Globalization and Business

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Instructions: Attempt all questions in Microsoft Office document. Format your document with 12 size Font and Times New Roman. Make sure you do not copy material directly from the internet or other materials. This is an open source assignment and you can take help from any material available to you. However, it is important to apply your own knowledge and understanding of the concepts. Copied answers will not be marked. Assignments will be checked for plagiarism as well. Only original content will be marked.

Q1: How do governments regulate international trade from and through their countries? What kind of international trade in taking place in Pakistan? Briefly explain.

Ans. Neighboring countries engage in considerable trade with each other using land transportation. Pakistan shares a common border with two large emerging economies, China and India. However, the land route accounts for only a small fraction of the total trade between China and Pakistan. This is because, until recently, there were no feasible low cost land routes for transportation of goods between the two countries. There are well developed land routes between Pakistan and India, but high tariff and nontariff barriers arising from strained relations have significantly impeded Pakistan-India trade. Trade with other neighboring countries, Afghanistan and Iran, has also been hampered by conflict in Afghanistan and strife in tribal areas and Baluchistan. Historically important east-west trade routes connecting India with central Asia and China passed though Pakistan. These routes are no longer used and Pakistan has relied largely on international trade by sea through the port of Karachi. Expansion of east-west trade presents a great opportunity for Pakistan to increase its economic growth (Nabi, 2013). There has been much interest in exploring the effect of trade liberalization with India (Pakistan Business Council report, 2013). The recent China-Pakistan Economic Corridor (CPEC) project has also stimulated interest in the potential for the expansion of overland trade with China. Our research project examines the effect of barriers to Pakistan’s east-west trade, especially trade with China and India, and explores the potential for trade expansion from reduction in these barriers. To identify the trade effect of east-west barriers, we use a large data set to estimate a model that explains bilateral trade flows for most trading pairs in the world. If there are special barriers to Pakistan’s trade with a country, which are not accounted for in the model - - for example, land transportation barriers to trade with China and policy-induced trade restrictions on trade with India - - then Pakistan’s actual trade with the country should be less 5 than the trade predicted by the model. An important finding of our study is that Pakistan’s imports from and exports to both China and India are significantly less than the values predicted by the model. This finding suggests a potential for substantial expansion of trade with the two economies. Although the effects of trade liberalization on trade between Pakistan and India have been examined in a number of studies, the implications of lower land transportation costs on Pakistan-China trade have not been explored. We use an up-to-date version of the Gravity model which has had considerable empirical success in explaining bilateral trade flows and has strong theoretical foundations (Anderson and van Wincoop, 2003; Helpman et al., 2008). The traditional version of the Gravity model explains bilateral flows using only three variables: GDP of importing country, GDP of exporting country, and bilateral transportation costs proxied by the distance between the trading pair. All three variables are found to be significant determinants of bilateral trade flows. The significance of the distance index underscores the importance of transportation costs in determining the volume of trade between country pairs. It is recognized that distance may not be an adequate measure of transportation costs, and bilateral trade costs also depend on tariff and nontariff barriers. Additional variables are thus added to proxy omitted sources of trade costs. Although the traditional Gravity model was not motivated by international trade theory, recent developments have shown that widely-used new-style international trade models imply a regression equation that has a similar form as the traditional gravity equation (Anderson and van Wincoop, 2003; Helpman et al., 2008). Key features of the new trade models are that countries trade differentiated goods produced under monopolistic competition and firms incur additional variable and possibly fixed trade costs to sell in the foreign markets. These features provide an explanation of intraindustry trade and account for the fact that only some of the firms in an 6 industry engage in exports. The new trade models can be used to derive a general form of the Gravity model, in which bilateral trade flows depend on three multiplicative components: (1) a component that includes factors specific to the exporting country, (2) a component that includes factors specific to the importing country, and (3) a component that includes trade cost indexes specific to the trading pair. To estimate the Gravity model, we assembled a panel data set that includes bilateral trade flows of 183 reporting countries from 2004 to 2013. For each year and reporting country, the bilateral data set includes data on the US dollar value of all exports to and all imports from each partner. A striking feature of the data is that no trade is reported for a large number of country pairs. An explanation of this fact provided by the new trade models is that profits expected from sales to destinations with small markets may not be enough to justify costs of setting up export operations to these destinations. We estimate the general form of the Gravity model. A simple way to estimate it is to express it in its log-linear form. In this form, the components including factors specific to exporting and importing countries are captured by time-variant dummy variables for exporting and importing countries. For the component representing bilateral trade costs, we use the standard indexes represented by the log of distance (between major cities of the pair) and by dummy variables for common border (which would facilitate trade by land), common official language and shared colonial history (which would reduce informational barriers) and membership in RTA’s (which would lower both tariff and non-tariff barriers). We add bilateral dummy variables for Pakistan’s trade with each neighbors (equal to 1 for observations representing trade flows between Pakistan and a particular nighbor and equal to 0 for all other observations) to measure the effects of barriers to Pakistan’s east-west traded, which are not accounted for by the standard indexes of trade costs. A negative coefficient of such a 7 dummy variable would indicate a negative difference between the actual bilateral trade and the value predicted by the standard model (averaged over 2004-2013). One problem with the log-linear form is that the dependent variable canot be expressed in logs if there is zero trade. One simple solution to this problem drops zero trade observations and fits the model to observations with non-zero trade using OLS regressions. This procedure, however, inroduces an unknown selection bias. We consider two alternative estimation procedures. One procedure is suggested by Eaton and Kortum (2001) based on the Tobit model. This procedure assumes that zero trade is observed if potential trade falls below a critical level, and uses (left censored) interval regression to estimate the model. Although this approach can be motivated by models with fixed exporting costs, it has an element of arbitrariness in its treatment of zero trade. Another procedure is proposed by Santos Silva and Tenreyro (2006) and uses the Poisson Pseudo Maximum Likelihood (PPML) estimator. This procedure avoids the bias in logarithmic estimation due to heteroskedasticity of the error (in logs). As PPML procedure does not require logarithmic transformation of the dependent variable, it can accommodate zero trade flows. However, the procedure is not motivated by theory explaining zero trade and a number of observations may need to be dropped to achieve convergence to parameter solution. We use all three procedures discussed above to estimate the Gravity model with either bilateral imports or exports as the dependent variable. In our results, estimates of the coefficients of Pak-China and Pak-India dummy variables are of special interest. These estimates for both the import and export regressions are sensitive to the estimation procedure. The effect of the two dummy variables is the strongest in the EK Tobit regression and the weakest in the PPML regression. In all cases, however, the coefficients of both dummy variables are significantly negative. These results also suggest that the cost of 8 special barriers to trade with China and India are substantial. For example, our mid-level OLS estimates from the import regressions suggest that based on a typical value of trade elasticity, the Pak-China barriers are equivalent to a tariff rate of 37% and Pak-India barriers to a tariff rate of 100%. We also explore the potential for trade expansion available from lowering of these barriers. We construct counterfactuals which examine the effects of lowering Pak-India and PakChina trade barriers. We use a general equilibrium methodology that examines not only the direct effect of reducing trade costs on the bilateral component (captured by the bilateral dummy variable), but also indirect effects operating through country specific components. Pak-India barriers to trade are based on policy restrictions and they can be potentially reduced by any amount or even eliminated completely. Reduction in Pak-China barriers, on the other hand, depends on the effect of CPEC on transportation cost by land. CPEC would be more effective if it is well connected to large markets and production centers in different provinces in Pakistan and there are economical transportation links between Xinjiang region (which CPEC connects to) and the industrialized Eastern region in China. For illustrative purposes, we consider two scenarios: (1) a modest 10% decrease, and (2) a more substantial 25% decrease in both Pak-China and Pak-India barriers. For each scenario, our counterfactuals predict a range of growth rates in Pakistan’s trade with China and India, depending upon the estimates of the effect of bilateral barriers (which vary across different estimation procedures). However, even at the lower end of the range, there is significant potential for expansion not only of Pakistan’s trade with India, but also of trade with China

Q2: Why do organizations decide to go global? What factors can influence their decision to expand aking your brand overseas can be appealing, and many entrepreneurs would jump at the chance. However, the international expansion journey can be treacherous.

Between establishing a fresh customer base, learning new laws and regulations, finding trustworthy partners, and becoming familiar with the local customs, the road to becoming a global company is difficult to navigate.

While not every business is fit for such a challenge, some are. Before you decide to make the leap overseas, you need to consider these factors.

**Are you ready for international expansion?**

One of the first questions you must answer is whether your business is actually suited to succeed in international markets. Just because you think your product or service will thrive in a new country doesn't mean it actually will.

Diego Caicedo, co-founder and CEO of [OmniBnk](https://omnibnk.com/%22%20%5Ct%20%22_blank), which operates in multiple Latin American countries, said scaling across borders is complicated and expensive regardless of a company's size, and the process can take time and resources away from other opportunities.

"Companies should evaluate whether or not expansion is indeed beneficial, or if it will only take away from their core business," Caicedo said. "It may be better to serve one country well than several countries poorly."

Zoe Morris, president of the [Frank Recruitment Group](https://www.frankgroup.com/), would encourage entrepreneurs to evaluate whether their business is truly ready to grow before developing an international strategy. She said to plan ahead, monitor your market share, and try to figure out if it will support a move into new foreign markets and create more long-term business opportunities.

"Take a look at finances and honestly ask yourself if you have the funds to support the initial investment and sustain the growth you're forecasting," Morris said. "If the answer to both is yes, then it may be the right time to grow. Remember, success won't be immediate, so you'll need to factor that into your plans."

One of the biggest considerations has to be whether your business can actually build a strong customer base internationally. A product that sells well in your home country may not have the same appeal in international target markets.

"First, make sure your customers exist," said Joseph Paris Jr., chairman of business consulting firm [Xonitek](http://www.xonitek.com/%22%20%5Ct%20%22_blank) and founder of the Operational Excellence Society. "Is there a need for your offering? Are they inclined to purchase? Don't think that they might – know that they will."

Jethro Lloyd, CEO of [iLAB](https://www.ilabquality.com/%22%20%5Ct%20%22_blank) – a software quality assurance company with offices in Indianapolis, London, Johannesburg, Cape Town, Rio de Janeiro and Sydney – says another initial step is to conduct some significant research into the country you want to expand to.

"Don't discount the importance of education on both sides, in both your new market and your homeland," Lloyd said. "You must understand the direction your new city is going in and leverage that momentum to support your expansion, whether it's logistics, banking or a talent base."

**What are the challenges of international business?**

No major business decision is without its hurdles, but global expansion comes with its own unique set of obstacles. Here are some challenges you should prepare for before expanding internationally.

**Language and cultural differences**

Taki Skouras, co-founder and CEO of international wireless accessories retailer [Cellairis](http://www.cellairis.com/%22%20%5Ct%20%22_blank), suggests hiring bilingual staff members who can translate for your company.

"If you don't have the budget for full-time translators, outsource tasks like overseas customer service," he said.

Josh Robinson, vice president of franchising and development for [Pearle Vision](https://www.pearlevision.com/) – an optical franchise that has 500 locations throughout North America, including about 60 in Canada – said it is important to understand that there may be cultural and language differences within a country.

"Just as you expect differences in residents of California, the Midwest and New York, you need to understand the nuances between Vancouver and Calgary [for example]," Robinson said. "You probably expect differences in laws and languages, so you would hire a lawyer and translator from the country you are moving into. But you also might need a local person's perspective to understand how the culture and even taste could affect the market for some consumer goods and services outside the U.S."

**International compliance and regulatory issues**

Learning the different tax codes, business regulations and packaging standards in different countries can be challenging. Trevor Cox, chief financial officer for [DataCloud International Inc.](https://www.datacloud.com/%22%20%5Ct%20%22_blank) – which has offices in the U.S., Canada and Australia – said compliance was the biggest challenge DataCloud faced when expanding overseas.

"In Australia, compliance was a major headache," he said. "It took months to complete the necessary paperwork for compliance and setting up a corporation."

Foreign banks may also be hesitant to deal with the administrative burden of a U.S.-based account, so you may have to set up a separate foreign business entity and bank account to make handling transactions worthwhile for the banks.

"It took just as long to set up a local bank account, with many banks declining to work with us because we were too small," Cox said. "We had to switch to an international bank, which had offices in Australia."

**Packaging**

Stanley Chao, president of [All In Consulting](https://www.allinconsult.com/) and author of *Selling to China: A Guide for Small and Medium-Sized Businesses*, said products have to be localized. This means different packaging, foreign language instructions, different voltages, etc.

"The issue here is that you need a local person familiar with your product to suggest these changes," Chao said. "Don't think you can just resell your U.S.-targeted product in a foreign country."

Paris said packaging standards are different from country to country. In the U.S., companies only need to include directions in English and maybe Spanish. "But in Europe, your instructions, even for the simplest product, will be in multiple languages, sometimes up to 24 languages. If your product is sold more regionally, you will have to consider the increase in packaging cost associated with labeling."

**Slower pace**

In America, the business world moves quickly. That is not necessarily the case in other countries.

"Overseas, doing business is as much a personal event as it is professional," said Bill Bardosh, CEO of green materials and chemicals company [TerraVerdae BioWorks](http://www.terraverdae.com/%22%20%5Ct%20%22_blank). "Things will always take longer to be resolved overseas, but that isn't necessarily a sign of a lack of momentum. You have to be patient and prepared for multiple interactions to build trust."

**Local competition**

It's not easy to persuade a foreign customer to trust your brand when a similar product is made in their home country. While some big-name U.S. chains have clout overseas, small and midsize companies need to work harder to convince the international market that their brands are trustworthy and better than the competition.

"Why would [customers] buy from you over the local champion?" Paris said. "Can you penetrate the market? If you do, can you be profitable under the circumstances?”

**International expansion advice and best practices**

If you feel you're ready to tackle the challenges of international business, follow this advice from business leaders who have been in your shoes.

**1. Find the right partners and team.**

If you plan on expanding globally, you'll want a great team or partner. Even if your "partner" takes the form of a mentor, you'll want someone you trust and who can vouch for you.

Caicedo said it's crucial to establish a local office and team that understand the market and language to comply with local regulations.

"Having a local country manager can go a long way in not only ensuring that the company is compliant in each new market, but that it is handling its expenses efficiently as well," he said. "Working with a local partner can also help communicate your company's unique selling point in a way that is meaningful to the local market."

The people you hire to deal with your overseas business partners and customers must be immersed in the local environment, but they should also be looking out for your interests.

"The foreign companies that you may deal with probably have more experience doing business in the U.S. than you have in their country," Bardosh said. "Without a core team on your side with the necessary cultural, language and local business contacts, you'll be competitively disadvantaged."

Biolife LLC, developer of bio urn and planting system [The Living Urn](https://www.thelivingurn.com/), launched in the U.S. in 2014 and has since expanded to 17 countries worldwide. Biolife President Mark Brewer said those expanding internationally shouldn't rush the process of finding trusted and reliable strategic alliances.

"While the potential partner may seem like a great choice today, a better option may be available tomorrow," he said.

When you're looking specifically for a distributor, Brewer said, don't assume the largest one is automatically the best.

"Some of our best and most successful distributors are entrepreneurs like us who are focused on the product and driven to make it successful in their market," he said. "Larger distributors, having many products, may not devote the same amount of time and attention to our product in the market."

**2. Have the right infrastructure.**

Morris said it is vital to make sure that when you do expand, you have the right infrastructure in place to ensure a smooth launch.

These are some questions she said you should have answered beforehand:

* Do you have a management team that can deliver your strategy from a satellite office?
* Have you decided which business decisions can be made on a local level and which need to be made centrally?
* Do you have the capabilities to set up IT and telephone systems?
* How will employees share data securely, and does the data you're capturing follow the law and best practices?

**3. Consider the impact of any new ideas.**

Instead of only thinking about how your own country's customers might receive your new ideas, you'll need to think about how foreign customers will receive your ideas.

"As you spitball new ideas, someone definitely needs to think about scalability to your international territories – usually you," said Mike Zani, CEO of business consulting firm [The Predictive Index](https://www.predictiveindex.com/). "Time zones, language and cultural appropriateness all need to be considered when you branch out internationally. If you don't do this ahead of time, you run the risk of offending your international partners by appearing to be more concerned about yourself [than] them."

**4. Always do your due diligence.**

Before making major business decisions, you should think through all possible scenarios – especially during global expansion. Chao advises those expanding their business internationally to spend time in the country they want to break into. An information-gathering trip can be a focal point to develop a plan for moving forward.

"Visit potential customers, distributors, OEM partners, and even competitors who are making either complementary or competing products," Chao said. "After a visit, you'll find out all the hard facts on whether your product can sell, who the competitors are, what price to sell at, and how to sell (directly, distributor, etc.)."

**5. Rely on experts.**

It is important for businesses looking for international growth to understand that they will need help. Chao said this can be particularly tough for smaller businesses, because they have likely been doing everything on their own up to this point.

"Realize you can't do everything, and rely on some experts to at least guide you through the beginning phases," he said. "You don't have to reinvent the wheel. Rely on experts."

**6. Be willing to change direction.**

Once you do expand, be prepared for some bumps in the road. That may mean changing how you operate in some ways. Adrian Fisher, founder and CEO of [PropertySimple](https://pro.propertysimple.com/%22%20%5Ct%20%22_blank) – a real estate technology company with locations in the U.S., Argentina and Chile – said you can't be afraid to pivot.

"With each new country comes new challenges, and businesses must adapt their product," Fisher said. "It's OK if the product shifts; it's more important to meet consumer demand."

**7. Alter your customer support.**

Once you launch overseas, you will have a whole new customer base to support. Roger Sholanki, CEO and founder of [Book4Time](https://book4time.com/), a provider of next-generation wellness management software that operates in 70 countries, said your current system of customer support will need significant changes when you expand internationally.

"The immediate challenge is servicing customers in different time zones, which could mean a 12-hour time difference," he said. "Your customers will want immediate support and access."

Q3: Explain how different kinds of political economies affect businesses. Use examples from past and present world political systems and economies.

Ans: **Political economy** is the study of [production](https://en.wikipedia.org/wiki/Production_%28economics%29) and [trade](https://en.wikipedia.org/wiki/Trade) and their relations with [law](https://en.wikipedia.org/wiki/Law), [custom](https://en.wikipedia.org/wiki/Custom_%28law%29) and [government](https://en.wikipedia.org/wiki/Government); and with the [distribution](https://en.wikipedia.org/wiki/Distribution_%28economics%29) of [national income](https://en.wikipedia.org/wiki/National_income) and [wealth](https://en.wikipedia.org/wiki/Economic_wealth). As a discipline, political economy originated in [moral philosophy](https://en.wikipedia.org/wiki/Ethics), in the 18th century, to explore the administration of states' wealth, with "political" signifying the Greek word [*polity*](https://en.wikipedia.org/wiki/Polity) and "economy" signifying the Greek word "[okonomie](https://en.wiktionary.org/wiki/%C3%96konomie)" (household management). The earliest works of political economy are usually attributed to the British scholars [Adam Smith](https://en.wikipedia.org/wiki/Adam_Smith), [Thomas Malthus](https://en.wikipedia.org/wiki/Thomas_Malthus), and [David Ricardo](https://en.wikipedia.org/wiki/David_Ricardo), although they were preceded by the work of the French [physiocrats](https://en.wikipedia.org/wiki/Physiocrats), such as [François Quesnay](https://en.wikipedia.org/wiki/Fran%C3%A7ois_Quesnay) (1694–1774) and [Anne-Robert-Jacques Turgot](https://en.wikipedia.org/wiki/Anne-Robert-Jacques_Turgot) (1727–1781).

In the late 19th century, the term "[economics](https://en.wikipedia.org/wiki/Economics)" gradually began to replace the term "political economy" with the rise of mathematical modelling coinciding with the publication of an influential textbook by [Alfred Marshall](https://en.wikipedia.org/wiki/Alfred_Marshall) in 1890. Earlier, [William Stanley Jevons](https://en.wikipedia.org/wiki/William_Stanley_Jevons), a proponent of mathematical methods applied to the subject, advocated economics for brevity and with the hope of the term becoming "the recognised name of a science".[[3]](https://en.wikipedia.org/wiki/Political_economy#cite_note-3)[[4]](https://en.wikipedia.org/wiki/Political_economy#cite_note-Groenwegen-4) Citation measurement metrics from [Google Ngram Viewer](https://en.wikipedia.org/wiki/Google_Ngram_Viewer) indicate that use of the term "economics" began to overshadow "political economy" around roughly 1910, becoming the preferred term for the discipline by 1920.[[5]](https://en.wikipedia.org/wiki/Political_economy#cite_note-5) Today, the term "economics" usually refers to the narrow study of the economy absent other political and social considerations while the term "political economy" represents a distinct and competing approach.

Political economy, where it is not used as a synonym for economics, may refer to very different things. From an academic standpoint, the term may reference [Marxian economics](https://en.wikipedia.org/wiki/Marxian_economics), applied [public choice](https://en.wikipedia.org/wiki/Public_choice) approaches emanating from the [Chicago school](https://en.wikipedia.org/wiki/Chicago_school_of_economics) and the [Virginia school](https://en.wikipedia.org/wiki/Virginia_school_of_political_economy). In common parlance, "political economy" may simply refer to the advice given by economists to the government or public on general [economic policy](https://en.wikipedia.org/wiki/Economic_policy) or on specific economic proposals developed by political scientists. A rapidly growing mainstream literature from the 1970s has expanded beyond the model of economic policy in which planners maximize utility of a representative individual toward examining how political forces affect the choice of [economic policies](https://en.wikipedia.org/wiki/Economic_policy), especially as to [distributional](https://en.wikipedia.org/wiki/Distribution_%28economics%29) conflicts and political institutions. It is available as a stand-alone area of study in certain colleges and universities.

Originally, political economy meant the study of the conditions under which production or consumption within limited parameters was organized in nation-states. In that way, political economy expanded the emphasis of economics, which comes from the Greek *oikos* (meaning "home") and *nomos* (meaning "law" or "order"). Political economy was thus meant to express the laws of production of wealth at the state level, just as economics was the ordering of the home. The phrase *économie politique* (translated in English as "political economy") first appeared in France in 1615 with the well-known book by [Antoine de Montchrétien](https://en.wikipedia.org/wiki/Antoine_de_Montchr%C3%A9tien), *Traité de l’economie politique*. Other contemporary scholars derive the roots of this study to the 13th Century [Tunisian Arab](https://en.wikipedia.org/wiki/Tunisian_Arabic) [Historian](https://en.wikipedia.org/wiki/Historian) and [Sociologist](https://en.wikipedia.org/wiki/Sociology), [Ibn Khaldun](https://en.wikipedia.org/wiki/Ibn_Khaldun), for his work on making the distinction between "profit" and "sustenance", in modern political economy terms, surplus and that required for the reproduction of classes respectively. He also calls for the creation of a science to explain society and goes on to outline these ideas in his major work, the *[Muqaddimah](https://en.wikipedia.org/wiki/Muqaddimah%22%20%5Co%20%22Muqaddimah)*. In Al-Muqaddimah Khaldun states, “Civilization and its well-being, as well as business prosperity, depend on productivity and people’s efforts in all directions in their own interest and profit” – seen as a modern precursor to [Classical Economic thought.](https://en.wikipedia.org/wiki/Classical_economics)

Leading on from this, the French [physiocrats](https://en.wikipedia.org/wiki/Physiocrats) were the first major exponents of political economy, although the intellectual responses of [Adam Smith](https://en.wikipedia.org/wiki/Adam_Smith), [John Stuart Mill](https://en.wikipedia.org/wiki/John_Stuart_Mill), [David Ricardo](https://en.wikipedia.org/wiki/David_Ricardo), [Henry George](https://en.wikipedia.org/wiki/Henry_George) and [Karl Marx](https://en.wikipedia.org/wiki/Karl_Marx) to the physiocrats generally receives much greater attention. The world's first professorship in political economy was established in 1754 at the [University of Naples Federico II](https://en.wikipedia.org/wiki/University_of_Naples_Federico_II) in [southern Italy](https://en.wikipedia.org/wiki/Kingdom_of_Naples). The Neapolitan philosopher [Antonio Genovesi](https://en.wikipedia.org/wiki/Antonio_Genovesi) was the first tenured professor. In 1763, [Joseph von Sonnenfels](https://en.wikipedia.org/wiki/Joseph_von_Sonnenfels) was appointed a Political Economy chair at the [University of Vienna](https://en.wikipedia.org/wiki/University_of_Vienna), Austria. [Thomas Malthus](https://en.wikipedia.org/wiki/Thomas_Malthus), in 1805, became England's first professor of political economy, at the [East India Company College](https://en.wikipedia.org/wiki/East_India_Company_College), Haileybury, [Hertfordshire](https://en.wikipedia.org/wiki/Hertfordshire). In its contemporary meaning, political economy refers to different yet related approaches to studying economic and related behaviours, ranging from the combination of economics with other fields to the use of different, fundamental assumptions that challenge earlier economic assumptions:

Current approaches

Political economy most commonly refers to [interdisciplinary studies](https://en.wikipedia.org/wiki/Interdisciplinary_Studies) drawing upon [economics](https://en.wikipedia.org/wiki/Economics), [sociology](https://en.wikipedia.org/wiki/Sociology) and [political science](https://en.wikipedia.org/wiki/Political_science) in explaining how political institutions, the political environment, and the [economic system](https://en.wikipedia.org/wiki/Economic_system)—[capitalist](https://en.wikipedia.org/wiki/Capitalism), [socialist](https://en.wikipedia.org/wiki/Socialist), [communist](https://en.wikipedia.org/wiki/Communist), or [mixed](https://en.wikipedia.org/wiki/Mixed_economy)—influence each other. The [*Journal of Economic Literature* classification codes](https://en.wikipedia.org/wiki/JEL_classification_codes) associate political economy with three sub-areas: (1) the role of government and/or class and power relationships in [resource allocation](https://en.wikipedia.org/wiki/Resource_allocation) for each type of [economic system](https://en.wikipedia.org/wiki/Economic_system); (2) [international political economy](https://en.wikipedia.org/wiki/International_political_economy), which studies the economic impacts of [international relations](https://en.wikipedia.org/wiki/International_relations); and (3) economic models of political or exploitative class processes. Much of the political economy approach is derived from [public choice theory](https://en.wikipedia.org/wiki/Public_choice_theory) on the one hand and [radical political economics](https://en.wikipedia.org/wiki/Review_of_Radical_Political_Economics) on the other hand, both dating from the 1960s.

Public choice theory is a [microfoundations](https://en.wikipedia.org/wiki/Microfoundations%22%20%5Co%20%22Microfoundations) theory that is closely intertwined with political economy. Both approaches model voters, politicians and bureaucrats as behaving in mainly self-interested ways, in contrast to a view, ascribed to earlier mainstream economists, of government officials trying to maximize individual [utilities](https://en.wikipedia.org/wiki/Utility) from some kind of [social welfare function](https://en.wikipedia.org/wiki/Social_welfare_function). As such, economists and political scientists often associate political economy with approaches using [rational-choice](https://en.wikipedia.org/wiki/Rational_choice_theory) assumptions, especially in [game theory](https://en.wikipedia.org/wiki/Game_theory) and in examining phenomena beyond economics' standard remit, such as [government failure](https://en.wikipedia.org/wiki/Government_failure) and complex decision making in which context the term "positive political economy" is common. Other "traditional" topics include analysis of such public policy issues as [economic regulation](https://en.wikipedia.org/wiki/Economic_regulation), [monopoly](https://en.wikipedia.org/wiki/Monopoly), [rent-seeking](https://en.wikipedia.org/wiki/Rent-seeking), [market protection](https://en.wikipedia.org/wiki/Protectionism), institutional [corruption](https://en.wikipedia.org/wiki/Economics_of_corruption) and [distributional](https://en.wikipedia.org/wiki/Distribution_%28economics%29) politics. Empirical analysis includes the influence of elections on the choice of economic policy, determinants and [forecasting](https://en.wikipedia.org/wiki/Economic_forecasting) models of electoral outcomes, the [political business cycles](https://en.wikipedia.org/wiki/Business_cycle#Politically_based_business_cycle), [central-bank independence](https://en.wikipedia.org/wiki/Central_bank#Independence) and the politics of excessive deficits.

A more recent focus has been on [modeling](https://en.wikipedia.org/wiki/Conceptual_model) [economic policy](https://en.wikipedia.org/wiki/Economic_policy) and political institutions as to interactions between [agents](https://en.wikipedia.org/wiki/Agent_%28economics%29) and [economic](https://en.wikipedia.org/wiki/Economic_institution) and [political institutions](https://en.wikipedia.org/wiki/Political_institution), including the seeming discrepancy of economic policy and economist's recommendations through the lens of [transaction costs](https://en.wikipedia.org/wiki/Transaction_cost). From the mid-1990s, the field has expanded, in part aided by new cross-national data sets that allow tests of hypotheses on [comparative economic systems](https://en.wikipedia.org/wiki/Comparative_economic_systems) and institutions. Topics have included the breakup of nations, the origins and rate of change of political institutions in relation to [economic growth](https://en.wikipedia.org/wiki/Economic_growth), [development](https://en.wikipedia.org/wiki/Economic_development), financial markets and regulation, the importance of [institutions](https://en.wikipedia.org/wiki/Institutionalist_political_economy), [backwardness](https://en.wikipedia.org/wiki/Backwardness), [reform](https://en.wikipedia.org/wiki/Economic_reform) and [transition economies](https://en.wikipedia.org/wiki/Transition_economy), the role of [culture](https://en.wikipedia.org/wiki/Cultural_economics), [ethnicity](https://en.wikipedia.org/wiki/Ethnicity) and [gender](https://en.wikipedia.org/wiki/Gender) in explaining [economic outcomes](https://en.wikipedia.org/w/index.php?title=Economic_outcomes&action=edit&redlink=1), [macroeconomic policy](https://en.wikipedia.org/wiki/Macroeconomic_policy), the [environment](https://en.wikipedia.org/wiki/Environmental_economics), [fairness](https://en.wikipedia.org/wiki/Equity_%28economics%29) and the relation of [constitutions](https://en.wikipedia.org/wiki/Constitutional_economics) to [economic policy](https://en.wikipedia.org/wiki/Economic_policy), theoretical and empirical.

Other important landmarks in the development of political economy include:

* [New political economy](https://en.wikipedia.org/wiki/New_political_economy) which may treat economic ideologies as the phenomenon to explain, per the traditions of Marxian political economy. Thus, Charles S. Maier suggests that a political economy approach "interrogates economic doctrines to disclose their sociological and political premises.... in sum, [it] regards economic ideas and behavior not as frameworks for analysis, but as beliefs and actions that must themselves be explained". This approach informs Andrew Gamble's *The Free Economy and the Strong State* (Palgrave Macmillan, 1988), and Colin Hay's *The Political Economy of New Labour* (Manchester University Press, 1999). It also informs much work published in *New Political Economy*, an international journal founded by Sheffield University scholars in 1996.
* [International political economy](https://en.wikipedia.org/wiki/International_political_economy) (IPE) an interdisciplinary field comprising approaches to the actions of various actors. In the United States, these approaches are associated with the journal [*International Organization*](https://en.wikipedia.org/wiki/International_Organization), which in the 1970s became the leading journal of IPE under the editorship of [Robert Keohane](https://en.wikipedia.org/wiki/Robert_Keohane), [Peter J. Katzenstein](https://en.wikipedia.org/wiki/Peter_J._Katzenstein) and [Stephen Krasner](https://en.wikipedia.org/wiki/Stephen_Krasner). They are also associated with the journal [*The Review of International Political Economy*](https://en.wikipedia.org/wiki/The_Review_of_International_Political_Economy). There also is a more critical school of IPE, inspired by thinkers such as [Antonio Gramsci](https://en.wikipedia.org/wiki/Antonio_Gramsci) and [Karl Polanyi](https://en.wikipedia.org/wiki/Karl_Polanyi); two major figures are [Matthew Watson](https://en.wikipedia.org/wiki/Matthew_Watson_%28political_economist%29) and [Robert W. Cox](https://en.wikipedia.org/wiki/Robert_W._Cox).
* The use of a political economy approach by anthropologists, sociologists, and geographers used in reference to the regimes of politics or economic values that emerge primarily at the level of states or regional governance, but also within smaller social groups and social networks. Because these regimes influence and are influenced by the organization of both social and economic capital, the analysis of dimensions lacking a standard economic value (e.g. the political economy of language, of gender, or of religion) often draws on concepts used in Marxian critiques of [capital](https://en.wikipedia.org/wiki/Capitalist_mode_of_production_%28Marxist_theory%29). Such approaches expand on [neo-Marxian](https://en.wikipedia.org/wiki/Neo-Marxism) scholarship related to [development](https://en.wikipedia.org/wiki/Economic_development) and [underdevelopment](https://en.wikipedia.org/wiki/Underdevelopment) postulated by [André Gunder Frank](https://en.wikipedia.org/wiki/Andr%C3%A9_Gunder_Frank) and [Immanuel Wallerstein](https://en.wikipedia.org/wiki/Immanuel_Wallerstein).
* [Historians](https://en.wikipedia.org/wiki/Historian) have employed political economy to explore the ways in the past that persons and groups with common economic interests have used politics to effect changes beneficial to their interests.
* Political economy and law is a recent attempt within legal scholarship to engage explicitly with political economy literature. In the 1920s and 1930s, [legal realists](https://en.wikipedia.org/wiki/Legal_realism) (e.g. [Robert Hale](https://en.wikipedia.org/wiki/Robert_Lee_Hale)) and intellectuals (e.g. [John Commons](https://en.wikipedia.org/wiki/John_R._Commons)) engaged themes related to political economy. In the second half of the 20th century, lawyers associated with the Chicago School incorporated certain intellectual traditions from economics. However, since the crisis in 2007 legal scholars especially related to international law, have turned to more explicitly engage with the debates, methodology and various themes within political economy texts.
* [Thomas Piketty](https://en.wikipedia.org/wiki/Thomas_Piketty)'s approach and call to action which advocated for the re-introduction of political consideration and political science knowledge more generally into the discipline of economics as a way of improving the robustness of the discipline and remedying its shortcomings, which had become clear following the [2008 financial crisis](https://en.wikipedia.org/wiki/Financial_crisis_of_2007%E2%80%932008).
* In 2010, the only Department of Political Economy in the [United Kingdom](https://en.wikipedia.org/wiki/United_Kingdom) formally established at [King's College London](https://en.wikipedia.org/wiki/King%27s_College_London). The rationale for this academic unit was that "the disciplines of Politics and Economics are inextricably linked", and that it was "not possible to properly understand political processes without exploring the economic context in which politics operates".
* In 2017, the Political Economy UK Group (abbreviated PolEconUK) was established as a research consortium in the field of political economy. It hosts an annual conference and counts among its member institutions [Oxford](https://en.wikipedia.org/wiki/Oxford_University), [Cambridge](https://en.wikipedia.org/wiki/Cambridge_University), [King's College London](https://en.wikipedia.org/wiki/King%27s_College_London), [Warwick University](https://en.wikipedia.org/wiki/Warwick_University) and the [London School of Economics](https://en.wikipedia.org/wiki/London_School_of_Economics).