International Economics Theories and Systems

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Abstract

Economists have range of understanding on matters that relate to the real world through mathematical models and theories that are applicable to the market. Both macro-economics and micro-economic analysis is an important aspect that works to facilitate growth of the country. Studying the economics of international businesses explores the trends in economic activities within the economic setup that facilitates development and growth of business organizations.

Keywords: economists, mathematical models, theories, market, businesses, growth and development.

Introduction

According to Andrew, Aspasia, & Don (2012), economics is a discipline that entails theories and models that affect production and consumption of resources with the main intention of creating maximum satisfaction, income or welfare of people in a market setting. With the critical understanding gained in the international economics study, businesses can utilize the resources they have access to in allocation to ensure they influence the market in a move to increase the demand for their goods and services. Sunanda (2010) argues that international economics identifies principles in resource allocation that can impact business to gain market control on a global network. This paper explores the essential elements to economics aspect on international businesses through the application of theoretical analysis of such environment. The paper will focus on international economics and the relevant principles applicable in international business; economic systems and development.

The Infant Industry Argument

With the advancement of technology and internationalization of corporations, internal trade theories are identified as a potential area of study that can facilitate this form of trade. In addition, the governments design policies that are aimed at protecting some industries that are upcoming. That policy had led to varying opinions on the infant industry argument. The argument explains what Alexander Hamilton and Friedrich had in mind when they formulated this argument. It highlights that the industry may temporary function under the protection of the government in its early stages of establishment. Such protection may occur due to market pressure the organization faces and its general size as compared to other firms. It is implemented through imposition of tariffs on goods the company trades.

Drawing from the research carried out by Ken (2010), he argues that empirical research shows that there is no evidence that these theoretical arguments are effective for the protection of business organizations pointing out that mainstream economics does not embrace that idea. With the empirical studies that involve the use of case studies in the industry world and cross-sectional studies done by Irwin (2000), it is true that through that policy in the US, the companies experienced growth and development but does not pass a cost-benefit analysis test. However, it casts doubt due to his few samples of 45 observations that Ohashi (2005) explored the cases in Japan, where he concluded that the Japanese subsidy policy had less impact on industrial growth.

Beason & Weinstein (1996) and Lawrence & Einstein (2001) agrees on the fact that there is no statistical, factual evidence on whether tariff and subsidies has a positive effect to the general growth of the companies. Robert (1969) concurs with previous findings when he evaluates the tariff system and subsidies. It is clear that even though theoretical models explains that its an effective protection practice, empirical analysis shows that there is no relevant relationship between industrial development and the application of tariff to gain competitive advantage in the market.

Changing Comparative Advantage in Relation to the Inflexibility of Workers

The theory of changing comparative advantage has been criticized by the economist on arguments that are laid down. The assumptions made in this theory are unrealistic. According to Ian (2008), the unrealistic projections in the comparative advantage assume that ideal situation in labor cost. During the calculations for the production cost, it only focuses on the labor cost ignoring the non-labor cost that is experienced in the production of goods and services. It is unrealistic since it is usually money cost and not the labor cost that is based on international. Furthermore, it makes another assumption of a homogenous labor. This is not true because labor is varying with to some being its in different kinds and grades, others are penalized while the rest unspecialized and some general and others specific.

Booming & Yan (2006) highlights that there are a number of challenges faced in elaborating the theory of changing comparative advantage. In the theory, the common argument of similar tastes is conflicting with the actual situations. It is true that the taste differs in different income brackets, in the country. In addition, they change with growth and development of the economy and in relation to its development in trade with other countries. The other assumption made is in regard to state assumption of fixed proportions. The general assumption made in respect to labor is unrealistic. For example, less labor is used in the production of steel than in textile production.

The assumption of constant cost is criticized too. It is weak in that an increase of output as a result of international specialization is followed by a constant cost. In reality, there is either increasing cost or diminishing cost. For example, if large production reduces the cost, it increases the comparative advantage. The assumption of transport cost is the other area of conflict. Ricardo ignores the comparative cost in the determination of comparative advantage in trade. In determining the patterns of trade across the globe, consideration of transport cost is important. The Inflexibility of Workers is another conflicting ideology. Collins (2001), who is the managing director of the LPSO Limited in London, points out that there are several problems associated with flexible working research in the era of the new economy.

Louisa (2014) explains that the arguments on inflexibility does not consider other factors that promote efficiency in the working environment such as motivation. In addition, it does not cover how corporate culture may be nurtured to individual employees. Furthermore, it pays no attention to how individual knowledge and skills applicable as a learning objective for the organization. These factors are not well considered in the policies. It, therefore, explains on how ineffective the plan is as considered in the international trade.

Prevent Dumping and other Unfair Trade Practices

There are several problems that are associated with the creation of anti-dumping laws in trade. They are caused by the move by the government formulate policies that reduce their chances of acquiring and treating them as unfair business environment. In the case of America, the policies on anti-dumping resulted in a number of challenges in the business environment. According to Roberts (2008), antidumping laws and regulations on unfair trade practices are identified as a barrier to liberalization of trade in the world trade. It suppresses competition and the welfare of the consumers where they have to pay for the extra cost as compared to the available goods they would get elsewhere.

These laws regulate and reduced competition in the market. Competition ensures there is increased motivation, quality enhancement and protection of the consumer demands. Applying these rules would reduce competition within the trading countries, hence interfere with the natural nature of the market. Finger, Ng, and Wangchuk (2000) argues that these policies in antidumping are hurting more the consumers and competitive nature of the market more that the destruction caused by an import tariff. The companies are prone to increasing their cost to protect the domestic market from dumping effects. Furthermore, these measures to set policies to control dumping situations means that the foreign companies have to agree with the domestic once in a measure that would come in to set prices for the commodities.

The antidumping policies would make the domestic companies vulnerable to oligopoly in the process of fighting antitrust activity. Staiger & Frank (1989) argue that with some domestic businesses being controlled by cartels, they use antidumping laws to punish international companies in a move to eliminate them from the market. Domestic companies may destroy their reputation when they file a case against a foreign company, they are left with an evil way of creating a threat to the international companies through the use of the antidumping laws to eliminate competition and enhance their interests.

Anti-competitive government regulations are not only harmful to the firms, but also the consumers. The consumers are forced to buy the goods at exorbitantly high prices that affect their purchasing power and influence demand. In fact, the measures result in barriers to producers in the developing countries through restriction of information technology systems. Reducing the competition between domestic companies and foreign companies, will usually result to consumer exploitation and poor goods and service delivery in the country. These values are experienced in large measures when they is effective competition.

Protecting Declining Industries

Some government policies on the move to protect declining industries has a number of effects to the market as a barrier to trade. The move to create a free market may have a negative implication on economic aspects of the country as well as other trade partners. According to Ishihara, (2012), who is an associate professor teaching in the Faculty of Economics and Information Science, Hyogo University, the policy of protecting industry is faced with a number of challenges. These challenges arise due to the effects it creates that cause inefficiency of trade in the market. Creating un-equal measures to control the market is restrictive as well as unjust to the big industries in the market.

From the discussion made by Ishihara (2012), with the argument that these measures are taken to facilitate the industries to cope with their declining returns, they end up causing harm to other competing companies in the process of controlling the market. Businesses should be around to freely create their market standards without unnecessary interference. With the cartel allowance intervention, the only justification they give is to gain merit in a competitive market possesses. Even though employment measures are formulated to contribute to preserve economic stability, these measures result to inefficient allocation of resources available to carry out trade in the market.

Critical analysis of the challenges such a declining industry would face, there would be little or no influence from the market. The declining situation is caused by other factors from a management, strategic measures, availability of resources among other challenges such as corruption. Identifying a unidirectional intervention in controlling the market may not be the solution for such an industry. Lawrence & Einstein (2001) highlights that market control have been the measure most governments has taken to protect the declining industry, yet some of these industries end up failing due to the failure of identifying the major issues affecting development of these industries.

Furthermore, Sunanda (2010) affirms that the cost incurred on these industries is so high that the market economy state is interfering with tremendously. That argument proofs how the market control policies by the government may end up creating problems in the market. It should, therefore, introduce a mechanism to control effectively the resource allocation from declining shift to growing fields to lift the market economy. That policy is referred to as positive adjustment policy. It is an effective way to ensure that efficiency is key in allocation of resources.

Improving Country’s Terms of Trade through Exploitation of its Market Power

Most countries that have reduced their poverty index are those that values openness to trade with other states. The measure to create barriers in the sense of increasing local trade and boosting their local market blocks the international trade within the countries it trades with. There is a general relationship between market development and freeness to trade effectively. Creating these barriers makes the competition unfair due to favoritism of one market as compared to the other. This form of discrimination should not be encouraged since it discourages international trade. According to Brian (2013), the move by the governments to place barriers to international trade through imposition of barriers in the move to increase local trade may have negative effects on trade and economic interaction with its traders in the market. Such a move should be reconsidered to determine the cost and benefit analysis of the policy.

Geoff (2012) carries a critical analysis of the situation where a country’s government imposes barriers to trade in order to exploit its market power. Through the analysis, he points out that it creates market distortions where it becomes ineffective and very costly way of sustaining jobs in the state. Such argument is verified through consideration of an expensive and high expense of commodities that the consumer experiences. With these trade policies, the consumer is the most hit due to extra pay they have to pay for the goods produced locally. These policies insulate the local industries from competition that result in high prices of commodities and market incompleteness. It encourages discriminating and inefficient allocation of resources internationally and locally.

In addition, the protectionist policies on improving country’s trade by taking advantage of its market power policies has serious impacts on the accessibility of the market for the producers in such a state. Ishihara (2012) approached the other side of the policy through critical analysis identified that, even after these companies are protected from competition in a move to boost local industry, they lack incentives to increase their production and control their production cost due to poor management and corruption. According to the argument created by Beason & Weinstein (1996), the population under the poverty index tend to be pressed more due to such policies, they are left with nothing to save with some of them lacking even the basic human requirements such as food. Improving country’s terms of trade through the exploiting its market ability has been faced with criticism by economizing on the effects it has on the citizens under the poverty line as well as reduced competition that increases the price of the basic commodities.

Conclusion

Even though protectionist theories are aimed at promoting the nation’s domestic industries from excessive competition from a global scale, there are many underlying problems such measures create that have not been researched on. These challenges affect the lowest members of the society who are the consumers with less income. Such laws increase the cost of items for the companies lacks incentives to lower the production cost of commodities. The arguments laid by Andrew, Aspasia, & Don (2012) and Irwin (2000) proves that the protectionist theories imposed may interfere with the normal running of trade between countries promoting hate and disunity among member states.

Despite the move to create these barriers, the governments should ensure they facilitate industries to acquire innovative and inventive ways of production that may promote effective ways of reducing the cost of production and ensure that the operations of the company are corruption free and with the right management.. The policies highlighted in this context bear the country initiating the responsibility of applying measures to protect the consumers from excessive exploitation. Furthermore, the government should ensure that there is a sustainable and efficient allocation of resources throughout the trade process. Sustainability is key to trade since it affects the availability of trade resources.

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Appendices

Table 1.1

SUMMARY OF DIFFERENT MODELS OF GOVERNMENT

Features	*Country Examples*	*Policy Examples*
Modernised Government		
—Implementation of policy is mainly carried out by employees of the state and control and accountability are retained within central or local government departments; —However in this model traditional bureaucratic government has undergone a process of reform. Performance measures may be used as a proxy for profit to drive up standards and managerialist methods are often employed.	In general Nordic countries follow this model in many areas of public policy, although the use of out-sourcing and the introduction of competitive forces are increasing, particularly in the Swedish education system. Nevertheless decentralisation and devolution of power is the central focus of reform rather than choice and the introduction of quasi markets. Denmark in particular has low levels both of privatisation and the use of market type mechanisms.[238] In the UK measures such as the introduction of Public Service Agreements and three year budget cycles demonstrate reform efforts aimed at making government more responsive and "customer" focused.[239] In the United States the "re-invented government agenda", initiated by former Vice President Al Gore attempted to put in motion similar reforms.[240] In France, this model has been used in relation to public financial management with initiatives such as the 2007 Révision Générale des Politiques Publiques aimed at driving efficiency and transparency in government.	Governments often employ this model when considering policy issues that relate to national security. Contracting out certain aspects of national defence or intelligence gathering would cede an undesirable level of control. Equally other countries might use this model in areas where they want to maintain full authority or have particular equity concerns. For example in Finland, the education system is heavily controlled and there are strict rules restricting private schools and tuition charging. However modernisation is achieved through elements of decentralisation and a focus on efficiency. In the UK, this model was used to improve literacy and numeracy in primary schools between 1997 and 2001. Targets were set, outcomes were measured and government retained full control and accountability.
Partnership Government		
—Government policies are implemented by a number of providers	New Zealand pursued an aggressive policy of government reform in the late eighties and early nineties as	Governments often employ this model when they want to encourage innovation and

from the private, public and third sector; —Government, as commissioner of services, is responsible for overseeing and monitoring performance and ensuring contracts are aligned to policy priorities but is not responsible for policy implementation; and	they sought to open up markets in public service provision and put out to tender many government functions, including policy making in some areas. The 1988 State Sector Act and the 1989 Public Finance Act ensured that output based contracts became the cornerstone of reform.	flexibility. In the United States, the Wisconsin welfare-to-work programme which helped decrease the number of benefit claimants and increase employment in the state relied on different providers to deliver services (for more information see Case Study A in Chapter 4).
—Choice and competition are the orientating principles of public service delivery in this model.	Furthermore, in recent years some of the government functions that were previously totally privatised are now carried out using this model. There has been the introduction of "circuit breaker teams" which are designed to bring together the front-line and central government departments and place a renewed focus on partnerships.[241],[242]	In the UK, the partnership model is also being proposed in relation to welfare reform as set out in a recent Green Paper.[243] In France, the health system is run using partnership government, with a mix of state and private hospitals available to almost all citizens (For more information see Case Study D in Chapter 4.)
Government by market		
—This model involves government using its power and influence to create a market that supports pubic policy aims; and —This model often involves few if any public employees.	The European Union's carbon trading scheme which seeks to limit carbon emissions by assigning an economic value to pollution is an example of the use of this model. Equally, the 1991 Bush administration's tradeable emissions plan for sulphur dioxide emissions mobilised the same principle.	This model is used most commonly when governments seek to change the behaviour of a large group of citizens. Road pricing and congestion charging in the UK, although in their infancy, seek to use the market to achieve policy outcomes. Also, the issuing of individual budgets in adult social care is becoming more common.[244] Equally the discharging of child care vouchers to individual families in certain American states is an example of creating a market for service provision.
Privatisation		
—This model involves removing government altogether from certain	The UK in the eighties and nineties underwent a huge privatisation agenda, matched only by New	This approach is most often used when government believes they don't have the capacity to deliver

areas of delivery.	Zealand. The UK state owned sector was reduced significantly in this period.[245]	certain services or they feel the private sector is best placed to be effective. Telecommunications is a particular industry that governments have sought to privatise.[246]

Source: PRICEWATERHOUSECOOPER, SEPTEMBER (2008)

Table 1.2

David Greenaway and Douglas R. Nelson

The Distinct Political Economies of Trade and Migration Policy: Through the Window of Endogenous Policy Models, with a Focus on North America

Abstract:

The domestic politics of international trade seem to differ in fundamental ways from the domestic politics of immigration, but it is difficult to say exactly how and, more importantly, why. This paper uses a common frame of reference, simple endogenous policy models, as a way into this issue. These models capture the essential insight underlying much political economy analysis that material interests drive policy preferences. Part of the claim made in this paper is that trade politics appear to be essentially about material interest, while immigration politics are not. Related to this claim, however, is the complementary claim that the politics of these two seemingly similar issues are also organized in fundamentally different ways. The argument proceeds in five parts. The first part describes the general structure of endogenous policy models; the second provides a brief overview of theoretical and empirical work on trade; the third provides a similar overview of contemporary research on immigration politics; the fourth compares the political structures of the politics in these two domains; the fifth part concludes.

1 What Are Endogenous Policy Models, and What Are They For?

Endogenous policy models formalize the notion, widely applied for virtually as long as there has been systematic study of economic policy, that material self-interest has a sizable effect on the policy preferences of citizens, and that the

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