B.A. 6th Sem (Major)

Paper- International Economics

Unit -1 International Economics as a distinct branch of economics; Its nature and Scope.

Question 1. What is Internal Economics?

International economics is concerned with the effects upon economic activity from international differences in productive resources and consumer preferences and the international institutions that affect them.

Question 2. Write a note on Nature and Scope of International Economics. Marks: 10

**Nature**: International Economics is that part of the study of Economics in general which deals with the issue of adjustment between scare resources and ends in a more specific sense. In a closed economic system, there may be severe constraints upon the optimisation of production and welfare. The international exchange of goods and services can facilitate the optimum allocation of scare productive resources not only in case of a single country but also the entire world. The international economics is that branch of economics in general which deals with the international exchange of goods and services. It is true that the dominant concern of international economics is with the exchange of goods and services among the different countries. But in reality, international economics is concerned with the whole gamut of economic relationships on the international plane.

The international economic relations have been governed by the most fundamental factor of the economic interdependence among the different countries. Only a few countries like the United States, Russia, China and India, having large domestic markets, can perhaps withdraw from the world economy without disastrous consequences for them. The recent developments clearly indicate that the countries like Russia and China have fully recognised the necessity of integrating their economies with the world.

**Scope:** The scope of international economics is wide as it includes various concepts, such as globalization, gains from trade, pattern of trade, balance of payments, FDI. Apart from this international economics describes production, trade and investment between countries. Let us discuss about main contents international economics in below-

**(A)Theory of international trade:** The international economics is predominantly the theory of trade. This theory emphasises upon the basis of trade or why international trade takes place. The entire structure of the theory of trade rests upon the classical principle of comparative cost advantage. The modern version of the pure theory of trade or the modern theory attempts modification over the classical theory of trade. The modern theorist investigated in a more systematic and scientific way the issues related to terms of trade, gains from trade and implications of international trade for growth and welfare.

**(B) Theory of commercial policy:** This area of international economics analyses the reasons for and the effects of tariff and non-tariff restrictions upon trade. A highly significant development in the post war world economy has been the organisation of regional economic groupings. The theory of customs unions has attracted much attention of the academicians and statesmen during the recent decades.

(**C) Foreign exchange:** Since the international transactions take place through different currencies, the rates of exchange among various currencies have to be determined. The international economics investigates the theories of determination of exchange rates, systems of exchange rates, conditions in the foreign exchange markets and issues connected with the exchange control.

**(D) Balance of payments**: Balance of payments is a detailed account related to receipts from and payments to the rest of the world by a particular country on account of the transactions of goods, services and capital. International economics deals with the complete framework of balance of payments accounts and the alternative mechanisms for correcting the balance of payments disequilibria under different international monetary systems and examines the effects of payments disequilibrium upon economic performance and welfare of the people of a given country.

**(E) International economic institutions**: After the second world war, an institutional framework has been created at the international level to deal with problems like the stabilisation of exchange rates, adjustment of international payments disequilibria and meeting of shortages of international liquidity for financing of payments deficits and development. The prominent international institutions include the International Bank for Reconstruction and Development, International Monetary Fund, International Development Association, International Finance Corporation, United Nations Commissions on Trade and Development and World Trade Organisation. The international economics examines the working and policies of these international institutions.

Question 3: Why international economics treated as a distinct branch of economics?

International economics deals with the economic interdependence among nations. It is an analysis concerning the flow of goods, services and payments between one country and rest of the world. But there are some certain practical reasons which led to the evolution of international economics as a distinct branch of economics. These are as below:

1. The international economics has developed certain tools of analysis and has applied them to different problems encountered in international trade, payments, foreign exchange markets and economic policies.
2. There is the existence of independent sovereign states exercising their authority over a specific geographical area. During the recent decades, the growth of regional economic grouping such as EEC,NAFTA, OECD, OPEC, ASEAN, SAARC and expanding activities of the powerful multinational corporations have caused some erosion in the independent policy making authority. But the concept of nation state is still powerful and the different countries adopt trade, payments and other policies that are guided by the enlightened self interest, even though these may be detrimental for the other countries. The international economics has thus to grapple with several complex diversities in economic policies.
3. The general economic theory frequently takes the simplifying assumption of perfect mobility of goods and factors. The international economics recognises that there is no perfect mobility of goods and factors between countries. There are barriers like custom duties, trade restrictions etc. The international economics has to consider these barriers to movement of product and factors.
4. Each country has its own independent monetary system. The trade conditions in particular and economic conditions in general bring about frequent fluctuations in the values of the currencies of different countries.
5. Within the same country there can be some justification in assuming the constancy of demand and cost conditions. But there is absolutely no justification in assuming away the differences in demand patterns and cost conditions between the different countries.
6. The different countries of the world do not have the capitalistic laissez faire economic system which is fundamental to economics in general. In the real world there are varying political economic systems ranging from capitalism to mixed economics, communism and authoritarianism.

On the basis of the above reasons international economics is treated as a distinct branch of economics.