Trade and foreign countries, growth in globalized economy

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Theory of comparative and absolute advantages in the economy.

Comparative advantage means that one country has opportunity cost for making other types of good.

Absolute advantage means that one country has lower cost for making some type of goods.

Why is the Exchange between countries beneficial for both?

What is important for foreign trade?

Who creates demand for currency and who creates supply for currency?

Theory of Parity purchasing power – equality of two currencies, when I can buy for same sum of the money in two countries the same goods and services

1. Absolute theory – the currency rate is determined by price levels
2. Relative theory – explains only the changes of currency rate

Why should the currency rate equals?

Theory of Law of one price.

What is the problem? Non tradable goods.

What about the different change of price levels in the countries?

What about the currency rate and interest rates?

Currency rate could be fixed or flexible. Most of the currency rate are set currency fluctuations rate.

How is the monetary policy effective in the open economy when the currency rate is flexible or fixed?

How is the fiscal policy effective in the open economy when the currency rate is flexible or fixed?

The currency can appreciate, depreciate (flexible) or devaluate and revaluate (fixed).

Trade in developing countries:

What affects the trade/wealth of the country?

1. Geography
2. Exports
3. Culture
4. Religion
5. Institutions

Geography

What are the main factors in geography?

1. Landscape
2. Climate
3. Access to sea/oceans
4. Location within the continent

Exports

What is the export of the developing countries?

Is it a brake or help for development of country? Explain.

What should developing countries to differentiate their exports?

Culture and religion

How different culture or religion affects the growth?

Examples:

1. Islam vs Christianity
2. Protestants vs Catholics
3. US culture versus Europe culture

Institutions

All other factors are important for economic growth, but most significant for the development are Institutions.

What boost poor country development?

Technology imports from more developed countries. What is the most important aspect for investors?

How the institutions affects development? North Korea vs South Korea, Soviet countries vs. West Europe, Hong – Kong /Tchai Wan vs surface China, European colonies

Institutions

Why institutions differs among countries?

1. Effective institutions developed by market demand – Pareto theorem
2. Ideology
3. Institutions as byproduct
4. Social conflict

Institutions

What leads to ineffective institutions?

1. Hold-up stratégy
2. Politic losers
3. Economic losers