Q.3 Explain the modern theory of International trade in Detail. What are the characteristics of Intern Business.

Modern theory :-

The Modern theory of International trade has been advocated by Bertil Ohlin. Ohlin has Drawn his Ideas from Heckshcr General Equilibrium analysis.

According to Bertil Ohlin, trade arises due to the differences Countries. The Difference in Commodity price is due to the difference because endowments differs in Countries. Hence trade occurs Because different Countries have different factors endowments.

The Heckscher Ohlin theorm states that Countries are rich in labour will export Labour Intensive goods and Country which an Capital will export endowments.

Explain the modern approach to International trade on the Basis of following assumptions

i) there are two countries Involved.

ii) Each country has two factors.

iii) each country produce two commodities of goods.

iv) There is perfect competition in both commodity and factors markets.

v) All production function are homogenous of the first degree production function is subject to constant return to Scale.

vi) factors are freely mobile within a country but Immobile between countries.

vii) two countries differs in factory supply.

viii) Each commodity differs in factory Intensity.

ix) there is full employment of Resources in both countries and Demand are Identical in Both countries.

x) Trade is free there are no trade Restrictions in the form of tariffs or non-tariff barriers.

xi) There are no transportation cost.

Characteristics of International Trade :-

i) Immobility of factors.

ii) Heterogeneous Markets.

iii) Different National Groups.

iv) Different political Units

v) Different National policies and Government Intervention.

vi) Different Currencies.

vii) Different Trade policies

viii) Territorial Specialization

ix) International Competition.

x) Long Chain of Middleman

xi) Government Control

xii) Several Documents

xiii) International Rules and Regulations