International trade

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# International trade

International trade is the exchange of goods and services beyond national borders. It entails the sale of exports (goods and services sold to overseas buyers) and imports (foreign goods and services bought by domestic households and firms).

### Globalisation

Globalization is the increased flow of goods, services, people, ideas, and capital across borders.

As economies merge with each other, local companies' sales depend on the tastes of foreign consumers, and local consumers can choose from a variety of foreign and domestic offerings.

It also leaves a country at the mercy of the rest of the world's health.

### Free trade

Free international trade is the exchange of goods and services across national borders without any government restrictions.

No taxes or limits are imposed on exports and imports, no subsidies are given to distort cost advantages and there is no unnecessary paperwork involved.

# The benefits of free trade

### 1 Access to resources

International trade enables firms and consumers to gain access to goods and services that they cannot produce themselves.

### 2 Greater choice

Consumers may be able to buy a greater variety of products as they may have a wider choice of products, Firms may also have a wider source of raw materials and capital goods.

### 3 Efficient allocation of resources

Free trade allows an efficient allocation of resources with countries being able to concentrate on producing those products that they have a comparative advantage in. Allowing countries to specialise in those products where their production is most efficient should increase world output and employment and so should raise living standards.

### 4 Factor endowments

The availability and the quality of resources differ between countries. Free trade permits countries that have, for instance, fertile land and the appropriate climate to concentrate on growing oranges while other countries that have the financial institutions and well-educated workers to concentrate on banking.

### 5 Improved international relations

The absence of trade barriers encourages international trade and cooperation between countries. By contrast, if a country uses international trade barriers, other nations are likely to retaliate by doing the same.

### 6 Lower prices

Free trade reduces the costs of trading, whereas protectionism increases the costs of trading.

For example, it is cheaper for Germans to purchase foreign -produced smartphones made in China and Taiwan because of the high labour costs in Germany. By contrast, the imposition of trade barriers would mean that both domestic firms and consumers have to pay more for imported goods and services.

The competition that may arise from free trade can put pressure on firms to keep their prices and costs down and raise the quality of their products. As a result, consumers may enjoy lower prices and better products than would have been the case in the absence of free trade. Firms may also be able to buy raw materials and capital goods at lower prices.

### 7 Economies of scale

Having a global market to sell to may enable firms to produce greater output and so take greater advantage of economies of scale.

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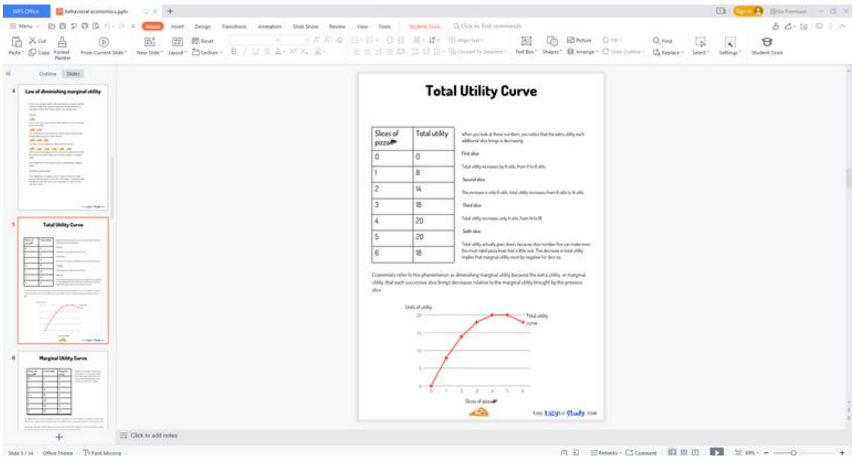


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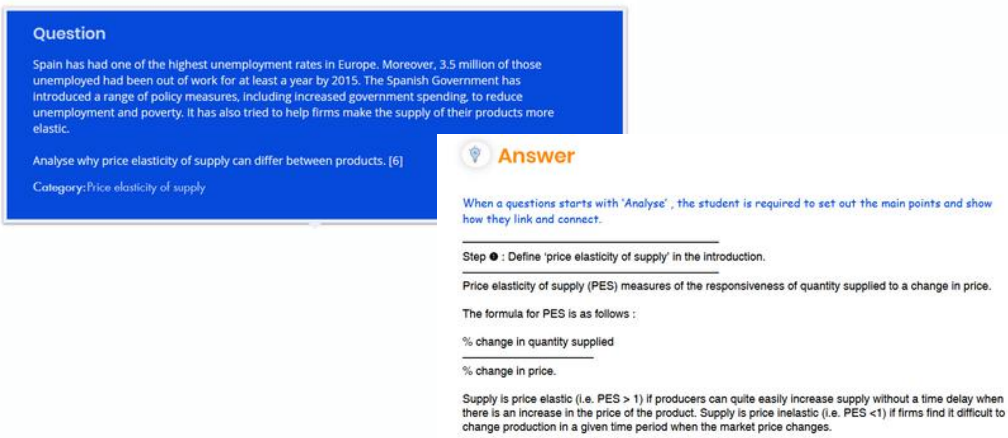

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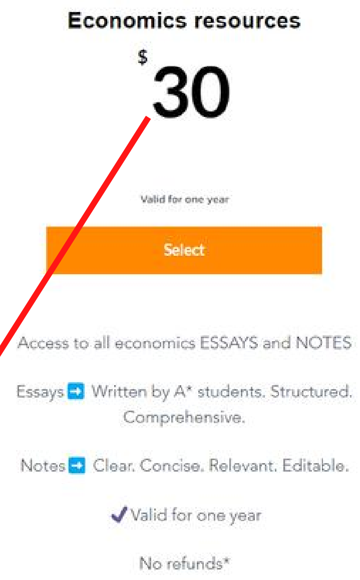


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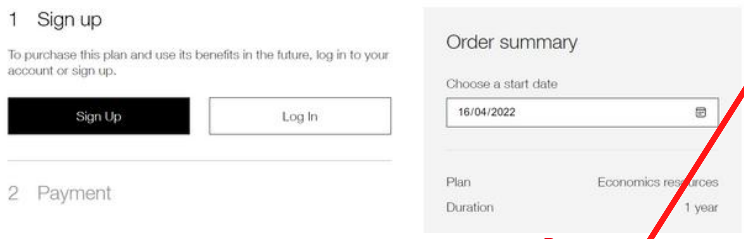


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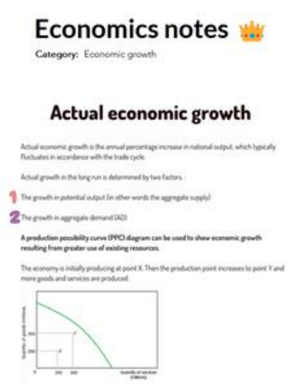

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# FREQUENTLY ASKED QUESTIONS

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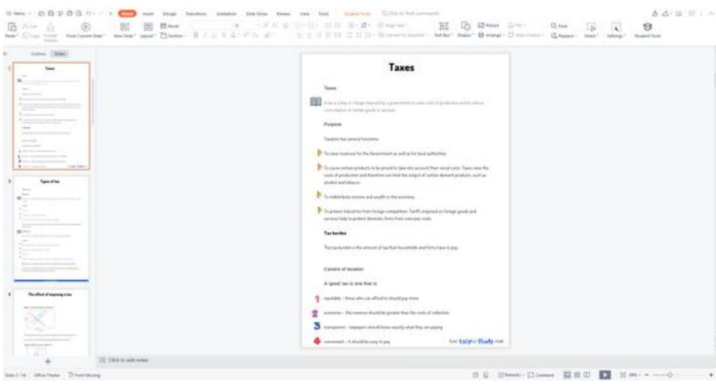


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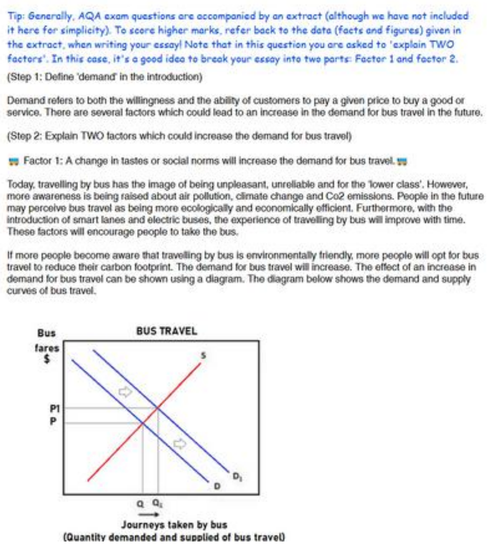

Tip: Generally, AQA exam questions are accompanied by an extract (although we have not included it here for simplicity). To score higher marks, refer back to the data (facts and figures) given in the extract, when writing your essay! Note that in this question you are asked to 'explain TWO factors'. In this case, it's a good idea to break your essay into two parts: Factor 1 and factor 2.

(Step 1: Define 'demand' in the introduction)

Demand refers to both the willingness and the ability of customers to pay a given price to buy a good or service. There are several factors which could lead to an increase in the demand for bus travel in the future.

(Step 2: Explain TWO factors which could increase the demand for bus travel)

Factor 1: A change in tastes or social norms will increase the demand for bus travel.

Today, travelling by bus has the image of being unpleasant, unreliable and for the 'lower class'. However, more awareness is being raised about air pollution, climate change and Co2 emissions. People in the future may perceive bus travel as being more ecologically and economically efficient. Furthermore, with the introduction of smart lanes and electric buses, the experience of travelling by bus will improve with time. These factors will encourage people to take the bus.

If more people become aware that travelling by bus is environmentally friendly, more people will opt for bus travel to reduce their carbon footprint. The demand for bus travel will increase. The effect of an increase in demand for bus travel can be shown using a diagram. The diagram below shows the demand and supply curves of bus travel.