

Date:

Name:

Lecture 2: Introduction to International Economics (International Trade)

2.1. Scenario

Consider this situation. There are only 2 countries in the world- USA and UK. Both USA and UK produce 2 types of goods- Mobile phones and MP3 Players. The production from the two countries and represented in table 1.

Table 1

	Mobile Phones	MP3 Players
USA	200	100
UK	100	200
Total Output	300	300

- (a) Should there be trade between USA and UK?
- (b) Under what conditions?

2.2. International Trade: A brief history

International Trade was a chief concern for the founders of modern economic thought. The great 19th Century British Philosopher, David Hume, developed an argument to limit trade. But it was Adam Smith (5 June 1723 – 17 July 1790), a Scottish professor of Moral Philosophy.

ICT: What was Smith's contribution to modern day International Trade? What assumptions did he make about human nature to justify his theory?

