

## **Lecture 4. Factors affecting the peculiarities of the formation of the price of export and import goods, taking into account transportation by various modes of transport.**

**The goal of lecture** is to consider the influence of various factors on the formation of market prices for goods

**The main objective of lecture:**

- 1. The cost of goods and the price of a foreign trade transaction**
- 2. The concept of the world price**
- 3. Factors influencing the prices of the world market**

### **1. The cost of goods and the price of a foreign trade transaction**

The economic category is the price of a commodity serves as a monetary expression of the value of goods and is intended for indirect measurement the amount spent on the production of goods publicly required working time. At the heart of levels and price ratios the law of value also lies. In a market equilibrium, the price of goods and services are determined by their marginal utility for consumer. The regulatory mechanism of the law of value is fluctuations in prices, in their deviation from social value as a result competitive struggle under the influence of supply and demand and is reduced to to the following: the excess of the market price over the value stimulates an increase in supply, and, consequently, in the production of goods; deviation the market price below the value causes a reduction in production; when reduced working time spent on the production of goods, prices fall when it increases - increase, other things being equal conditions and prices. The market value of goods is the "center gravitation" around which prices fluctuate. At the same time, the dynamics prices are influenced by other factors (elasticity of demand, exchange rates, social factors) that can cause deviation of price from value: "the possibility of quantitative mismatch of the price with the value of the value, or the possibility of deviation prices from the value of the value, is already concluded in the very form of prices". **The market price of a product** is based on the production price - transformed form of value in conditions of commodity production, where the price of a product is determined by its value. Difference between value products of the firm or industry (i.e. the total revenue received from sales of these products) and the cost of raw materials, components products and services purchased to support the release of these products expressed in value added, the amount that the firm attaches to purchased materials and services in the production process 5 and product sales. Purchase costs of the purchase and use of the goods during the regulatory period of its exploitation form the price of consumption. That. market price of a product is made up of the production price, which includes the cost of costs raw materials, components and services, added value and costs the buyer for the purchase and use of the goods.

Economic interaction takes place on the world market states in connection with the sale of goods and services, representing the totality of foreign trade operations of the countries of the world in the field of commodity exchange. This interaction is initially based on world prices. **World prices** - in international trade - prices of large, systematic and sustainable export or import transactions, carried out on normal commercial terms in the main centers international trade by well-known exporting firms and importers of

the relevant products. World price - in economic theory - the international price of a product or service, determined on the basis of the ratio of world supply and demand.

World prices are the monetary expression of the international (world) production prices in the world market. The international production price is determined by the conditions production of the bulk of goods prevailing in world trade. Foreign trade prices are types of prices for goods and services, circulating in international trade. Varieties foreign trade prices - list export prices of firms - major suppliers of this type of product, prices of commodity exchanges and auctions goods, bid prices, transactions (contracts).

Moving on to the concept of the *transaction price*, it should be clarified what is the basis when setting the final price in a trade transaction, base price agreed by the parties, formed taking into account world prices and market conditions. The final price depends on on specific indicators of product quality, delivery conditions, conditions payment is the contract price - the price of the purchase and sale transaction the goods specified *in the contract*. Distinguish by nature stability: firm, volatile and moving price. Real price purchase and sale transaction, which may vary by the amount transport and insurance costs depending on the terms of the contract, determines **the invoice price or invoice value of the goods**.

## 2. World price concept

The theory of international trade under the world price means monetary expression of the international value of the world market of goods. International value is socially necessary labor costs for the production of goods with the average world social normal production conditions and world average labor productivity. It is formed mainly under the influence of production conditions in those countries that are the main suppliers of goods to the world market. The world market as a sphere of commodity relations assumes in in contrast to domestic markets, the performance of entrepreneurs on it different countries, and, therefore, **the world price must satisfy two basic requirements**: first, to be accessible to any seller or a buyer intending to participate in trading in the sphere of international exchange; secondly, to be reliable and representative for world trade in this product.

Based on the practice of international trade, the following are distinguished *five signs characterizing the world price*:

1. These should be the prices of large regular transactions in international trade (not episodic).
2. These deals should be commercial, not special. nature (exclude commodity exchange transactions).
3. Transactions must be concluded in hard hard currency.
4. Transactions must be export or import.
5. Export or import operations must be carried out on markets with a free regime.

Only the prices of ordinary trading operations. Ordinary trading operations include transactions characterized by the following features: separation; mutual unconnectedness of export and import supplies; their regularity implementation; payment in freely convertible currency; implementation in a free trade and political

regime. In the presence of the noted conditions, the price is formed at a relatively high competition at the lowest level, and price equalization carried out to a greater extent than for operations that are special character. A special kind of regular trading operations are deliveries based on long-term agreements, and within the framework of international trade agreements. In practice, export or export prices are used as world prices. import prices of the main suppliers and buyers of the respective goods. The process of formation and movement of prices in international trade characterized by the fact that objective conditions for the deviation of the world price from the domestic prices of individual countries.

World market prices are based on international value and are based on the costs of the leading exporting countries in the world market. Domestic prices, in contrast, are based on national cost and reflect the costs of national producers. Prices international trade differ from domestic trade also due to different volumes of world and domestic markets, conditions of their functioning, and also other pricing factors. Generally, the world price is lower internal due to the presence of a number of instruments (duties, taxes, etc.), affecting the formation of prices within the country, economically protecting the national market from foreign suppliers and eventually softening the competition.

### 3. Factors influencing the prices of the world market

So, the world price is a multifactorial category. The nature, level and scope, pricing factors can be classified as follows (see Table 1):

Table 1. *Factors affecting world market prices*

<b>PRICE FORMING FACTORS</b>	<b>LEVEL AND SCOPE ACTIONS</b>	<b>EXAMPLES</b>
General economic	Operates regardless of type of product and its implementation	Economic cycle, international cost basis, condition aggregate demand and supply, inflation
Specific economic	Determined particularities of this goods, the terms of its production and sales	Costs, profits, taxes and fees, supply and demand for this product taking into account interchangeability, consumer properties - quality, reliability, appearance, prestige
Specific	Valid only in some goods	Seasonality, operating costs, completeness, guarantees and terms of service
Special	Associated with the action of special mechanisms and economic instruments	State regulation, currency well

Differentiation of world trade prices can be caused by various factors:

*transport factor*, which is the basis territorial price differentiation;

*the nature of the trade transaction*;

*terms of delivery* and payment that form commercial price differentiation and some others.

Territorial price differentiation is determined by remoteness places of production from places of consumption and is most noticeably manifested for goods with the highest specific weight of transport costs in eight total costs of production and sale. Share of transport expenditures in prices for raw materials and agricultural goods reaches 20- 25% or more. For finished products, territorial price differentiation is less important, since the transport component of prices for finished products, as a rule, no more than 1-2%.

**Differences in the nature of transactions** lead to the formation in the field international trade of the following price levels for the same products: prices for ordinary trade transactions (one-time and long-term agreements) with payment in freely convertible currency (SLE); prices under clearing agreements; prices for transactions with payment in non-freely convertible currency and other special operations. Transactions of a special kind are commercial transactions, committed in individual regional markets, in cases where these markets separate from normal international trade complex "set" of trade and political barriers - duties, compensation fees, import price limits, etc. Prices regional groupings and transfer prices (i.e. intra-firm turnover) deviate from the usual market operations both up and down depending on the purpose of regulation and have preferential, i.e. not universal. They act only for partners covered by their respective regional association, intra-firm or intergovernmental agreement. Another entrepreneur cannot buy or sell goods at these prices.

**Commercial price differentiation** means differences in prices. levels depending on the pricing factors acting on the level of a foreign trade contract when forming the final price: delivery sizes, terms of payment, volume of warranty and post-warranty maintenance, etc. Under local of these factors, the price level fluctuates around the average market prices under normal commercial conditions. Differentiation of prices in the world commodity market in strictly depends on the nature of the product, organization market, awareness of sellers and buyers, assessment usefulness of products. The more homogeneous the products, the higher the level market organization, more information on prices, closer estimates usefulness of different buyers, and the weaker differentiation of prices.

### **Questions for self-control:**

1. Based on the practice of international trade, what signs characterizing the world price are distinguished
2. Identify differences in the nature of transactions
3. Reveal the two components of logistics function in foreign trade.
4. Name the main objectives of the factors influencing the prices of the world market
5. Describe commercial price differentiation

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