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**The Definition of Economics and International Economics**

1. **Economics**

Economics is the study of the production and consumption of goods and the transfer of wealth to produce and obtain those goods. Economics explains how people interact within markets to get what they want or accomplish certain goals. Since economics is a driving force of human interaction, studying it often reveals why people and governments behave in particular ways. There are two main types of economics, which are [microeconomics](http://www.whatiseconomics.org/macroeconomics) and [macroeconomics](http://www.whatiseconomics.org/microeconomics). [Microeconomics](http://www.whatiseconomics.org/microeconomics) focuses on the actions of individuals and industries, like the dynamics between buyers and sellers, borrowers and lenders. On the other hands, [macroeconomics](http://www.whatiseconomics.org/macroeconomics) takes a much broader view by analyzing the economic activity of an entire country or the international marketplace.

A study of economics can describe all aspects of a country’s economy, such as how a country uses its resources, how much time laborers devote to work and leisure, the outcome of investing in industries or financial products, the effect of taxes on a population, and why businesses succeed or fail. [Adam Smith](http://www.whatiseconomics.org/adam-smith), known as the Father of Economics, established the first modern economic theory, called the Classical School, in 1776. Smith believed that people who acted in their own self-interest produced goods and wealth that benefited all of society. He believed that governments should not restrict or interfere in markets because they could regulate themselves and, thereby, produce wealth at maximum efficiency. Classical theory forms the basis of capitalism and is still prominent today.

A second theory known as Marxism states that capitalism will eventually fail because factory owners and CEOs exploit labor to generate wealth for themselves. [Karl Marx](http://www.whatiseconomics.org/karl-marx), the theory’s namesake, believed that such exploitation leads to social unrest and class conflict. To ensure social and economic stability, he theorized, laborers should own and control the means of production. While Marxism has been widely rejected in capitalistic societies, its description of capitalism’s flaws remains relevant.

A more recent economic theory, the Keynesian School, describes how governments can act within capitalistic economies to promote economic stability. It calls for reduced taxes and increased government spending when the economy becomes stagnant and increased taxes and reduced spending when the economy becomes overly active. As one can see, economics shapes the world. Through economics, people and countries become wealthy. Because buying and selling are activities vital to survival and success, studying economics can help one understand human thought and behavior.

1. **International Economics**

International economics is concerned with the effects upon economic activity of international differences in productive resources and consumer preferences and the international institutions that affect them. It seeks to explain the patterns and consequences of transactions and interactions between the inhabitants of different countries, including trade, investment and migration. In many countries, international economics is a matter of life and death.

Specifically, International Economics is the study of how the [production](javascript:pop_dsp('pop_gls.pl?k=production',500,400)) of one nation is purchased by another nation and how the [currency](javascript:pop_dsp('pop_gls.pl?k=currency',500,400)) of one nation is exchanged for the currency of another nation to pay for this production. In one sense, international economics is the application of standard economic principles with one key qualification which is the buyer is in one nation and the sellers are in another.

For the study of International Economics itself is divided between two subfields which are international trade and international finance. International Trade is the study of the flow of goods and services among the nations of the globe. The primary focus is on how and why goods are traded, especially the identification of key principles such as the [law of comparative advantage](javascript:pop_dsp('pop_gls.pl?k=law%20of%20comparative%20advantage',500,400)). On the other hands, International Finance is the study of the payment for the goods and services traded among nations. This subfield is concerned with identifying the principles important to the exchange of the currencies used to pay for the traded goods, with particular focus on the foreign exchange market.

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