

Lecture #1
Economics 181
International Trade
Introduction

1. Course Contents

What do you think you will study in this course?

What will we actually study in this course? (Review course outline)

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2. Defining international trade:

International trade studies the issues related to the exchange of goods, services and factors of production between traders across distinct (national) markets.

Main goal of this course: To provide you with tools to think about the issues related to international trade and to analyze trade policy.

Why is international trade different from other economics?

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3. Some Broad Trends in International Trade

1. Trade flows as a share of GDP in the USA and elsewhere

2. Why have trade flows increased so much?

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What is the pattern of protection for the USA over the last 200 years?

3. How have other measures of globalization changed? Enormous increases in direct foreign investment (DFI), capital flows.

Can you guess when the following was written? (and who wrote it?)

"But foreign trade, which brings from Calcutta and India and such places wares like costly silks, articles of gold, and spices--which minister only to ostentation but serve no useful purpose, and which drain away the money of the land and people--would not be permitted if we had proper government ... God has cast us off to such an extent that we have to fling our gold and silver into foreign lands and make the whole world rich, while we ourselves remain beggars."

4. Introducing the Ricardian model of Trade.

4.1 We begin with a puzzle.

In 2005, the following man-hours were required to produce a ton of steel in the US and elsewhere:

USA (Integrated steel mills)		
1980		9 man-hours to produce 1 ton of steel
2000		5 man-hours to produce 1 ton of steel
2005		2 man-hours to produce 1 ton of steel
Japan		6 man-hours to produce 1 ton of steel
Russia		8 man-hours to produce 1 ton of steel.

Which country is the most efficient?

Does the US import or export steel? Why?

4.2 Benefits of the framework

The Ricardian model is a framework for explaining why countries trade, and it also helps to explain the pattern of trade. It is also a useful framework for understanding why it is not possible to set equal wages all over the world—or to set the same minimum wage in Mexico and the United States, for example.

Three Useful Insights:

Key Assumptions

4.3 Gains from Trade

Example #1	Roses		Computers
USA	10 million	OR	100,000
Colombia	10 million	OR	30,000

Opportunity cost: The opportunity cost of roses in terms of computers is the number of computers that could have been produced with the resources used to produce a given number of roses.

Gains from trade: can re-arrange production so that with the same amount of resources, get more output:

Example #2

Two countries: Home (USA) and Foreign (France). Two goods: wine and cheese.

Unit labor requirements (ULR): number of labor hours needed to produce one unit of wine or Cheese

Hours to Produce 1 pound of Cheese or 1 gallon of wine		Total Labor Force (Billion Hours)
Cheese	Wine	
Home (USA) $a_c = 1$	$a_w = 2$	120
Foreign (France) $a_c^* = 6$	$a_w^* = 3$	60

Can re-arrange production so that there are gains from trade:

	Wine	Cheese
USA		
France		
Total		

<u>Trade (% of GDP)</u>	1960	1970	1980	1990	2000
Algeria	106	51	65	48	64
Antigua and Barbuda	..	..	154	176	144
Argentina	15	10	12	15	22
Australia	29	27	33	33	46
Austria	48	60	74	78	101
Azerbaijan	..	..	..	83	77
Bahrain	..	..	239	210	152
Bangladesh	19	21	23	20	33
Barbados	109	138	142	101	112
Belarus	..	..	..	90	142
Belgium	78	101	119	140	168
Belize	..	..	124	122	126
Benin	18	40	53	41	43
Bolivia	..	49	47	47	45
Bosnia and Herzegovina	..	..	..	..	88
Botswana	66	151	119	105	101
Brazil	14	14	20	15	23
Bulgaria	..	..	66	70	117
Burkina Faso	21	22	40	36	34
Burundi	26	22	32	36	33
Cambodia	36	14	..	19	114
Cameroon	..	51	56	37	58
Canada	..	42	55	52	86
Chad	30	38	46	41	54
Chile	29	29	50	66	59
China	..	4	15	32	49
Colombia	30	30	32	35	41
Congo, Dem. Rep.	38	34	33	59	43
Congo, Rep.	106	92	120	99	124
Costa Rica	48	63	63	76	94
Cote d'Ivoire	57	65	76	59	72
Czech Republic	..	..	..	88	132
Denmark	63	57	66	67	82
Djibouti	..	..	..	..	107
Dominica	..	..	115	135	120
Dominican Republic	44	42	48	78	100
East Asia & Pacific	..	15	29	45	72
Ecuador	36	37	52	65	68
Egypt, Arab Rep.	40	33	73	53	39
El Salvador	45	49	67	50	70
European Monetary Union	37	43	53	55	73
Fiji	78	100	100	130	125
Finland	44	51	65	47	77
France	26	30	43	43	56
Gabon	67	88	96	77	72
Gambia, The	..	79	106	131	105
Georgia	..	..	..	86	63
Germany	..	..	46	50	67
Ghana	64	44	18	43	117
Greece	24	26	51	46	60
Greenland	..	..	..	..	..

Grenada	..	..	127	105	133
Guatemala	27	36	47	46	49
Guinea	..	..	..	62	52
Guinea-Bissau	..	34	55	47	83
Guyana	106	113	175	143	207
Haiti	41	31	52	38	46
Heavily indebted poor countries (HIPC)	45	45	52	45	59
High income	23	27	39	38	48
High income: nonOECD	..	99	127	133	153
High income: OECD	22	25	36	35	45
Honduras	44	62	80	76	98
Hong Kong, China	176	179	179	256	287
Hungary	..	63	80	60	154
Iceland	86	87	70	67	77
India	12	8	16	16	29
Indonesia	27	28	54	49	76
Iran, Islamic Rep.	..	..	30	46	44
Iraq	..	..	..	..	..
Ireland	65	77	106	109	182
Israel	23	79	103	80	86
Italy	26	32	46	39	56
Jamaica	71	71	102	100	97
Japan	21	20	28	20	20
Jordan	..	..	124	155	110
Kazakhstan	..	..	..	..	105
Kenya	65	60	67	57	62
Kiribati	..	..	134	159	94
Korea, Dem. Rep.	..	..	..	..	..
Korea, Rep.	15	36	71	57	78
Kuwait	..	84	113	103	88
Kyrgyz Republic	..	..	..	79	89
Lao PDR	..	..	..	36	65
Latin America & Caribbean	22	20	28	32	42
Latvia	..	..	..	97	100
Least developed countries: UN classification	30	30	39	35	52
Libya	..	89	98	71	51
Low & middle income	..	23	34	41	58
Low income	19	17	26	30	43
Lower middle income	..	18	31	37	55
Luxembourg	170	175	189	204	283
Macao, China	..	..	..	164	153
Macedonia, FYR	..	..	..	62	111
Madagascar	27	41	43	45	69
Malawi	60	63	64	57	65
Malaysia	89	79	111	147	229
Maldives	..	..	76	89	161
Mali	..	31	44	51	66
Malta	128	129	187	184	216
Mauritania	39	66	103	106	96
Mauritius	..	..	104	136	129
Mexico	20	17	24	38	64
Middle East & North Africa	..	60	71	64	59
Middle income	..	24	36	43	60
Morocco	46	39	45	59	69

Mozambique	..	..	38	44	52
Myanmar	40	14	22	7	..
Nepal	..	13	30	32	56
Netherlands	92	90	104	105	130
New Zealand	..	..	60	54	70
Nicaragua	50	56	67	71	75
Niger	15	29	63	37	43
Nigeria	26	20	49	72	91
Norway	73	74	80	74	76
Oman	..	93	100	83	89
Pakistan	..	22	37	39	34
Palau	..	..	..	..	117
Panama	..	..	187	165	138
Papua New Guinea	..	72	97	90	..
Paraguay	35	31	44	73	55
Peru	42	34	42	30	34
Philippines	21	43	52	61	109
Poland	..	..	..	50	62
Portugal	36	48	60	72	74
Puerto Rico	124	107	138	..	173
Russian Federation	..	..	..	36	68
Rwanda	23	27	41	20	33
Saudi Arabia	..	78	91	72	69
Senegal	35	56	70	56	70
Serbia and Montenegro	..	..	..	..	76
Seychelles	..	..	147	129	153
Sierra Leone	..	60	61	46	51
Somalia	30	28	122	48	..
South Africa	55	46	62	43	55
South Asia	15	12	21	20	32
Spain	15	26	32	36	62
Sri Lanka	91	54	87	67	89
Sub-Saharan Africa	50	47	62	53	65
Sudan	28	33	34	..	30
Suriname	118	115	143	86	53
Swaziland	74	129	179	153	176
Sweden	45	47	60	59	86
Switzerland	52	62	71	70	86
Syrian Arab Republic	49	39	55	56	68
Thailand	33	34	54	76	125
Trinidad and Tobago	121	84	89	74	105
Tunisia	..	47	86	94	92
Turkey	..	10	17	31	56
Uganda	49	43	45	27	34
Ukraine	..	..	..	56	120
United Arab Emirates	..	..	112	106	..
United Kingdom	42	44	52	51	58
United States	10	11	21	21	26
Uruguay	32	29	36	42	40
Venezuela, RB	43	38	51	60	45
Vietnam	..	..	..	81	113
World	24	27	38	38	50