**BS203/105837/21**

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**BACHELOR OF COMMERCE: ACCOUNTING**  
**YEAR 3 SEMESTER 2**  
**BFC 3366: INTERNATIONAL BUSINESS MANAGEMENT**  
**ASSIGNMENT**  
**05/03/2025**

**1. DISCUSS FIVE THEORIES OF INTERNATIONAL TRADE CITING LIMITATIONS FOR EACH THEORY.**  
**2. USING APPROPRIATE EXAMPLES DISCUSS THE ROLE OF INTERNATIONAL BUSINESS IN ECONOMIC DEVELOPMENT OF A COUNTRY.**

**QUESTION 1**

**Five Theories of International Trade and Their Limitations**

1. Absolute Advantage Theory.   
Adam Smith established the Absolute Advantage Theory, which explains how some countries are intrinsically more efficient at producing specific things than others. This efficiency allows them to create more of a good with fewer resources. Smith believed that countries should specialize in producing products where they have a clear advantage and trade for goods where they produce less successfully. This specialization would increase global productivity and provide mutual benefits to all trading nations.

**Example**

For instance , Country A has a clear advantage in producing both cars and computers if it can use the same resources to manufacture 10 vehicles or 20 computers, but Country B can only produce 5 cars or 15 computers. However, it gains more by trading for the other product and concentrating on the one where it has the greatest advantage.

Limitations  
• Disregards Other Elements: It solely takes into account labor productivity, ignoring other inputs like as capital and natural resources.   
• Ignores Comparative edge: Under this approach, trading would be difficult for nations without a clear edge.   
• Fixed Assumptions: It disregards technological improvements and makes the assumption that resources will always be available.   
• Trade barriers are not taken into account: It ignores rules, tariffs, and transportation expenses.   
• Assumes Full Employment: This is not representative of economies with unemployment in the actual world.

**2. Comparative Advantage Theory**

This thesis, which was first put forth by David Ricardo in 1817, expands on Smith's concept by arguing that a nation should focus on creating the products that have the lowest opportunity cost, even if it is less efficient at producing all goods. This implies that all countries can still gain from trade.   
**For Example**  
Assume that both Country X and Country Y manufacture cars and wheat. While Country Y can produce five automobiles or twenty-five tons of wheat, Country X can produce ten vehicles or twenty tons of wheat. Country X has a comparative advantage in autos since it compromises less wheat per car, despite being more efficient in both. In the meantime, Country Y gains from its wheat specialization.

**Limitations**

* **Assumes No Transport Costs:** In reality, distance affects trade.
* **Neglects Labor Mobility:** Labor cannot always shift between industries easily.
* **Static Model:** It ignores technological improvements over time.
* **Ignores Externalities:** Does not consider environmental or social costs.
* **Does Not Address Income Inequality:** Trade can benefit some groups while harming others.

**3. Heckscher-Ohlin Model (Factor Proportions Theory)**

This model, developed by Eli Heckscher and Bertil Ohlin, explains trade based on resource availability. Countries export goods that use abundant and cheap resources while importing goods that require scarce and expensive resources.

**Example**

If Country A has abundant labor and limited capital, it will specialize in labor-intensive goods like textiles, while Country B, with more capital and less labor, will focus on capital-intensive goods like machinery.

**Limitations**

* **Assumes Identical Technology:** In reality, technology varies across countries.
* **Ignores Demand Factors:** It only considers supply-side elements.
* **Transport Costs Not Considered:** Distance impacts trade significantly.
* **Contradicted by Leontief Paradox:** The U.S., a capital-rich country, exports labor-intensive goods, contrary to this theory.

**4. New Trade Theory**

Proposed by Paul Krugman in the late 20th century, this theory suggests that economies of scale and product differentiation drive international trade, not just resource differences. Some industries, like automobiles and technology, benefit from large-scale production, leading to trade even among similar nations.

**Example**

Germany, Japan, and the U.S. all manufacture and export cars despite having similar resources because each country produces distinct car brands and models.

**Limitations**

* **Assumes Economies of Scale Are Always Possible:** Not all industries can achieve large-scale benefits.
* **Underplays Resource Endowments:** Traditional factors still matter in trade.
* **Can Encourage Trade Protectionism:** Countries might manipulate policies to favor local industries unfairly.

**5. Gravity Model of Trade**

This theory applies Newton’s law of gravity to trade, suggesting that larger economies trade more while distant countries trade less due to transportation costs and barriers.

**Example**

The U.S. and Canada trade more than the U.S. and Australia due to proximity and shared economic ties.

**Limitations**

* **Simplifies Trade Factors:** Does not account for cultural or political influences.
* **Static Model:** Does not reflect changes in trade relationships over time.
* **Assumes Trade Symmetry:** In reality, trade flows are often imbalanced.

**QUESTION 2**

**Role of International Business in Economic Development**

International business significantly contributes to economic growth by enhancing trade, investments, and technological advancement. Below are key ways it benefits economies:

**1. Expanding Trade**

International business allows countries to export and import goods, increasing revenue and access to resources.

**Example: China’s rapid economic rise is due to its export-oriented model.**

**2. Encouraging Foreign Direct Investment (FDI)**

FDI brings capital, jobs, and technology, fostering industrial growth.

**Example: Tech giants like Google and Apple investing in India have created employment and innovation.**

**3. Promoting Technology Transfer**

Companies introduce new technologies that improve productivity in host countries.

**Example: South Korea became a tech leader through collaborations with global firms.**

**4. Economic Diversification**

Nations avoid overreliance on a single sector by engaging in various industries.

**Example: The UAE has expanded into tourism and finance beyond oil exports.**

**5. Increasing Competitiveness**

Exposure to global markets forces businesses to improve efficiency and innovation.

**Example: Japanese carmakers dominate the auto industry through quality and advanced production methods.**

**6. Infrastructure Development**

International projects improve roads, ports, and energy systems, boosting trade.

**Example: China’s investment in African railways has enhanced transport networks.**

**7. Job Creation**

More businesses lead to employment, raising living standards.

**Example: Bangladesh’s garment industry, driven by international trade, employs millions.**

**8. Access to Global Markets**

Businesses gain customers worldwide, increasing profitability.

**Example: Brazil’s agribusiness thrives on international demand for soybeans and coffee.**

**Conclusion**

International business is a major driver of economic development, bringing trade opportunities, investments, and technological progress. Countries that embrace global trade can achieve sustainable growth and improved living standards.