- The Various theories of international business are :-

1) Classical theory of International trade – The classical theory of international trade was first propounded by Adam Smith who introduced the principle of absolute cost advantage as the basis of international exchange of commodities. It was further developed by David Ricardo in terms of comparative cost advantage.

2) Theory of Absolute Cost Advantage – Adam Smith developed the law of absolute cost advantage for international trade. According to him, trade occurs between two countries if one of them has an absolute advantage in producing one commodity and the other country having absolute advantage in producing some other commodity.

3) Theory of Comparative Cost Advantage – This theory was given by David Ricardo. According to this theory the countries in the long run will tend to specialise in the business of those goods in whose businesses they enjoy comparatively low cost advantage and import other goods in which the countries have comparatively high cost disadvantages, if free trade is allowed.

4) Factors Proportion Theory – This theory was first propounded by Eli Heckscher (1879-1952) and later refined by Swedish economist Bertill Ohlin (1899 - 1979) in 1933.

Ans. The various approaches of international business are :-

a) Ethnocentric Approach – This approach is based on the assumptions that consumer needs and market conditions are more or less homogeneous in international business as a result of globalisation. A firm markets its products developed for the home market with little adaptation.

b) Polycentric Approach – An international firm is aware of the fact that each country market is significantly different from the other. It therefore adopts separate approaches for different markets. In a polycentric approach products are developed separately for different markets to suit local marketing conditions.

c) Regiocentric Approach – Once an international firm establishes itself in various markets the world over it attempts to consolidate its gains and tries to ascertain product similarity within market cluster. Generally, such market clusters are based on geographical and psychic proximity.

d) Geocentric Approach – Instead of extending the domestic products into international markets, a firm tries to identify similarities in consumption patterns that can be targeted with a standard product around the World.