchange of goods and services between one country or region and another. Trade and exchange of goods and services takes place due to following reasons :-

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(I) Human wants and countries' resources do not totally coincide. Hence, there tends to be interdependence on a large scale.

(II) Factor endowments in different countries differ.

(III) Technological advancement of different countries differ. Thus, some countries are better placed in one kind of production and some others superior in some kind of production.

(IV) Labour and entrepreneurial skills differ in different countries.

(V) Factors of production are highly immobile between countries.

Conclusively, we can say that international trade is the outcome of territorial division of labour and specialisation in the countries of the world.

Now, an important question arises that why international trade is important for the countries of the world. In this connection, following salient features of international trade can be analysed:-

(1) Immobility of factors:- The degree

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of immobility of factors like labour and capital is generally greater between countries than within a country. Due to some restrictions of specific laws, the international mobility of labour is restricted. Besides this, international capital flows are prohibited or severely limited by different governments. Hence, international trade is the only way by which the mobility of labour as well as the mobility of capital can be taken place.

(2) Heterogeneous Markets :- In the international economy, world market lack homogeneity due to differences in climate, language, preferences, habit, customs, weights and measures. International trade is therefore most important to make world market homogeneous.

(3) Different Nation Groups :- International trade takes place between differently cultural groups.

(4) Different Political Units :- International trade is a phenomenon which occurs amongst different political units.

(5) Different National Policies and Government Intervention :- Economic and Political policies differ from one country to

another. By the activities of international trade, the policies regarding trade and tariffs are equalised for different nations of the world.

(6) Different Currencies :— A notable feature of international trade is that it involves the use of different types of currencies. So, each countries has its own policy in regard to exchange rates and foreign exchange.

(7) Optimum Allocation :— International specialisation and geographical division of labour leads to the optimum allocation of world's resources, making it possible to make the most efficient use of them.

(8) Gains of Specialisation :— Each trading country gains when the total output increases as a result of division of labour and specialisation. These gains are in the form of more aggregate production.

(9) Enhanced Wealth :— Increase in the exchangeable value of possessions means of enjoyment and wealth of each trading country.

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(10) Larger Output :- International trade makes enlarge the size of World's output.

(11) Cultural values :- Cultural exchange and ties among different countries develop when they enter into mutual trading.

(12) Better International Politics :- International trade relations help in harmonising international political relations.

(13) Advantageous Competition :- Competition from foreign goods in the domestic market leads to induce home producers to become more efficient to improve and maintain the quality of their products.

(14) Larger Size of Market :- Due to international trade, the size of market of world economy becomes larger.

The above mentioned analysis of the importance of international trade is inevitable for the development of the world economy.