Trade

The term trade refers to buying and selling of goods and services with in the country or outside the country.

Trade is classified into 2 categories:-

1. *Internal trade*
2. *External trade*

Internal trade

- Buying and selling of goods and services with in the geographical boundaries of a country is called internal trade or domestic trade. Payment in this kind of trade are made and received with in the currency of the country.

Types of internal trade

- 1.wholesale trade: It refers to the trade in which goods are sold in a large quantities. The person who carries on the wholesale trade is called wholesaler.
- wholesaler buys goods from the producer in bulk quantities and forward them in a small quantities to the retailer.

Functions of wholesale trade:-

- Assembling
- Storage
- Transportation
- Financing
- Risk bearing
- Grading and packing
- Providing market information

2. Retail trade

: It refers to goods sold in small quantities. The person dealing in retail trade is called retailer.

- It maintains contact with consumer and producer directly.

Functions of retail trade:

- Buying
- Selling
- Storage
- Risk bearing
- Packing
- Credit
- Supply information
- Advertising

Difference between wholesaler and retailer

Wholesaler:

- They are link between manufacturer and retailer.
- They make transactions in bulk.
- They deal in specific goods, they do not display their goods
- Capital requirement is heavy

Retailer:

- They are link between wholesaler and consumer
- They deals in variety of goods, and advertise them
- They deal in small quantities.
- They need less capital

Sectional recapitulation

- What is called trade?
- What is called internal trade?
- What is the difference between retail trade and wholesale trade?

External trade

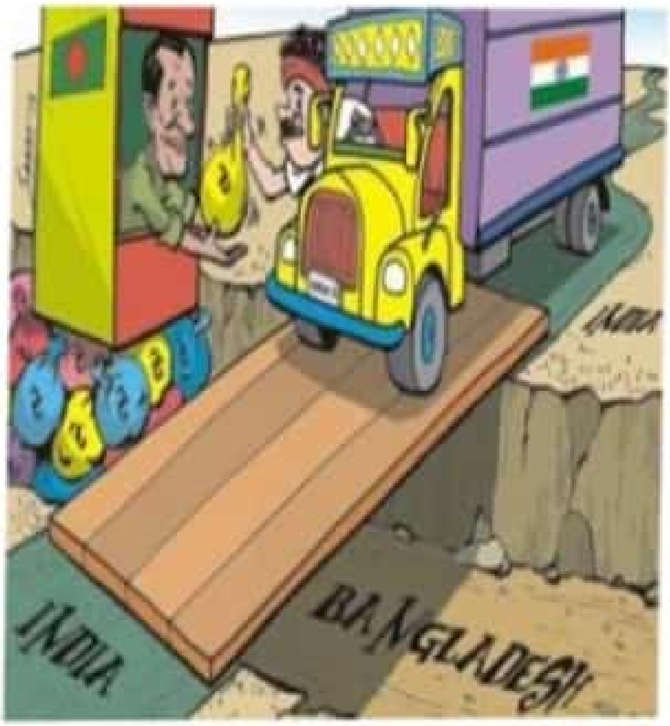
- Trade between two or more nations is called foreign trade or international trade.This involves the exchange of goods and services between the citizens of two nations. When the citizens of one nation exchange goods and services with the citizen of another nation is called foreign trade. Example India’s trade with USA, France with Pakistan.

Foreign trade transactions are classified into 3 categories:

- Import trade
- Export trade
- Entreport trade

Import trade

- It refers to the purchase of goods from foreign country. countries import goods which are not produced by them either because of physical difficulties or even those goods which are not produced in sufficient qualities so as to meet their requirements.Example-buying petrol from Iraq.



Export trade:

- It means the goods produced in one country are shipped to another country for future sale is called export trade.Example selling wheat,rice to USA.

Entreport

- Sometimes goods are purchased or imported from one country with objective of selling or exporting them to some other countries it is called entreport trade. Example-selling tea to USA and buying electronic goods from china

Recapitulation

- What is the difference between internal trade and external trade?
- What is called export and import?
- What are the benefits of doing export and import trade?

What are the terms of trade?

- The terms of trade measures the **relative prices** of the products that we export compared to the cost (prices) of the goods and services that we import

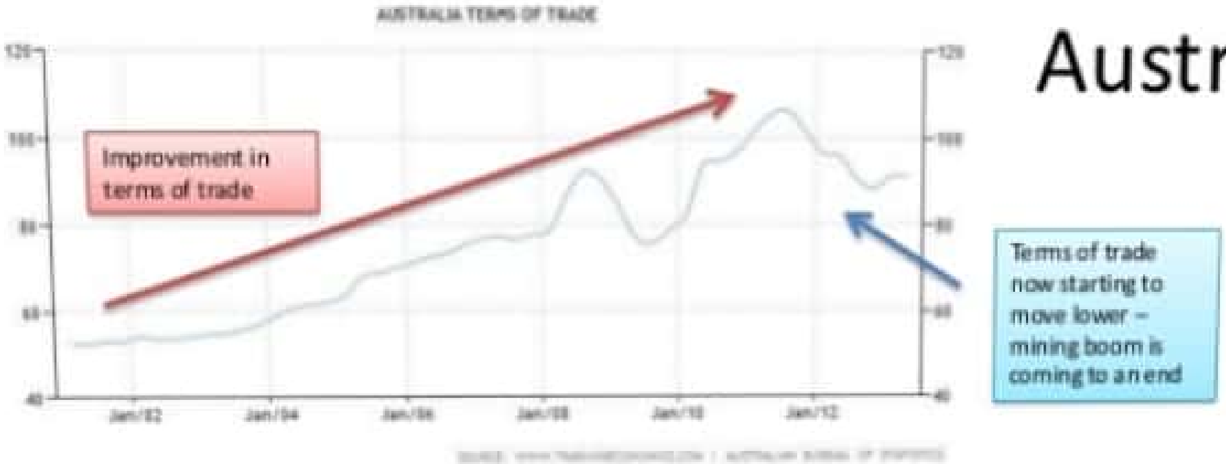
How do we measure the terms of trade?

- By dividing an **index of export prices by an index of import prices**
- If the terms of trade index goes up, we say that the terms of trade have improved
- If the index falls, we say that the terms of trade have deteriorated

Why does this matter?

- The terms of trade affect the gains from trading with other countries
- It also impacts on variables such as the balance of payments and living standards

Australia



Australia is heavily dependent on trade

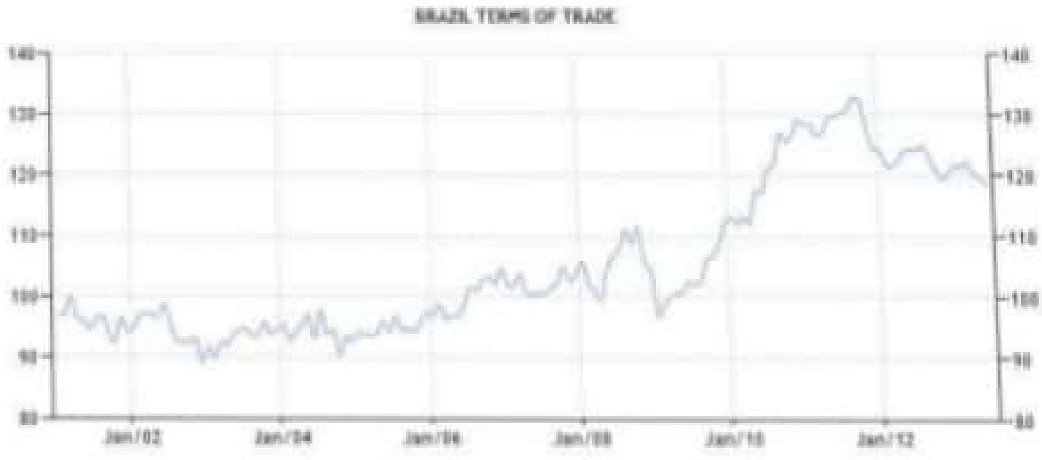
For most commodities, Australian traders are price takers in global markets

Substantial trend improvement in the Australian terms of trade over the last ten-to-twelve years

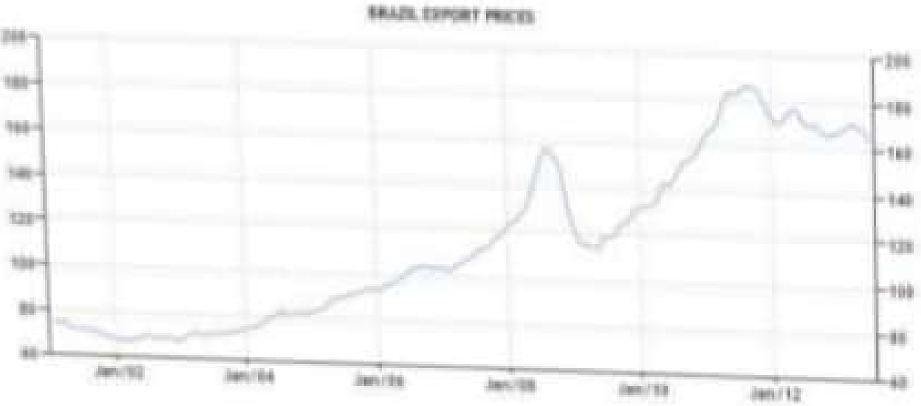
Reflects the global commodity boom and appreciating Australian dollar

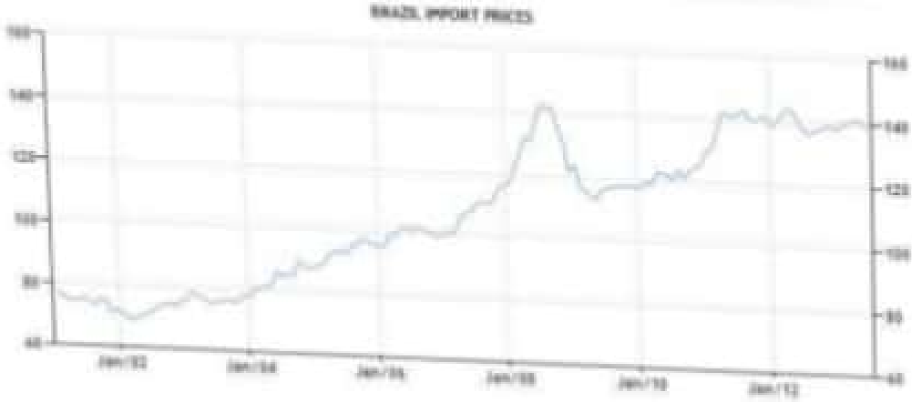
Brazil

Another country whose terms of trade is sensitive to world commodity prices and fluctuations in their exchange rate against the US dollar



Brazilian Export and Import Prices



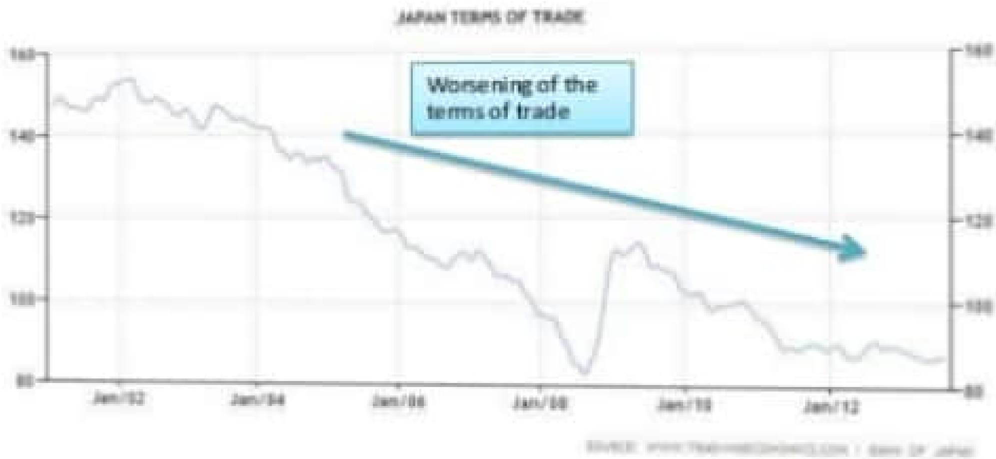


Charts show an index of export and import prices, January 2007 = 100

For Brazil, both export and import prices have risen

But the rise in the unit price of her exports has been faster than import price inflation

This has caused the Brazilian terms of trade to improve



Japan

Japan is an example of a country whose terms of trade have deteriorated over the last 10 – 15 years

What factors might explain this trend for Japan?

Consider the macro problems that have confronted Japan since the early 1990s

Terms of trade and the exchange rate

- The terms of trade ratio is heavily influenced by changes in the exchange rate
- A rise in the value of a country domestic currency decreases prices for its imports but also makes exports less competitive
- Thus a higher currency improves the terms of trade but might worsen the balance of trade

Significance of the Terms of Trade

Standard of Living

Changes in the prices of the items we have to import

Improved terms of trade might mean we are able to import cheaper food

Prices of Imported Technology

Affects relative prices of capital inputs needed to sustain growth

A weak exchange rate increases the prices of imports – worsens the terms of trade – e.g. makes imports of new technology more expensive

Balance of Payments

Export and import prices affect the value of trade flows

Important not to confuse the **terms of trade** with the **balance of trade!**