SCHOOL OF DISTANCE EDUCATION

FIRST DEGREE PROGRAMME

B.A.

Economics

Semester : VI
Course Code : EC 1644

International Economics

UNIVERSITY OF KERALA
Senate House Campus
Palayam, Thiruvananthapuram

School of Distance Education,
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Kariavattom, Thiruvananthapuram.

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MODULE I

THEORIES OF INTERNATIONAL TRADE

Unit -1

Subject Matter of International Economics

Contents

1.1 Introduction

International economics deals with economic interaction between nations. Such interactions include exchange of goods and services, movement of factors of production as well as competition and coordination among nations regarding various economic policies to regulate movement of goods, services and factors. In the present era of globalization, nations are increasingly integrated with the world economy than before. This has made the study of international economics all the more relevant and important.

1.2 Objectives

After reading this unit, you will be able to:

- Identify the basic issues of international trade
- Explain the basic principles of physiocracy

Unit -2

Classical Theories of International Trade

Contents

2.1 Introduction

In the early history of international trade, exchange was primitive and simple. It was confined to basic goods like cloth, consumables like wine, factors of production such as raw materials and precious metals like gold and silver. However, over the years, exchange became more complex in nature. There are many theories of international trade. This unit discusses classical theories of international trade developed by Adam smith and David Ricardo.

2.2 Objectives

After reading this unit you will be able to:

- Illustrate absolute advantage theory with the help of hypothetical examples
- Explain Comparative advantage theory developed by David Ricardo

Unit -3

Modern Views on International Trade

Contents

3.1 Introduction

The classical theories of international trade assume that labour is the only factor of production and trade arises only because of international differences in labour productivity. However, some other economists believed that trade arises due to differences in the availability of resources between countries. In this unit, we will discuss a model in which resource differences are the main source of trade.

3.2 Objectives

After reading this unit, you will be able to:

1) Critically evaluate Heckscher - Ohlin theorem
2) Explain Factor- price equalisation theorem
3) Explain Leontief Paradox
4) Illustrate Foreign trade multiplier

MODULE -II

BALANCE OF PAYMENTS

Unit -4

Balance of Payments

Contents

4.1 Introduction

The balance of a country's foreign transactions and the accompanying issues of the exchange rate and reserves including gold or foreign currencies has long been a focus of interest for policy makers. The way in which policy makers view foreign transactions and the policies they have adopted have varied over time. This unit examines various aspects related to balance of payments.

Unit -5

Devaluation

Contents

5.1 Introduction

When there is a deficit or surplus in the balance of payments of a country, equilibrium is brought about automatically through price and income changes or by adopting certain policy measures. There are two main ways in which a deficit can be cured: expenditure reducing or expenditure switching policies. The expenditure reducing policies can be divided into two broad categories monetary policy and fiscal policy, whereas expenditure switching policies primarily work by changing relative prices (a change in exchange rate which means a devaluation or a revaluation of the domestic currency).As noted above, expenditure switching policies emphasise a change in exchange rates, namely devaluation. The traditional approach to the effect of devaluation on the balance of trade runs in terms of elasticities (elasticity approach). The modern approach concerning the effects of devaluation on the balance of trade is absorption approach.

Unit -6

Multi National Corporations (MNCs)

Contents

6.1 Introduction

In all countries, particularly in the developing countries, governments are trying to attract foreign capital. They believe that foreign capital plays a constructive role in a country's economic development, This unit examines the role of FDI and FII in the development of a country. It also examines the role of MNCs also.

6.2 Objectives

After reading this unit, you will be able to:

- Explain the need for foreign capital
- Distinguish between FDI and FII
- Discuss the role of MNCs in LDCs

MODULE - III

FOREIGN EXCHANGE

Unit - 7

Theories of Foreign Exchange rate Determination

Contents

7.1 Introduction

The most important distinguishing feature of international trade is the involvement of foreign currencies. In such a context, determining the exchange rate between different types of currencies is very important. This unit examines how exchange rate between different currencies is determined. Apart from that, it explains the meaning and functions of foreign exchange market and discusses important theories of exchange rate.

7.2 Objectives

After reading this unit, you will be able to:

- Illustrate how foreign exchange rate is determined
- Distinguish between different types of foreign exchange systems

Unit -8

Exchange Rate systems

Contents

8. 1 Introduction

Usually governments decide what type of exchange rate system it wants to adopt. A particular government can choose to fix the value of its currency to other currencies to adjust its BOP difficulties. Or it can choose to allow its currency to move freely against other currencies so as to adjust its BOP difficulties. This unit examines different types of exchange rate systems as well as some important concepts related to foreign exchange market. Apart from that, it also discusses the role IMF in the international liquidity management.

8.2 Objectives

After reading this unit, you will be able to:

- Discuss different exchange rate systems
- Distinguish between spot rate and forward rate
- Define hedging and speculation

MODULE - 4

THOEORY OF COMMERCIAL POLICY

Unit - 9

Tariff and Non Tariff Barriers to Trade

Contents

9.1 Introduction

Various theories of international trade assume that there is no obstacle to the free movement of goods and services between countries. However, in the real world, there are different types of trade barriers which restrict the free flow of goods and services between countries. Before examining various trade policy instruments, it is important to distinguish

Unit -10

Economic Integration

Contents

10.1 Introduction

Recently, economic integration has assumed greater importance. We can see that various countries have reduced different kinds of trade restrictions. Economic integration encompasses measures designed to abolish discrimination between economic units belonging to different national states. In this unit let us examine various forms of economic integration in general and theory of customs union in particular.

10.2 Objectives

After going through this unit, you will be able to:

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- B.A. Economics
- B.A. English
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- B.A. Malayalam
- B.A. Political Science
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- B.Sc. Mathematics
- Bachelor of Computer Application (BCA)
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- BLISc.
- M.A. Economics
- M.A. English
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- M.A. History
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- M.A. Political Science
- M.A. Public Administration
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- M. Sc. Computer Science
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