(IJTBM) 2017, Vol. No.7, Issue No. I, Jan-Mar **e-ISSN: 2231-6868, p-ISSN: 2454-468X**

PRICE LEADERSHIP, COMPARATIVE COST AND ADVANTAGE IN THE THEORY OF INTERNATIONAL TRADE

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ABSTRACT

The modern theory of International trade asserts specialization a technique whereby an international specialization depends on geographical factors , occupational distribution of labor force , use of resources , means of transportation , degree of self sufficiency .The law explore International trade is a mutual trade. Price leadership may emerge spontaneously due to technical reason as size of efficiency in economies of scale, ability to forecast the market condition or out of tacit or explicit agreement between the firms to assign a leadership role to one of them. An opportunity cost theory , the theory of value , laws of comparative cost and comparative advantage , and production possibility helps to explain transformation of resources .The Standard theory of International Trade in the production of commodity helps to promote the trade which is effective by comparative differences in labor cost but by absolute difference in money cost . The aspect of price leadership is that it often serves as a means to price discipline and price stabilization, effective price leadership when firm's small, restricted entry, similar cost inelastic or low elasticity , homogeneous product, substantial share of the market have greatest share in the market new labor agreement . The Industry /firm takes the initiatives in following the price of price leader in the market, sound pricing decision based on better information and more experienced judgment as grow the industry, due to management and long experience in marketing matters . In different market the price behavior affects the market behavior. Cyclical fluctuation under price leadership, prices is not very high or destructive price war. In this article, the purpose is to evaluate subject matter of the international trade in terms of price leadership and comparative cost and advantage.

Key Words: Effectiveness, Efficiency, Mutual trade, Price discipline , Specialization.

INTRODUCTION

The Standard theory of International Trade in the production of commodity helps to promote the trade .The modern theory of International trade asserts an individual or a nation specializes in product, services or factors resources which depends on the geographical factors , occupational , distribution of labor force, use of resources, means of transportation, degree of self sufficiency ,determinants of international specialization and large scale production . Now the question arises: Why does countries trade with one another whether to save the labor cost, money and resources cost & What are the basis of trade-mutual interdependence of decision making regarding price and moreover , the terms of trade determined by demand of product .

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1. The Mercantile view of trade, Adam Smith –trade based on absolute advantage, D. Ricardo – trade based on comparative advantage which explains, Why countries gain by trading? . During 17th and 18th century advocated on economic philosophy-Mercantilism Country grow rich by acquiring precious metal mostly gold favoring export gold , trade should be controlled and restricted , trade based on absolute advantage .

2. Adam Smith in 1776, in the Wealth of Nations in which Mercantilist view the trade-scope of market greater degree of specialization of labor, territorial division of labor has an absolute advantage.

3. International exchange like barometric exchange both gain if they trade. In 1817, David Ricardo’s/comparative advantage still unchallenged.

4. The law of International trade based on mutually trade. In 1936 , Harber’s opportunity cost theory rather on labor, theory of value , law of comparative cost , law of comparative advantage , amount of a commodity that must be given upon order to release just enough factor of production to be able to produce an additional unit of other commodity. Production Possibility helps to explain transformation of resources.

PRICE LEADERSHIP: AN APPROACH

In different market the price behavior affects the market behavior. Price leadership is a form of imperfect collusion in which the firms tacitly informally decide to set the same price as the price leader for that industry, complete independence in decisions relating to this product and selling activities.

Forms:

- Price leadership by a dominant large firm.(Followed by small firms)
- Price leadership by a low cost firm.(Most efficient firm at its best level of output, other firms donor maximize their profits at this price)
- Barometric price leadership (all firms formally or informally agree to follow the price changes by a firm which has good knowledge of the market conditions and forecast future development in market.

The firm takes the initiatives in following the price of price leader in the market, Industry demand and supply condition as such best equipped to determine price policy of the entire industry sound pricing decision based on better information and more experienced judgment arise as a natural growth within in industry due to management and long experience in marketing matters initiative, aggressive pricing advantages sufficient insight into the principles of costing , efficient costing as safe practice of pricing in direction of stability during period of price leader power to stop a rapid reduction in prices . Cyclical fluctuation under price leadership, prices is not very high, destruct the price war.

Price leadership may emerge spontaneously due to technical reason as size, efficiency, economies of scale, ability to forecast market condition or out of tacit or explicit agreement between the firms to assign a leadership role to one of them. The aspect of price leadership is that it often serves as a means to price discipline and price stabilization, effective price leadership when firm small, restricted entry, similar cost curves, inelastic or low elasticity, homogeneous product, substantial share of the market, have greatest share in the market, new labor agreement. Does there exist a single cause of trade?

MARKET STRUCTURE AND PRICE BEHAVIOR

In the international market , production of brands on the basis of specialization are effecting the comparative cost and advantage of it .The different market structure and the price behavior by the nature of product and its utility enlarge the horizon analyzing the best decision for market price in international market.

1. Foreign brands have entered the prime segment of the market in the big ways, Brand led price behavior; obviously command the high prices and other brands hoping to compete in this segment. Domestic brand compete with taking in consideration of comparative cost. Optimizing behavior maximizes the utility and simplified the decision rules for making the choices. The rationality and rule of thumb or the bounded rationality strive to make pretty good decision hunting for absolutely best decision for price setting through adopting strategy to enlarge the market's horizon.

2. The perfect completion (homogeneous product) where no firm is large enough to affect the market price.

3. The bottom line of imperfect competition is too simple to be useful. Behavior of imperfect competitors. In different market shows the degree of market power in an imperfectly competitive.

4. Monopoly comes when a single firm produces the entire output of an industry. The quiet life of a monopolist as best of all monopoly profit. Monopolistic competition when large number of firms produces slightly differentiated products depends upon interdependence of decision making.

5. Oligopoly is an intermediate form of imperfect competition in which an industry is dominated by a few firms with price leadership and thinking about price setting.

PERCEPTION AND PRICE BEHAVIOR

Discretionary power used for price determination through selecting, organizing, interpret the environmental conditions of demand in the domestic and imperfect market .Through intellectual process attitude towards value of the product and price , people's opinion about price, emotions of culture for the product, value of product for use and exchange, beliefs in stability of price, feelings for utilization of product.

PRICE DECISIONS AND PRACTICES

1. Cost plus pricing method (mark-up pricing, average cost pricing, full cost pricing-to add a fair percentage of profit margins)

2. Multiple products pricing (product line pricing)

3. Pricing in life cycle of a product (marketing condition-as a price of new product.)

4. Pricing in relation to establish products (pricing below, at, above market price)

5. Transfer Pricing (Product division and its subsidiaries)

6. Competitive bidding of price (contract pricing)

7. Peak load pricing (for non storable goods)

INTERNATIONAL TRADE AND LAWS OF COMPARATIVE COST AND COMPARATIVE ADVANTAGE

International Trade

International trade is trade between different countries or across political frontiers. It is the result of geographical specialization as different countries have different kind of resources and skill. The pattern of international trade of a country changes along with its economic growth and development. International trade is between free traders and protectionists. The gain from trade are real and they can be large, free international trade raises real incomes and improves the standard of living, free trade or protection--the theory of comparative advantage is the case for free trade, trade barriers prevent a nation from reaping the benefits of specialization, push it to adopt relatively insufficient production techniques, and force consumers to pay higher prices for protected products than they would otherwise. Protectionism free trade promoters a mutually beneficial division of labor among nations, the free and open trade, simply promoters specializations and specialization increases productivity, opening up their economies to the global trading system is the most secured road to prosperity.

As the initiatives for global trade, market diversification , technological up gradation , support for status holders, agriculture, handloom, handicraft , gems and jeweler, leather, marine , electronics and IT Hardware, manufacturing, green products, export from North East , sports goods and toys sectors. Moreover services encompasses telecommunications, transportation, tourism, banking, insurance, construction, computer related services and professional services. Trade among countries is desirable. Completely free trade equalize prices of tradable goods at home with those in world market under trade goods flow uphill from low price to higher price market, a tariff raises the domestic prices of imported goods leading to a decline in consumption and imports along with an increase in domestic production quotas have very similar effects and may in addition lower government revenues. A tariff causes economic wastes; the economy suffers losses from decreases domestic consumption and from the wasting of resources on good lacking comparative advantage

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the loss generally exceeds Government revenues from the tariff. Trade encouraged with the emergence of China, Zimbabwe and, Pakistan as new customers .Opulence of Gulf countries, Greater scope for exports of turn –key and construction projects and consultancy services in Asia and African countries or Multilateral trade negotiations.

THEORY OF COMPARATIVE COST

The labor cost depends upon marginal productivity and money cost on real cost. The theory of comparative cost is that the trade between nations takes place on the basis of differences in costs. Effectiveness by comparative differences in labor cost but by absolute difference in money cost

Features

1. Low cost -price leader ship in cartels-dominant firm's price followers.

2. Price leadership by a low cost firm has fear of antimonopoly law.

3. Price leadership by a dominant firm is more common and play leading role than by a low cost firm

4. Barometric reflecting market forces or the changes in market, exists without explicit agreements and in fact arises due to following circumstances low cost and enough financial resources, a firm initiates well publicized changes in price which are generally followed by the rival firms and reflects the changes in business condition and environment of the industry.

COST DIFFERENCES ARE THREE TYPES

1. Equal cost (if equal cost no trade)

2. Absolute cost (differences are not necessary for trade

3. Comparative cost (differences are sufficient for trade to take place)

LAW OF COMPARATIVE ADVANTAGE

Even in the Nation has an absolute disadvantage or less efficient than another nation in the production of both the commodities there is still a basis for mutually beneficial trade if the less efficient nation specializes in the production of and exports the commodity in which its absolute disadvantage is lesser. Comparative advantage and protectionism to the chamber of disputes we are subject to the intolerable, competition of a foreign rival who enjoys such superior facility for the production.

CONCLUSION

International trade is basically determined o the basis of expectation of gain to both sellers and buyers, goods are traded on the criterion that foreigner are willingly to supply them at a lower cost than domestic producers. The labor skill and availability of resources, the comparative advantage is the ability to produce a good at a lower opportunity cost than others can produce it. There is possibility of some variation in the relative opportunity cost of goods across countries. The principle of specialization and comparative advantage is used by trading partners to make proper use of their time and resources. Tariff and trade barriers, Exchange rate in international trade will create more awareness of technologies and innovative ideas used at other places. Dynamic competition is an important source of growth and prosperity. In the international market , production of brands on the basis of specialization are effecting the comparative cost and advantage .The different market structure and the price behavior by the nature of product and its utility analyzing the best decision for market price in international market.

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