



# **UNIT 1: Introduction to International Economics**

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# Definition, Meaning and Scope

- Economics is the science of wealth in narrow sense and of making choices in the wider sense.
- International economics is a branch of economics that deals with issues related to international trade and finance.
- In other words, International economics is a **field of study** that assesses the implications of **international trade, international investment, and international borrowing and lending.**



# Definition, Meaning and Scope

- International trade course applies microeconomic models to help understand the international economy.
- International finance uses the principles of micro and macro economics to study the interrelationships among aggregate economic variables such as GDP, unemployment rates, inflation rates, trade balances, exchange rates, interest rates, and so on.



# Importance

- The importance of international economics has immensely increased in the recent years.
- This is mainly due to the increasing integration of the world economy. This is popularly called **Globalization.**
- Increasingly, businesses, consumers, and governments realize that their lives are affected not only by what goes on in their own town, state, or country but also by what is happening around the world.
- **Today international trade is about one third of World GDP.**



# Trade: internal and international

- Mutual exchange of goods and services is called trade.
- Internal trade refers to the exchange of goods and services within one geographical region. All parties to the trade belong to one state/region/country. **Hence the terms buyers and sellers in the conventional sense.**
- As opposed to internal trade, international trade involves exchange of goods and services among different countries. The parties involved are from various countries. **Hence the terms exports/exporter and imports/imports.**



# Distinction between internal and international Trade

- Whether internal and international trade really differ is a controversial issue. One school of thought believes that they are different, while others believe that **'differences are of degree, rather than of kind'**.
- There are several important differences between the two.



# Distinction between internal and international Trade

- 1. Heterogeneous Markets:** The markets involved in international trade are highly heterogeneous as compared to internal trade. This is due to difference in language, culture, climate, laws etc.
- 2. Heterogeneous Currency:** In international trade different currencies are involved.
- 3. Factor Immobility:** Factors are fully mobile internally but there are restrictions on their mobility in international trade.





# **Distinction between internal and international Trade**

- 4. Different Government and National Policies**
- 5. Rigorous Procedures**
- 6. Time Taking**
- 7. Issue of protection**
- 8. Issue of Tariff and Quota**



# Trade and Economic Development

- ❖ International Trade plays an important role in economic development.
- ❖ The Case of Singapore



# **Trade and Economic Development**

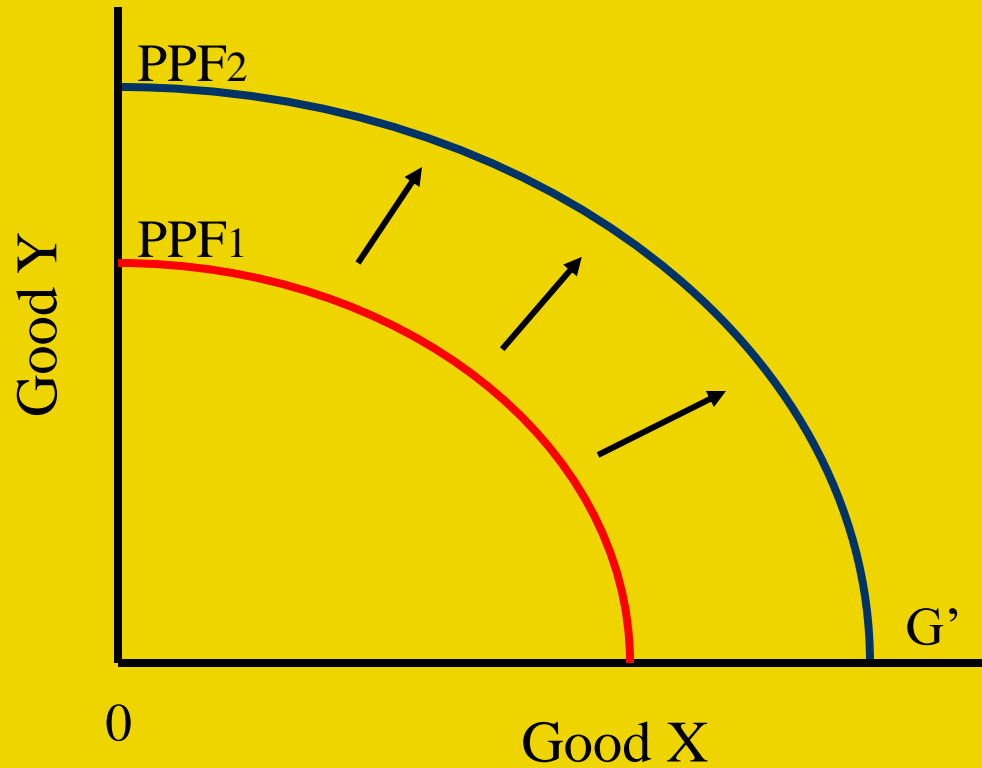
- ❖ Gains from Exchange of Goods and Services**
- ❖ Technological Gains**
- ❖ Foreign Exchange**
- ❖ Increased Employment and Income**
- ❖ High Standard of Living**



# Trade and Economic Development

- ❖ **The effect of trade on development is analyzed using Production Possibility Curve (PPC). It shows the production and consumptions gains due to specialisation (see next slide).**

# Trade and Economic Development





# Trade and Economic Development

- ❖ **To summarize, different effects of trade on development emerge depending upon the rate at which different factors of production grow and the pace of technological change in various industries.**
- ❖ As countries develop their composition and pattern of trade also changes.
- ❖ As for example, the development of technology has enabled green revolution making India an exporter of foodgrains from importer.
- ❖ Thus, growth also affects trade.

THANK YOU

