

INTERNATIONAL TRADE

The exchange of Goods and Services between countries is called International Trade.

Domestic Vs International Trade

Main differences:

1. Immobility of factors of Production:

Factors of Production can move freely from one region to another within the same country but crossing international boundaries is a different story.

2. Nature of Competition:

The nature of competition is equal within the Same country but completely different between countries. e.g. Prices of goods is equal between Kabul and Jalalabad but it will be different between Kabul and Peshawar.

3. Differences in natural resources:

Some countries may have one kind of natural resources in abundance while some other nations may possess other resources in larger quantity. e.g. Saudi Arab is endowed with petroleum resources and Pakistan with fertile soil. This difference makes the capabilities for production of various goods quite unequal.

4. Different currencies:

Each nation uses a different currency. This creates difficulties in valuation of Goods.

Such difficulty does not arise in domestic trade.

5. Restrictions of Trade:

Trade between various parts of one country is more or less free. But there are many restrictions on international trade put by Government.

6. Ignorance:

People have more knowledge about the conditions in their own country than about other countries. Thus it is more convenient for them to sell and buy goods in some part of their own country than in foreign land.

7. Government Policies:

Govt policies within the country is the same
But it is totally different between countries.