Mohamed Khaider University, Biskra

Faculty of Economics, Commerce and Management Sciences

Commerce Department

Module: English
Branch: International Trade
Level: Third year Bachelor

Lecture 01: International Trade

Learning Objectives

After teaching this Lecture the Students should be able to:

- Will be familiar with the core principles of international trade.

- Will know how they are applied to the international trade of goods and services

1- What is International Trade?

International Trade is the sale and purchase of goods and services across international borders. International trade is governed by a vast set of rules, codified in treaties and trade agreements.

2- The Cause of existing International Trade

Countries buy goods and services from other countries because we cannot domestically produce all the goods and services that each individual consumer wants and needs. The reason for this is that each country has different factors of production. Factors of production are the resources used to build an economy and produce goods and services; they are land, labor, and capital. Each country is endowed with different combinations of these factors, and therefore each country is capable of producing different combinations of goods and services. When domestic production is greater than domestic demand for a good, excess production is traded on the international market.

3- Exportation& Importation.

The act of selling domestically produced goods to international consumers is known as exportation. Consider the following example: Whereas Lebanon may be a good place to grow fruits, the same cannot be said about Sweden. Sweden does not have the necessary land or labor to produce fruits on a large scale. In this situation, it may be in Lebanon's interest to export fruits to Sweden. Likewise, in order to satisfy the wants and needs of Swedish consumers, Swedish grocery stores may want to procure fruits from Lebanese producers. The act of purchasing goods from a foreign country in order to sell them domestically is known as importation.

4- Absolute advantage and Comparative advantage

- The theory of absolute advantage: According to this theory, country X has an absolute advantage in the production of a good when country X is able to produce more of that specific good than country Y. Most countries have an absolute advantage in the production of certain goods. Given that each country is better than others at producing certain goods, they specialize and trade their excess production.

- The theory of comparative advantage: Often, countries have very similar factors of production, and therefore are able to produce similar amounts of the same goods. To rationalize trade in such a scenario, a more complete and complex theory is needed. A comparative advantage exists whenever a country has "a greater margin of superiority or a smaller margin of inferiority"1 in the production of a good. It is possible for a country not to have an absolute advantage in the production of a good, but it may still have a comparative advantage if it is relatively better suited for the production of a certain good than another country might be.

5- Key Terms To learn

- International Trade: The sale and purchase of goods and services across international borders.

- Absolute Advantage: An absolute advantage exists when one country is better than another country in the production of a certain good or category of goods.

- **Comparative Advantage:** A situation in which a country has "a greater margin of superiority or a smaller margin of inferiority" in the production of a good.

- **Exportation:** The act of selling domestically produced goods to international consumers.

- **Factors of Production:** The resources used to build an economy and produce goods and services; they are land, labor, and capital.

- **Goods:** Items or materials produced, consumed, and traded in an economy.

- **Importation:** The act of purchasing goods from a foreign country in order to sell or consume them domestically.