INTERNATIONAL TRADE

INTERNAL TRADE AND INTERNATIONAL TRADE

THEORIES OF INTERNATIONAL TRADE

BALANCE OF TRADE AND BALANCE OF PAYMENT

IMF & IBRD

WTO

UNIT – I

1. Define the term trade.

The terms of "trade" refer to the rate at which one country exchanges its goods and services with other countries. It is of two types' internal trade and external trade.

2. Define International trade.

International trade is called as external trade or foreigntrade. It refers to buying and selling of two or more commodities with international boundaries of the nations. It is divided in to import trade, export trade and entrepot trade.

3. State any five importance of international trade.

- Attaining high profit
- Expansion of production over and above the domestic requirements
- Meeting tough competition in the home country
- Inadequate scope in home market
- Political instability

4. State any six features of international trade.

- Immobility of resources
- Trade among different nations
- Different types of currencies
- Different political groups
- Geographical and climatic differences
- Problem of balance of payments

5. List any four reasons for nations to trade with each other.

- Availability of scarce resources
- To increase production
- To evaluate modern technology
- Equalization of prices between countries

6. What do you mean by free trade?

A free trade area (FTA) is where there are no import tariffs or quotas on products from one country entering another. Examples of free trade areas include:

EFTA: European Free Trade Association consists of Norway, Iceland, Switzerland and Liechtenstein.

7. List the main benefits of international trade.

- Helping boost technology transfer,
- Industrial restructuring,
- Growth of global companies
- Technological Innovation.
- Availability of scarce resources
- To increase production
- To evaluate modern technology
- Equalization of prices between countries

8. What is export?

Export is the outflow of goods and services produced by one country to another country. It is sale of goods across the national boundaries.

9. Define export.

Export may defined, "as the selling of want satisfying goods and services across national territories involving different markets and consumers in exchange of the goods and services for gold and foreign exchange or in settlement of debt"

10. Define Import.

Import may defined "as the buying of want satisfying goods and services across national territories involving different markets and consumers in exchange of currency for settlement of payment".

11. What to do you mean by import?

The import refers to goods and services purchased into one nation from another. The word 'import' originates from the word 'port' considering the fact that the products are frequently transported via ship to foreign countries. Similar to exports, imports are also the backbone of international trade.

12. State the meaning of entrepot.

Entrepot is mainly used to refer to duty-free ports with the high volume or re-export. At entrepot, goods do not face any import or export duties upon shipment from the port.

13. What are the different kinds of trade?

International trade -export, import and entrepot

Domestic Trade – Wholesale trade and Retail Trade

14. What is Internal Trade?

When buying and selling of goods and services takes place within the geographical boundaries of a country, it is known to as internal trade.

15. What is external trade?

When buying and selling of goods and services takes place outside the geographical boundaries of a country, it is known to as external trade.

16. State any four importance of international trade.

- To raising living standards,
- To providing employment
- Toenable consumers to enjoy a greater variety of goods.
- To enlarge export

17. State any two importance of international trade for a developing economy.

- To provide the process for industrialization
- To provide trade and aid
- To reduce trade barrier

UNIT – II

1. **What is mercantilism doctrine?**
   The doctrine of mercantilism included

- The belief that the amount of wealth in the world was relatively static
- The belief that a country's wealth could best be judged by the amount of precious metals or bullion it possessed. The need to encourage exports over imports.

2. **What are the important theories of international trade?**

Economist	Theory concepts	Year
Adam Smith	Absolute Differences in cost	1776
David Ricardo	Comparative cost	1817
Haberlers	Opportunity Cost	1983
Heckscher-ohlins	Factor endorsements	1991

3. **Absolute advantage - Explain.**
   The concept of absolute advantage was developed by 18th-century economist Adam Smith in his book The Wealth of Nations to show how countries can gain from trade by specializing in producing and exporting the goods that they can produce more efficiently than other countries.

4. **What is absolute cost?**
   Adam Smith propounded the theory of absolute cost advantage as the basis of foreign trade; under such circumstances an exchange of goods will take place only if each of the two countries can produce one commodity at an absolutely lower production cost than the other country.

5. **What is meant by opportunity cost?**
   The opportunity cost of any commodity is the cost of next best alternative commodity that is sacrificed. Thus the exchange ratio between the two commodities is expressed in terms of opportunity costs.

6. **What is the basis of international trade according to Ricardo?**
   David Ricardo developed the classical theory of comparative advantage in 1817 to explain why countries engage in international trade even when one country's workers are more efficient at producing every single good than workers in other countries.

7. **State the concept of comparative cost. ,**
   The Comparative cost theory is the basis of international trade. It explains that "it pays countries to specialize in the production of those goods in which they possess greater comparative advantage or the least comparative disadvantage."

8. **Define equal cost.**
   Relative prices are equal to the opportunity cost of production. This is because, if a. positive amount of both goods are demanded, in equilibrium, the cost of purchasing a good must equal the cost to produce the good.

9. **Give any six assumptions of the opportunity cost theory.**

- There are only two nations
- There are only two commodities
- Supply of factor is fixed
- Technology is constant
- Immobility of factors of production
- There is free trade

10. State any four superiority of Haberler’s theory.

- Facilitates the easy measurement of opportunity cost
- Explains about the complete specialisation
- Highlights the importance of factor substitution
- Analyses the pre - trade and post - trade situations.

11. What is disequilibrium?

Disequilibrium is a situation where internal and / or external forces prevent market equilibrium from being reached or cause the market to fall out of balance.

12. What is factoring?

Factoring is a financial transaction and a type of debtor finance in which a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount.

13. What is counter trade?

Countertrade means exchanging goods or services which are paid for, in whole or part, with other goods or services, rather than with money. A monetary valuation can however be used in countertrade for accounting purposes. In dealings between sovereign states, the term bilateral trade is used.

14. What is the substitution curve?

Substitution curve is also known as production possibility curve. It is used to explain the doctrine of comparative cost in terms of “substitution curve”. It is also called as production frontier

15. Write a short note onHeckscher-Ohlin theory or modern theory of international trade.

The Heckscher-Ohlin model is a theory explains that countries export what they can most efficiently and plentifully produce. This model is used to evaluate trade and, more specifically, the equilibrium of trade between two countries that have varying specialties and natural resources.

16. State the basis for Hecksher ohlin theory.

- Difference in commodity prices are due to cost difference in international trade.
- A capital rich country specialises in labour intensive goods and exports them.
- A labour abundant country specializes in labour intensive goods and exports them.

17. State any four superiority of Hecksher-Ohlin theory over classical theory.

- It is based on general theory of value.
- It is based on relative price of factors.
- It is based on trade between two countries
- It is more realistic

18. Write any six criticism of hecksher-Ohlin theory.

- Static analysis
- Homogeneous production techniques
- Ignores transport cost
- Partial equilibrium analysis
- Ignores factor mobility
- Constant returns to scale

19. What is two-by-two-by-two model?

Two-by-two variant, meaning two goods, two factors, and two countries, it represents one of the simplest general equilibrium models that allows for interactions across factor markets, goods markets, and national markets simultaneously.

20. Give any four assumptions of the opportunity cost theory.

- There are only two nations.
- There are only two commodities in both the nations.
- There are only two factors of production such as labour and capital in both the nations.
- There is perfect competition in both the factor and commodity markets.
- The price of each commodity equals its marginal money costs.

21. What do you mean by production possibility curve?

A production–possibility frontier, production possibility curve, or production possibility boundary, or transformation curve/boundary/frontier is a curve which shows various combinations of the amounts.

22. State any three gains from trade.

- To specialize in export of one commodity
- To re-allocate the resources of country
- Increase in consumption of commodity

23. State David Ricardo's remark on comparative advantage theory.

Prof. Samuelson remarks as "A nation that neglects comparative advantage may have to pay a heavy price in terms of living standards and potential rated of growth".

UNIT – III

1. Define Balance of payments.

The balance of payments, also known as balance of international payments and abbreviated B.O.P. or Bop, of a country is the record of all economic transactions between the residents of the country and the rest of world in a particular period of time.

2. What is exchange control?

Foreign exchange controls are various forms of controls imposed by a government on the purchase/sale of foreign currencies by residents or on the purchase/sale of local currency by non-residents.

3. **What are the components of BOP account?**

There are three components of the balance of payment viz current account, capital account, and financial account.

4. What is disequilibrium in balance of payment?

Disequilibrium in balance of payment may be surplus or deficit. If it is surplus means favourable balance of payment. If it is deficit means unfavourable balance of payment.

5. What are the two important terms in international trade?

- Balance of trade
- Balance of payment

6. Define balance of payment.

According to International Monetary Fund," the balance of a payments of given period is a systematic record of all economic transactions during the period between residents of the reporting countries".

7. What is current account?

- Visible trade relating to imports and exports.
- Invisible items like receipts and payments for such services as shipping, banking, insurance, travels etc.

8. What is a Multiple Column Tariff?

A multiple column tariff is a system where the tariff rate or import tax assessed on a particular product depends on its country of origin. This is diametrically opposite to a single tariff system, which levies the same tariff rate on a product regardless of its point of origin.

9. State the term "Capital receipts".

Capital receipts are loans taken by the government from the public, borrowings from foreign countries and institutes, and borrowings from the RBI. Recovery of loans given by the Centre to states and others is also included in capital receipts.

10. State the term "Crawling peg system".

A crawling peg is a system of exchange rate adjustments in which a currency with a fixed exchange rate is allowed to fluctuate within a band of rates.

11. State the term "Multiple exchange rates".

Dual exchange rate is the occurrence of two different values of a currency for different sets of monetary transactions.

12. What is Deflation?

Deflation is defined as the decrease in the average price level of goods and services. It means a general decrease in consumer prices and assets, but the increase in the value of money. If the inflation rate is negative, i.e. below 0%, then the economy is experiencing deflation.

13. Define balance of trade.

According to Benham balance of trade a country is the relation over a period between the values of her exports and the values of her imports.

14. What is balance of trade?

Balance of trade refers to the value of imports and exports of visible items only. It does not take into account the exchange of invisible items like services rendered by shipping, banking and insurance.

15. Define exchange rate.

Exchange rate can be defined “as the number of units of noe currency that will be exchanged for one unit or a given number of units of another currency”**.**

16. What do you mean by exchange rate?

The term exchange rate is the price of a currency is expressed in terms of money. For example Indian rupee has an exchange rate against pounds sterling, US Dollars, Japanese yen and so on.

17. What is mean by foreign exchange?

Foreign exchange is the exchange of one currency for another or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock.

18. **Define foreign exchange**.

According to Paul Einzig,”foreign exchange is the system or process of converting one national currency into another and of transferring money from one country to another”.

19. What is fixed exchange rate?

A fixed exchange rate is a regime applied by a country whereby the government or central bank ties the official exchange rate to another country's currency or the price of gold. The purpose of a fixed exchange rate system is to keep a currency's value within a narrow band.

20. **Whatis floating exchange rate?**

A floating exchange rate is a type of exchange-rate regime in which a currency's value is allowed to fluctuate in response to foreign-exchange market mechanisms. A currency that uses a floating exchange rate is known as a floating currency.

21. What is equilibrium?

In economics, economic equilibrium is a state where economic forces such as supply and demand are balanced and in the absence of external influences the values of economic variables will not change.

22. What is “Devaluation”?

In modern monetary policy, devaluation is an official lowering of the value of a country's currency within a fixed exchange rate system, by which the monetary authority formally sets a new fixed rate with respect to a foreign reference currency or currency basket.

23. **What is gold exchange standard?**

Gold-exchange standard, monetary system under which a nation's currency may be converted into bills of exchange drawn on a country whose currency is convertible into gold at a stable rate of exchange.

UNIT – IV

1. **Write the term international liquidity?**

   The term 'International liquidity' refers to the supply of certain categories of financial assets or claims which are created by all the different countries and international financial organisations in the international community, as receptacles of calculable ready purchasing power over all the domestic currencies in vogue".

2. **Write a short note on IBRD?**

   The International Bank for Reconstruction and Development (IBRD), commonly referred to as the World Bank, is an international financial institution whose purposes include assisting the development of its member nation's territories, promoting and supplementing private foreign investment and promoting long-range balance.

3. **What are the causes of breakdown of gold standard?**

- Non observance of rules
- Mal – distribution of gold
- Excessive tariffs
- Enormous increase in Nationalism
- Changes in monetary policies

4. **What are the advantages of IMF?**

- It promotes international monetary co-operation.
- It promotes global financial stability.
- It provides temporary financial help to countries in debt, particularly those with balance-of-payments problems.

5. **Listout any three functions of IMF.**

- Regulatory function
- Financial function
- Consultative function

6. **What is GATT?**

   General Agreement on Tariffs and Trade (GATT) was a legal agreement between many countries.
   To promote international trade by reducing or eliminating trade barriers such as tariffs or quotas.
   GATT was signed by 23 nations in Geneva on 30 October 1947, and took effect on 1 January 1948.

7. **State the meaning of foreign exchange.**

   Foreign exchange "is the exchange of one currency for another or the conversion of one currency into another currency".

8. **State the termof foreign exchange**

   The term "Foreign exchange" also refers to the global market where currencies are traded virtually around the clock.
   The term foreign exchange is usually abbreviated as "forex" and occasionally as "FX."

9. **What do you mean by IBRD?**

   The International Bank for Reconstruction and Development (IBRD), commonly referred to as the World Bank, is an international financial institution whose purposes include assisting the development of its member nation's territories, promoting and supplementing private foreign investment and promoting long-range balance.

10. List the main functions of IBRD.

- To grant direct loans
- To provide loan for productive purpose
- To provide loans for infrastructural development

11. What has been the objectives of IBRD?

- To restore destroyed economies
- To promote foreign direct investment
- To transfer the war time economy in to peace time economy.

12. What are the two subsidiaries of IBRD?

- IDA- International Development Association
- IFC-International Financial Corporation

13. State any two guiding principles of IBRD.

- To lend only economically sound projects
- To assess repayment process of loans.
- To maintain relationship with borrowing countries

14. Define Special Economic Zone

A special economic zone (SEZ) is an area in which the business and trade laws are different from the rest of the country. SEZs are located within a country's national borders, and their aims include increased trade balance, employment, increased investment, job creation and effective administration.

15. Explain TRIMS.

The Agreement on Trade-Related Investment Measures (**TRIMs**) are rules that apply to the domestic regulations a country applies to foreign investors, often as part of an industrial policy.

16. Explain international monetary system in short.

An international monetary system is a set of internationally agreed rules, conventions and supporting institutions that facilitate international trade, cross border investment and generally the reallocation of capital between nation states.

17. Name two organisation set up by Bretten Woods Conference.

IMF-International Monetary Fund

IBRD-International Bank For Reconstruction and Development.

18. What is Bretton woods monetary plan?

The Bretton Woods Agreement and System created a collective international currency exchange regime that lasted from the mid-1940s to the early 1970s.

19. **What are the financial resource of IMF**?

- Quotas
- Subscription
- Borrowings in different currencies

20. State the credit facilities given by the IMF.

- Extended Fund Facility
- Supplement Reserve facility
- Compensating financing facility
- Contingent credit line
- Structural adjustment facility
- Emergency assistance

21. State the uses of SDR’s.
- Forward operations
- In settlement of financial operations
- To provide donations
- To provide grants

22. **What are the objectives of I.B.R.D.?**
- Limiting poverty and enabling sustainable development.
- To providing financing
- Technical assistance
- Economic research and studies
- Operations evaluation
- Settlement of investment dispute

23. What are the objectives of ADB?
Asian Development Bank-December 19 -1966
Objectives
- To utilise the resources
- To promote private and public investments for economic development.
- To finance for economic development
- To extend technical assistance.

24. Write the outcomes of Uruguay round?
Uruguay Round was the largest trade negotiation ever, brought about the biggest reform of the world's trading system since GATT was created at the end of the Second World War.

25. State why IBRD was formed.
- International Bank for Reconstruction and Development or World Bank
- To restore destroyed economies
- To promote foreign private investment
- To provide balanced long term balanced growth
- To encourage loans
- Transference of war time to peace time

26. What is G.A.T.T.?
The General Agreement on Tariffs and Trade (GATT) covers international trade in goods. The workings of the GATT agreement are the responsibility of the Council for Trade in Goods (Goods Council) which is made up of representatives from all WTO member countries.

27. What is Kennedy Round?
The Kennedy Round was the sixth session of General Agreement on Tariffs and Trade (GATT) multilateral trade negotiations held between 1964 and 1967 in Geneva, Switzerland.

28. **Expand - IBRD, IMF**.
- IMF - International monetary fund
- IBRD - International Bank for Reconstruction and Development

29. **What is meant by the term ‘InternationalLiquidity?**
International liquidity is the resources available to national monetary authorities to finance potential balance of payments deficits.

30. **What is SDR?**

Special drawing rights are supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund. SDRs are units of account for the IMF, and not a currency per se. They represent to currency held by IMF member countries for which they may be exchanged.

31. What is Bretton woods system?

The International Monetary Fund (I.M.F.) is an international monetary institution established by 44 nations under the Bretton Woods Agreement of July 1944.

32. **State any objectives of IMF.**

- To achieve sustainable growth and prosperity for all of its 190 member countries.
- To support economic policies
- To promote financial stability and
- Monetary cooperation
- to increase productivity,
- job creation,
- Economic well-being.

33. What are the uses of SDR's?

- To make emergency loans
- To shore up their currency reserves
- To run current account surpluses

34. What are the various facilities provided by IMF to its members?

- Reserve Tranche
- Credit Tranches
- Stand-By Arrangements
- Extended Fund Facility (EFF)
- Compensatory and Contingency Financing Facility
- Buffer Stock Financing Facility
- Supplemental Reserve Facility (SRF)
- Enhanced Structural Adjustment Facility (ESAF)

35. What are the international organizations?

- The International Monetary Fund (IMF)
- The World Trade Organization (WTO)
- International Bank for Reconstruction and Development

36. What is Havana character?

Havana character proposed by John Maynard Keynes. It allowed for international cooperation and rules against anti-competitive business practices.

37. Who are the members of ADB?

Asian Development Bank was set up on December 19, 1966 with its headquarter at Manila in the Philippines. ADB has grown to 68 members.

38. What are the objectives of ADB?

- To promote public and private investment.
- To utilise the available resources
- To assist the regional members in the coordination
- Better utilisation of resources
-

39. **What are the "Hard loans" of ADB?**

A hard loan is a foreign loan that must be paid in hard currency, which is the currency of a nation that has political stability and a reputation for economic strength. It is provided by Asian Development Bank to it member countries.

40. What are Plurilateral agreements?

A plurilateral agreement is a multi-national legal or trade agreement between countries. In economic jargon, it is an agreement between more than two countries, but not a great many, which would be multilateral agreement.

41. What is TRIPS?

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is an international legal agreement between all the member nations of the World Trade Organization (WTO).TRIPS also specifies enforcement procedures, remedies, and dispute resolution procedures.

UNIT – V

1. **What is WTO?**

   The World Trade Organization concerned with the regulation of international trade between nations. The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 124 nations on 15 April. It is the largest international economic organization in the world.

2. **State the objectives of WTO.**

- to set and enforce rules for international trade
- to provide a forum for negotiating and monitoring further trade liberalization
- to resolve trade disputes
- to increase the transparency of decision-making processes
- to cooperate with other major international economic

3. **List out any three main principles of WTO.**

- Binding and enforceable commitments.
- Transparency.
- Safety values.
- Reciprocity.

4. **Expand WTO.**

   WTO – WORLD TRADE ORGANISATION commenced on 1st January 1995.

5. **What are the functions of WTO.**

- to set and enforce rules for international trade,
- to provide a forum for negotiating and monitoring further trade liberalization,
- to resolve trade disputes,
- to increase the transparency of decision-making processes,
- to cooperate with other major international economic

6. **Write any four objectives of GATT.**

- Raising the standard of living
- Ensuring full employment
- Development of all resources
- Expansion of production

7. **List out the principles of GATT.**

- Non – discrimination
- Protection through tariff
- Prohibition of quantitative restrictions
- consultation

8. **State any four difference between GATT and WTO.**

- Unlike the GATT, it is a legal entity.
- Unlike the GATT, the agreements under the WTO are permanent and binding to the member countries.
- Unlike the GATT, the WTO dispute settlement deliberator but automatic mechanism, hence WTO is the powerful body.
- Unlike the IMF and IBRD, all the WTO members have equal rights.

9. What are TRIMS?

Trade Related Investment Measures (**TRIMs**) is an agreement under WTO that gives protection to foreign investment in host countries from discrimination.

10. What art TRIPS?

TRIPS — **Trade-Related Aspects of Intellectual Property Rights**.

The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is the most comprehensive multilateral agreement on intellectual property (IP).

11. **State two types of trade agreement in WTO.**

TRIPS — Trade-Related Aspects of Intellectual Property Rights.

TRIMS - Trade Related Investment Measures (TRIMs)

12. **What are the features of TRIMs?**

- Abolition of restriction imposed on foreign capital.
- Offering equal rights to the foreign investor on par with the domestic investor.
- No restrictions on any area of investment.
- No limitation or ceiling on the quantum of foreign investment.

13. **Which agreement of WTO is related to agriculture?**

The WTO Agriculture Agreement provides a framework for the long-term reform of agricultural trade and domestic policies, with the aim of leading to fairer competition and a less distorted sector.

14. What are the types of agreement in WTO?

- Multilateral agreements on Trade in Goods
- Export agreement
- Minimum market access agreement
- Domestic support
- Sanitary and phytosanitary measures

15. Define patents under WTO.

According to the patents Act, 1970, the term patents means, "a patent for any invention granted under this Act "the term invention means, a new product or process involving an incentive step and capable of industrial application".

16. Trade Secrets-Explain.

Data's to be protected against unfair commercial use. For developed countries 11 years, for developing countries 10 years only.

17. State the meaning of Anti-Dumping duty.

An anti-dumping duty is a protectionist tariff that a domestic government imposes on foreign imports that it believes are priced below fair market value.