Final Assessment

Summer Semester 2023

BBA program

Course title : International Business

Course code : IBS-433

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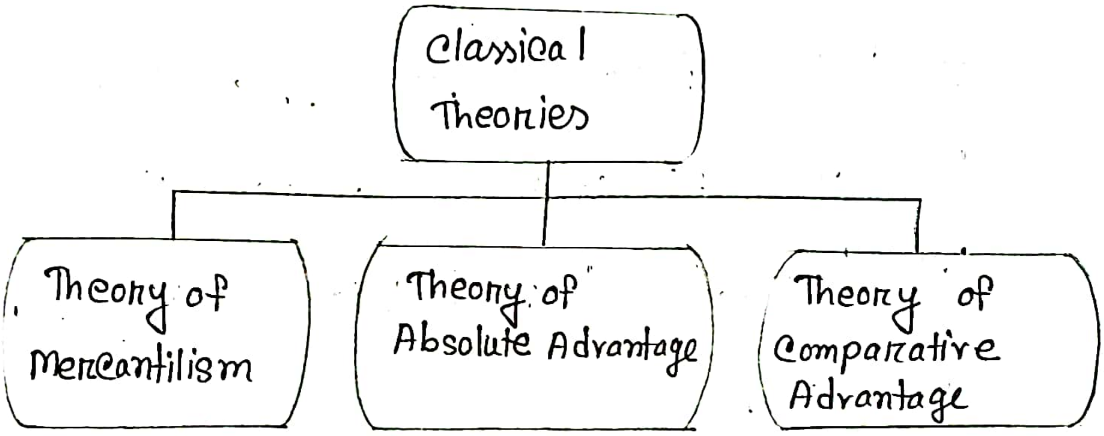
Answer to the question no:(2).

Classical Trade theory: The classical theories are divided into three theories,



1| The theory of absolute advantage: Generally considered the father of economics, Adam smith published The Wealth of Nations in 1776 in London. In this book, Smith attempted to explain the process by which markets and production actually operate in society. Smith's two main areas of contribution, absolute advantage and the division of labor were fundamental to trade theory.

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Production, the creation of a product for exchange, always requires the use of society's primary element of value: human labor. Smith noted that some countries, owing to the skills of their workers or the quality of their natural resources, could produce the same products as others with fewer labor hours. He termed this effciency absolute advantage.

2) Theory of Mercantilism: Mercantilism is the term that was popularized by Adam Smith. Father of Economics, in his book, The Wealth of Nations. Western European economic policies were greatly dominated by this theory. The theory of mercantilism holds that countries should encourage export and discourage import.

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In states that a country's wealth depends on the balance of export minus import. According to this theory, government should play an important role in the economy for encouraging export and discouraging import by using subsidies and taxes, respectively. In those days, gold was used for trading goods between countries.

3/ Theory of Comparative Advantage: Many questions may come in mind after reading the absolute advantage theory that what would happen if a country has absolute advantage in all the products or on absolute advantage in any of the product. The answers of these questions was given by David Ricardo in his theory of comparative

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advantage, which states that trade can be beneficial for two countries if one country has absolute advantage in all the products and the other country has no absolute advantage in any of the products.

Answer to the question no: (3).

Balance of payments (BOP): A statement of all transactions between one country and the rest of the world during a given period; a record of flows of goods, ser-vices, and investments across borders. The measurement of all international economic transactions between the residents of a country and foreign residents is called the balance of payments (BOP).

The balance of payments problems occurs are Explaning below:

The sum of cross-border international economic activity - the balance of payments can be used by international managers to forecast economic conditions and, in some

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cases, the likelihood of economic crises. The mechanics of international economic crises.

The mechanics of international economic crisis often follow a similar path of development

(1) A country that experiences rapidly expanding current account deficits will simultaneously build financial account surpluses.

(2) The capital that flows into a country, giving rise to the financial account sur-plus, acts as the "financing" for the growing merchandise/services deficits – the constituent components of the current account deficit.

(3) Some event, whether it be a report, a speech, an action by a government or business inside or outside the country, raises the question of the country's economic stability. Investors of many kinds, protfolio and direct investors in the country, fearing economic problems in the near future, withdraw capital

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from the country rapidly to avoid any exposure to this risk. This is prudent for the individual, but catastrophic for the whole if all individuals move similarly.

(4) The rapid withdrawal of capital from the country, so-called capital flight, result in the loss of the financial account surplus, creating a serrvere deficit in the country's overall balance deprection (if a floating rate currency) or currency devaluation (if a fixed rate currency).

Answer to the question no (4)

Different accounts of the balance payments:

The balance of payments is composed of two primary sub accounts, the current Account and the Financial / Capital Accounts. In addition, the official Reserves Account tracks government currency transactions, and a fourth statistical sub account, the Net Errors and Omissions Account, is produced to preserve the balance in the BOP.

(a) The Current Account: The current Account includes all international economic transactions with income or payment flows accurring within the year, the current period. The Current Account Consists of four subcategories:

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1) Goods trade: This is the export and import of goods. Merchandise trade is the oldest and most traditional form of international economic activity.

2) Services trade: This is the export of services Some common international services are financial services provided by banks to foreign importers and exporters, travel services of airlines, and construction services of domestic firms in other countries.

3) Income: This category is predominantly current income associated with investments that were made in previous periods.

4) Current transfers: Transfers are the financial settlements associated with the change in ownership of real resources or financial items. Any transfer between countries that is one-way, a gift, or a grant.

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is termed a current transfer.

(b) The Capital and Financial Account:

The Capital and Financial Account of the balance of payments measures all international econmic transactions, of financial assets. It is divided into two major components, the capital Account and the Financial Account.

1) The Capital Account: The capital Account is made up of transfers of financial assets and the acquisition and disposal, ~~of~~ nonproduced / nonfinancial assets.

2) The Financial Account: The financial account consists of three components. direct investment, protfolio investment, and other assest investment.

(C) Official Reserves Account: The official reserves account is the total currency

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and metallic reserves held by official monetary authorities within the country. These reserves are normally composed of the major currencies used in internationa trade and financial transactions.

Answer to the question no:6

Host country political and Legal Environment:

Host country political and Legal Environment are describing below:

Politics and laws of a host country affect international business operations in a variety of ways. The good manager will understand these dimensions of the countries in which the firm operates so that he or she can work within existing parameters and can anticipate and plan for changes that may occur.

1) Political Action and Risk: Firms usually prefer to conduct business in a country with a stable and friendly government, but such governments are not always easy to find. Managers must therefore continually monitor

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the government, its policies, and its stability to determine the potential for political change that could adversely affect corporate operations.

2) **Economic Risk:** Most businesses operating abroad face a number of other risks that are less dangerous, but probably more common, than the drastic ones already described. A host government's political situation or desires may lead it to impose economic regulations or laws to restrict or control the international activities of firms.

3) **Managing the Risk:** Managers face the risk of confiscation, expropriation, domestication or other government interference whenever they conduct business overseas, but ways

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exist to lessen the risk. Obviously, if a new government comes into power and is dedicated to the removal of all foreign influences, there is little a firm can do.

4] Legal Differences and Restraints: Countries differ in their laws as well as in their use of the law. For example, over the past decade, the United States has become an increasingly litigious society in which institutions and individuals are quick to initiate lawsuits.

5] The Influencing of politics and laws: To succeed in a market, the international manager needs much more than business know-how. He or she must also deal with the intricacies of national politics and laws. Although to fully understand another country's system will rarely be possible.

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