

from Adam Smith in his book "The wealth of Nations" Authorities in all countries fight with the questions of what, how much and with whom their country should import & export. Common sense suggests that some international trade is beneficial for all.

(ii) Classical theory of International trade →

The classical theories 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.

(iii) 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 & the other country having absolute advantage in producing some other commodity.

(iv) Theory of Comparative Cost Advantage: This theory was given by David Ricardo. According to this theory the country in the long-run will tend to specialise in the business of those goods in whose businesses they

4 Approaches of International business :

- (1) Ethnocentric approach \rightarrow The approach is based on the assumption that consumer needs and market conditions are more or less homogeneous in international business as a result of globalisation.
- (2) Polycentric approach \rightarrow An international firm is aware of the fact that each country market is significantly different from the other.
- (3) Regiocentric approach \rightarrow Once an international firm establishes itself in various markets the world over it attempts to consolidate its gains & tries to ascertain product similarity within market cluster.
- (4) Geocentric approach \rightarrow Instead of extending the domestic products into international markets, a firm tries to identify similarities in consumption pattern that can be targeted with a standard product around the world.

* Theories of International Trade :

- (1) Need for separate theory of International business \rightarrow

Bases of international trade are explained by various theories given by various scientists and economists from time to time starting