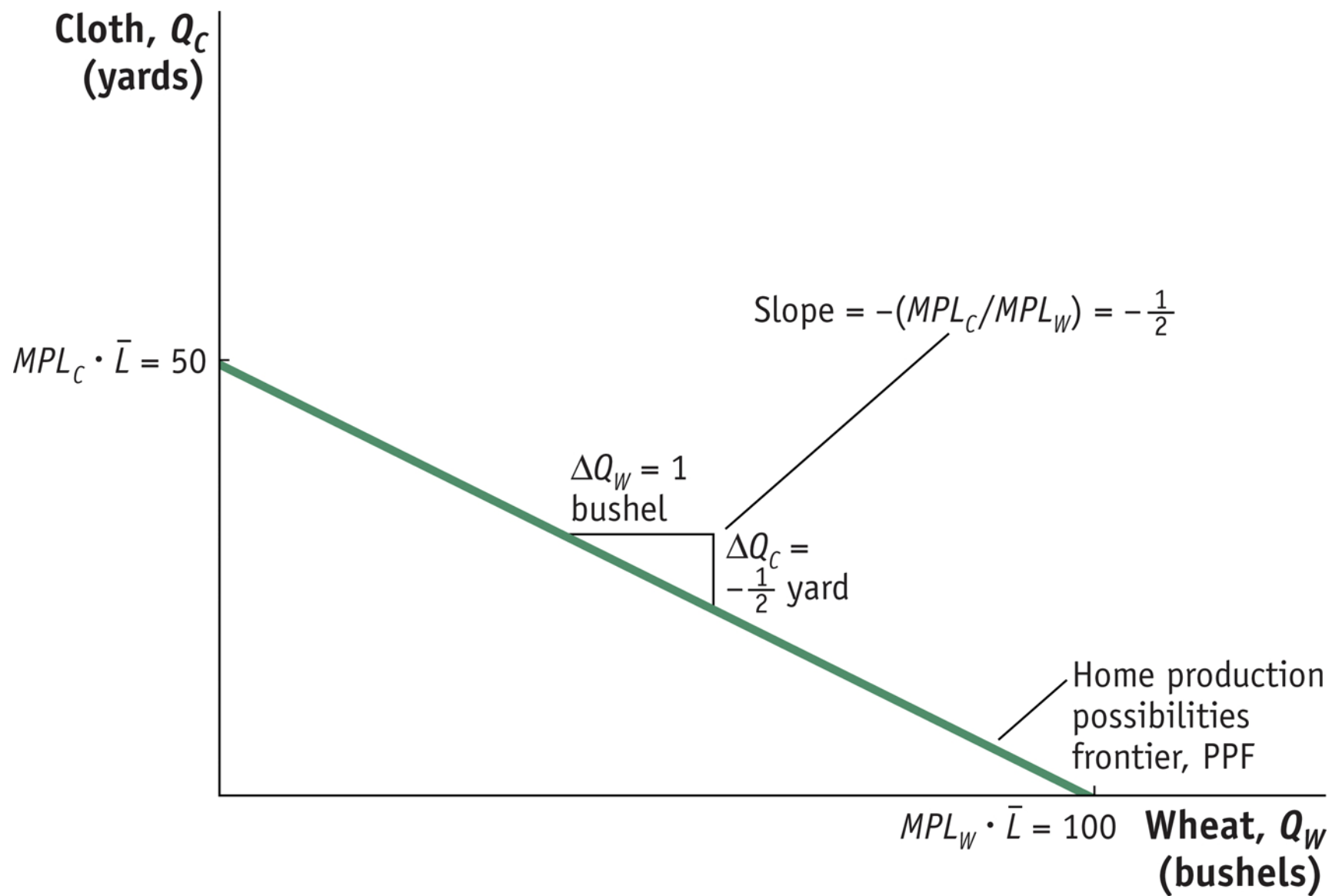


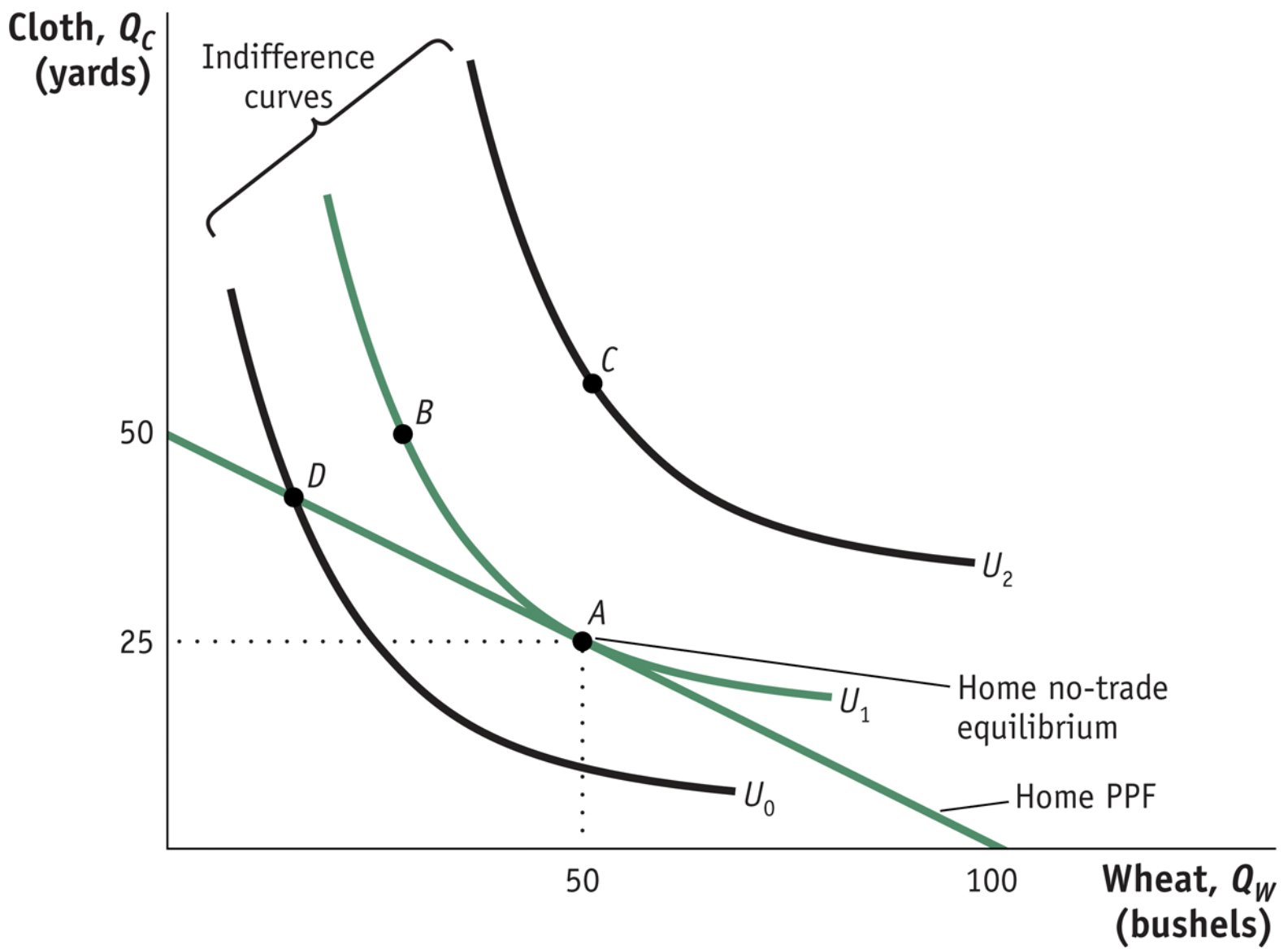
Public Affairs 856
Trade, Competition, and
Governance in a Global Economy
Lecture 2-3
1/23-25/2017

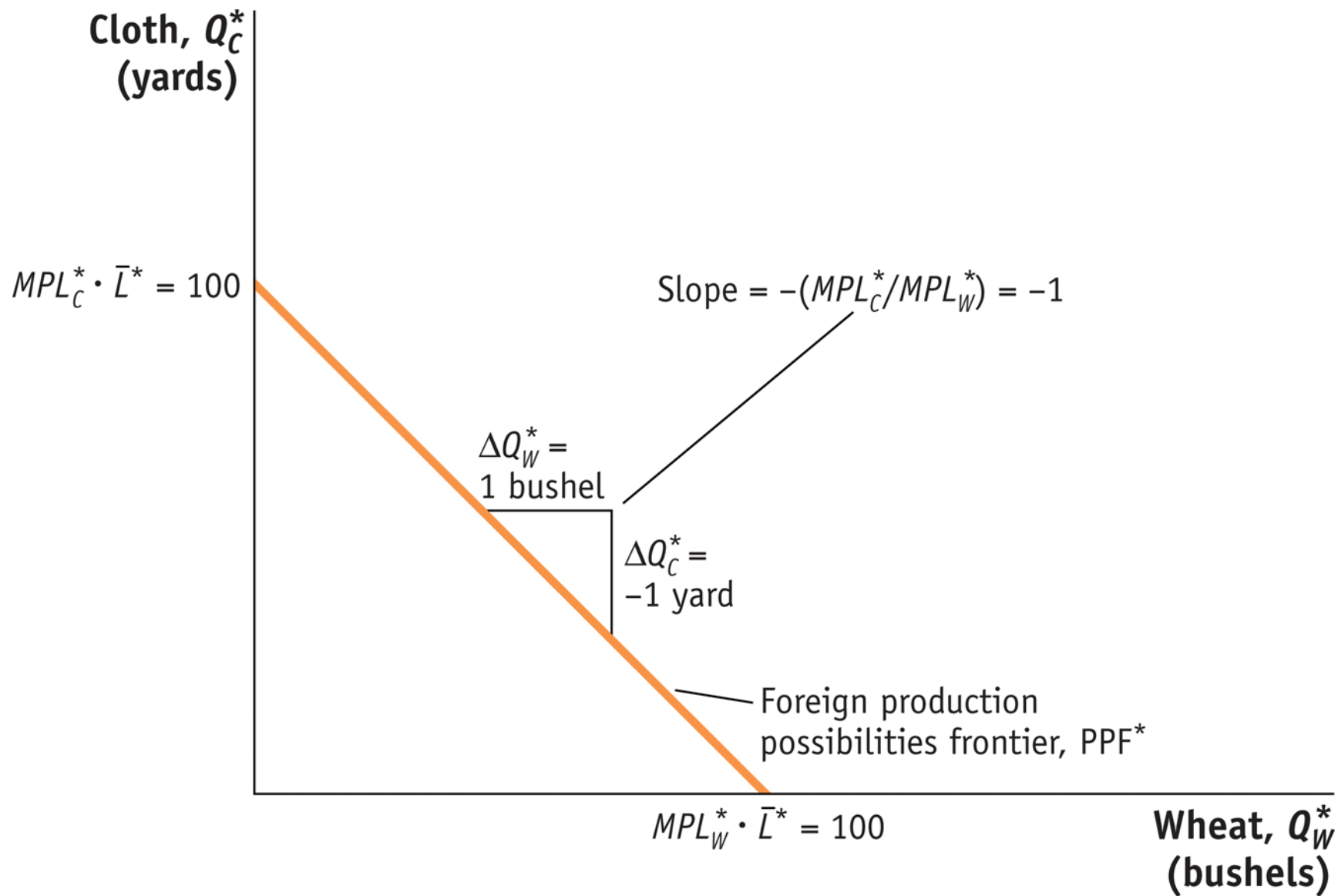
Instructor: Prof. Menzie Chinn
UW Madison
Spring 2017

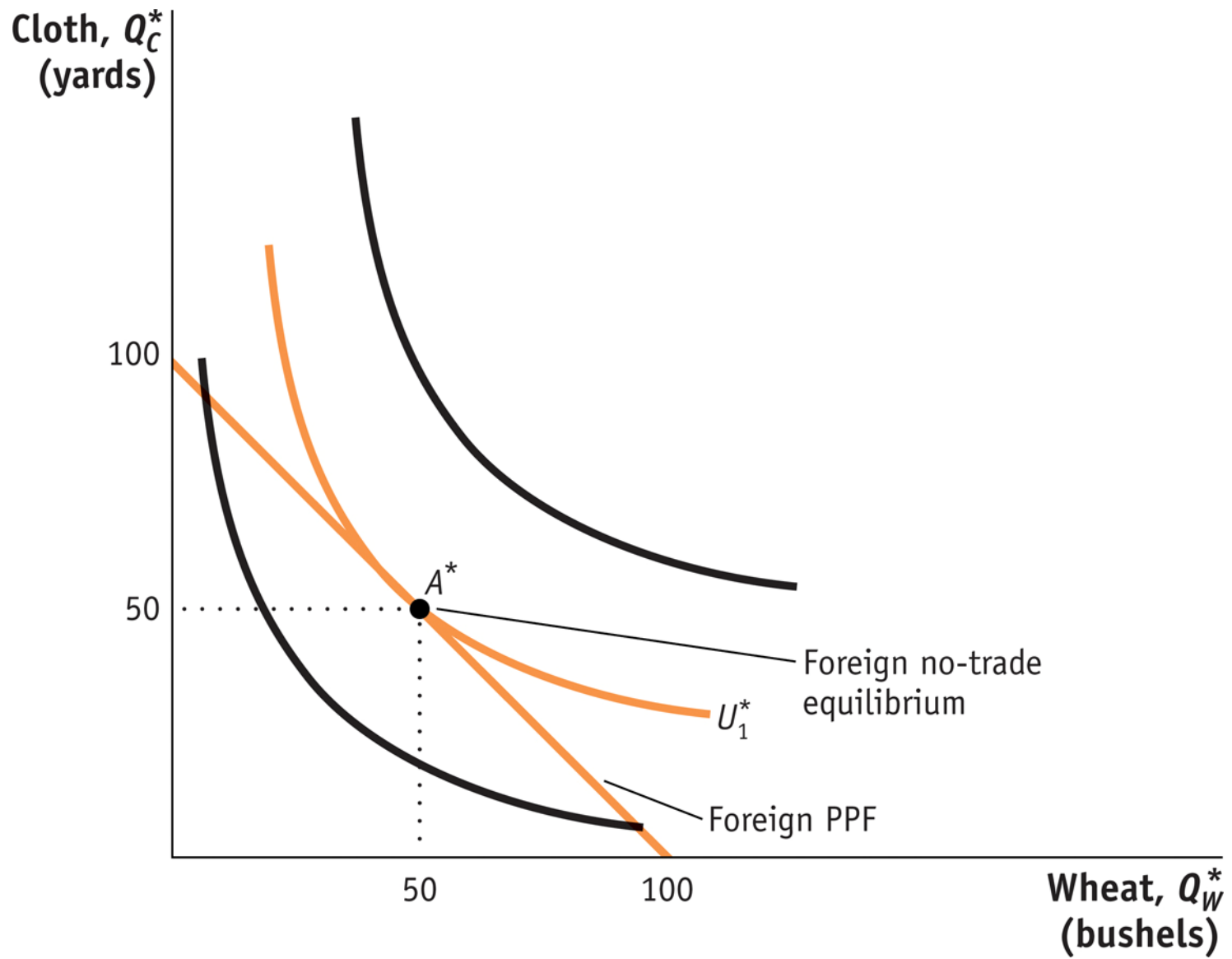
Technological Parameters

- $MPL_w = 4$
- $MPL_c = 2$
- $MPL_w^* = 1$
- $MPL_c^* = 1$

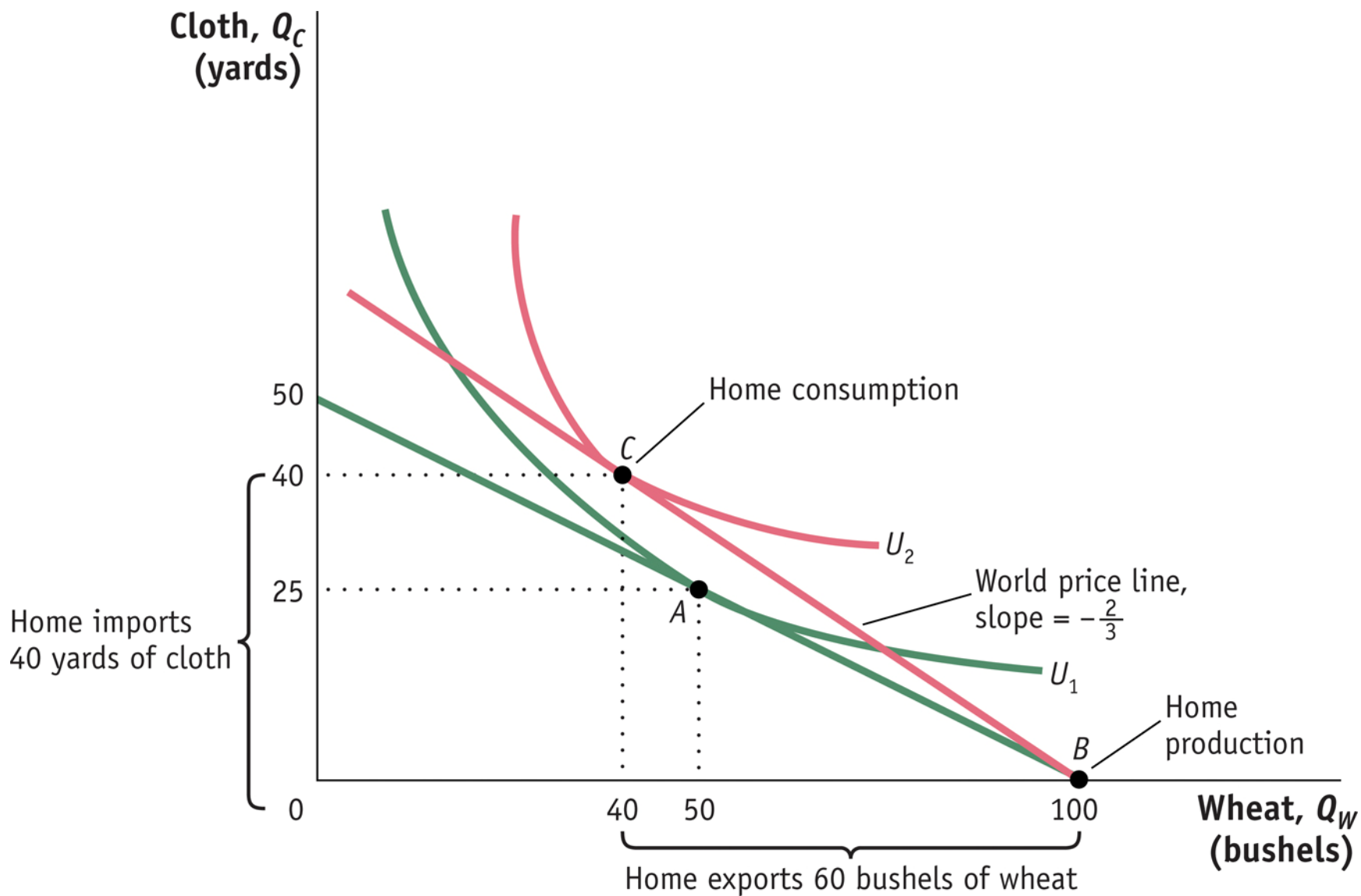


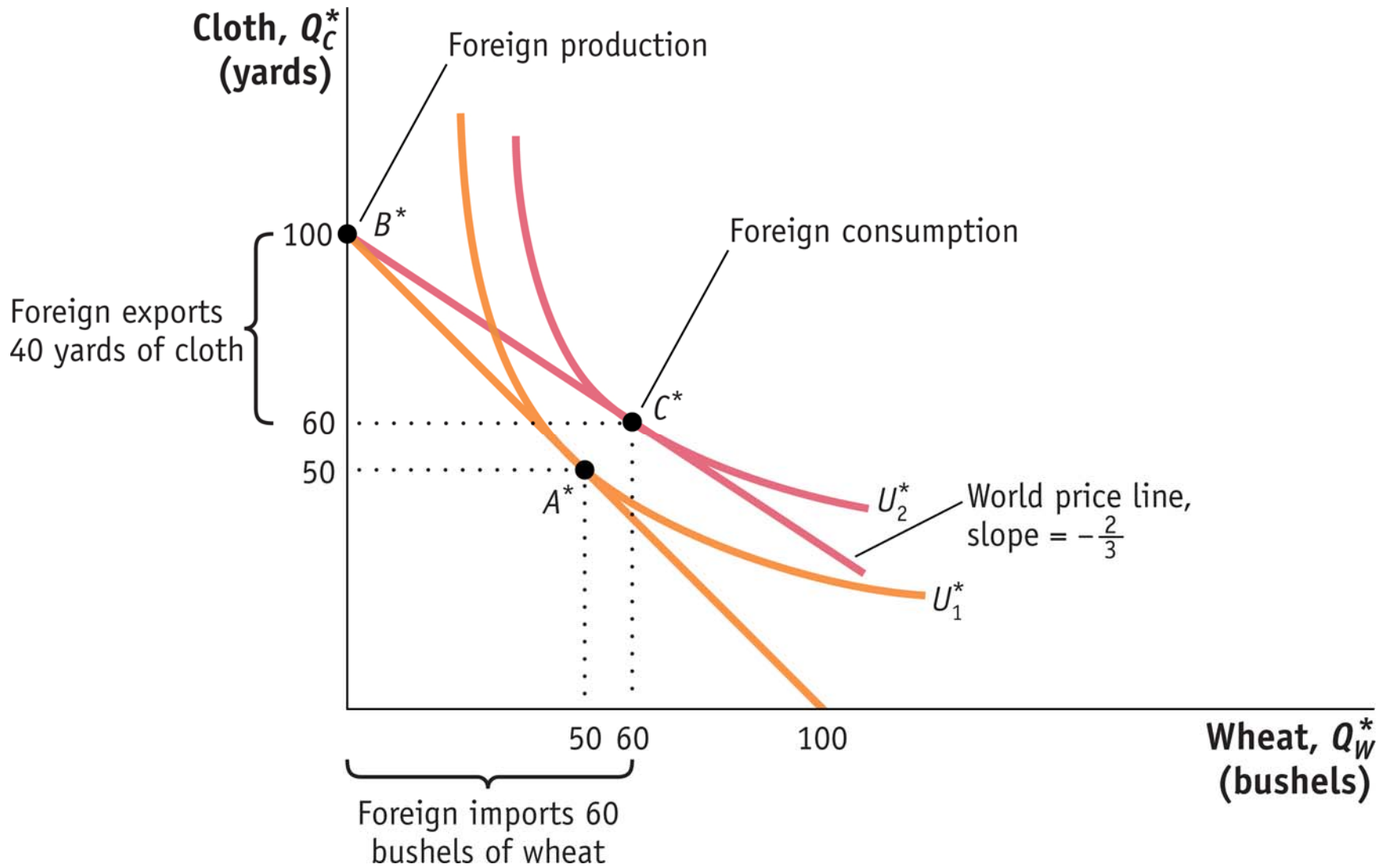






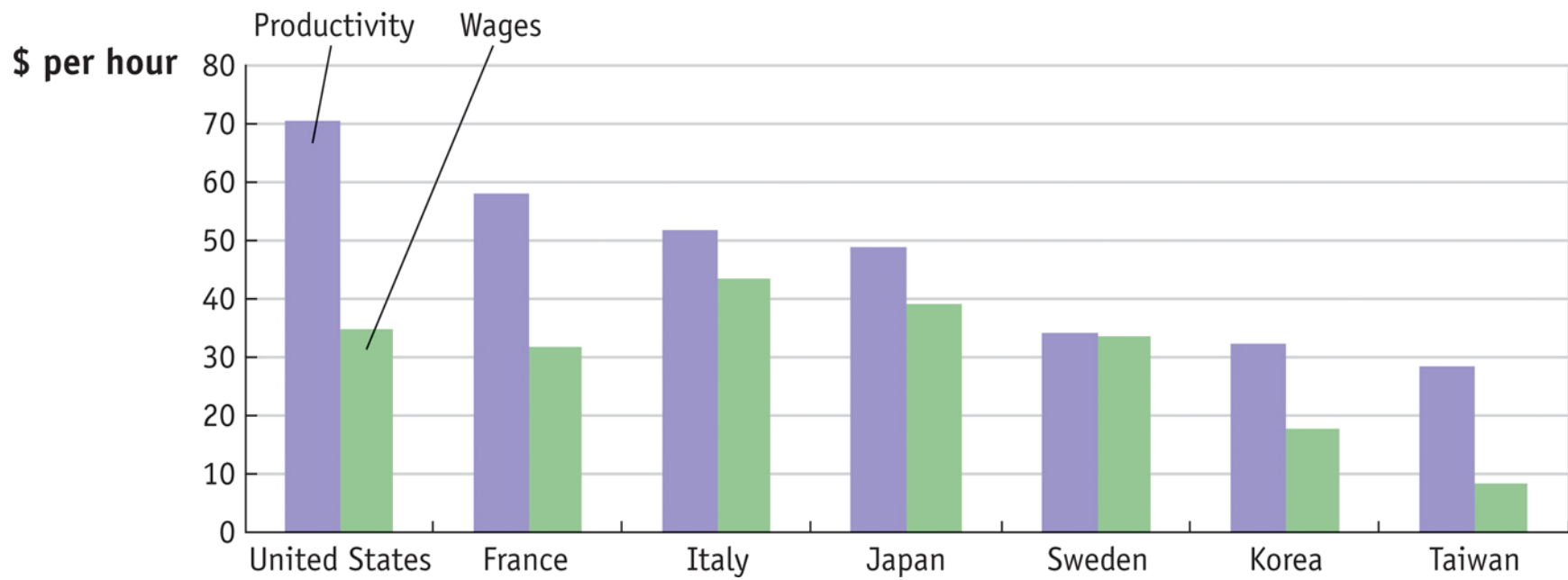
| | United States | China | Absolute Advantage |
|---------------------|------------------------------|-----------------------|---------------------------|
| | <i>Sales/Employee</i> | <i>Sales/Employee</i> | <i>U.S./China Ratio</i> |
| Apparel | \$56,000 | \$23,000 | 2.4 |
| Textiles | \$165,000 | \$27,000 | 6.1 |
| | <i>Bushels/Worker</i> | <i>Bushels/Worker</i> | <i>U.S./China Ratio</i> |
| Wheat | 12,260 | 300 | 41 |
| | Comparative Advantage | | |
| Wheat/apparel ratio | 0.22 | 0.01 | |
| Wheat/textile ratio | 0.07 | 0.01 | |

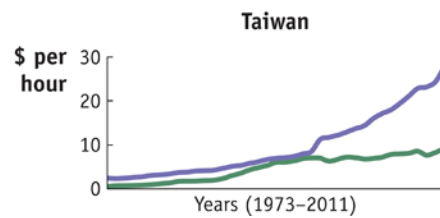
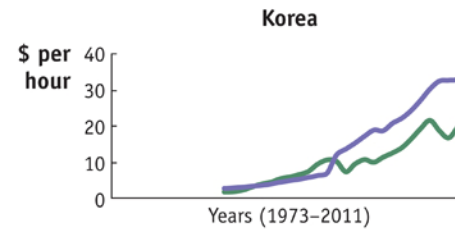
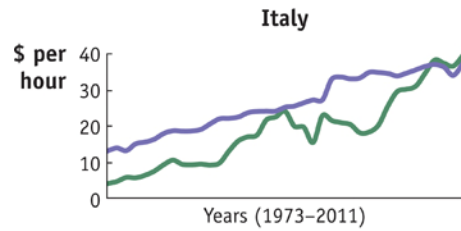
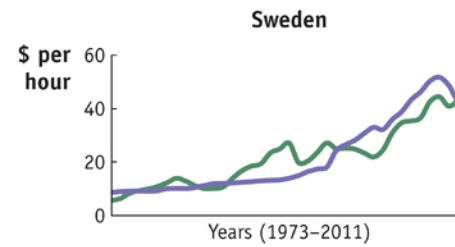
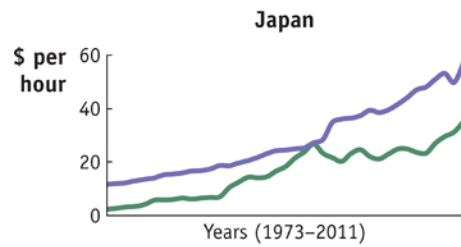
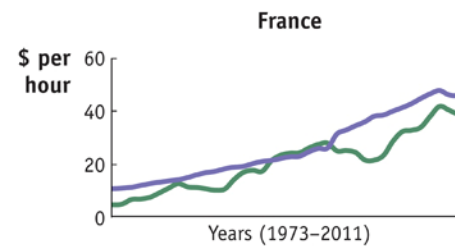
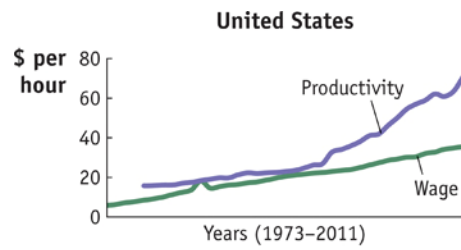




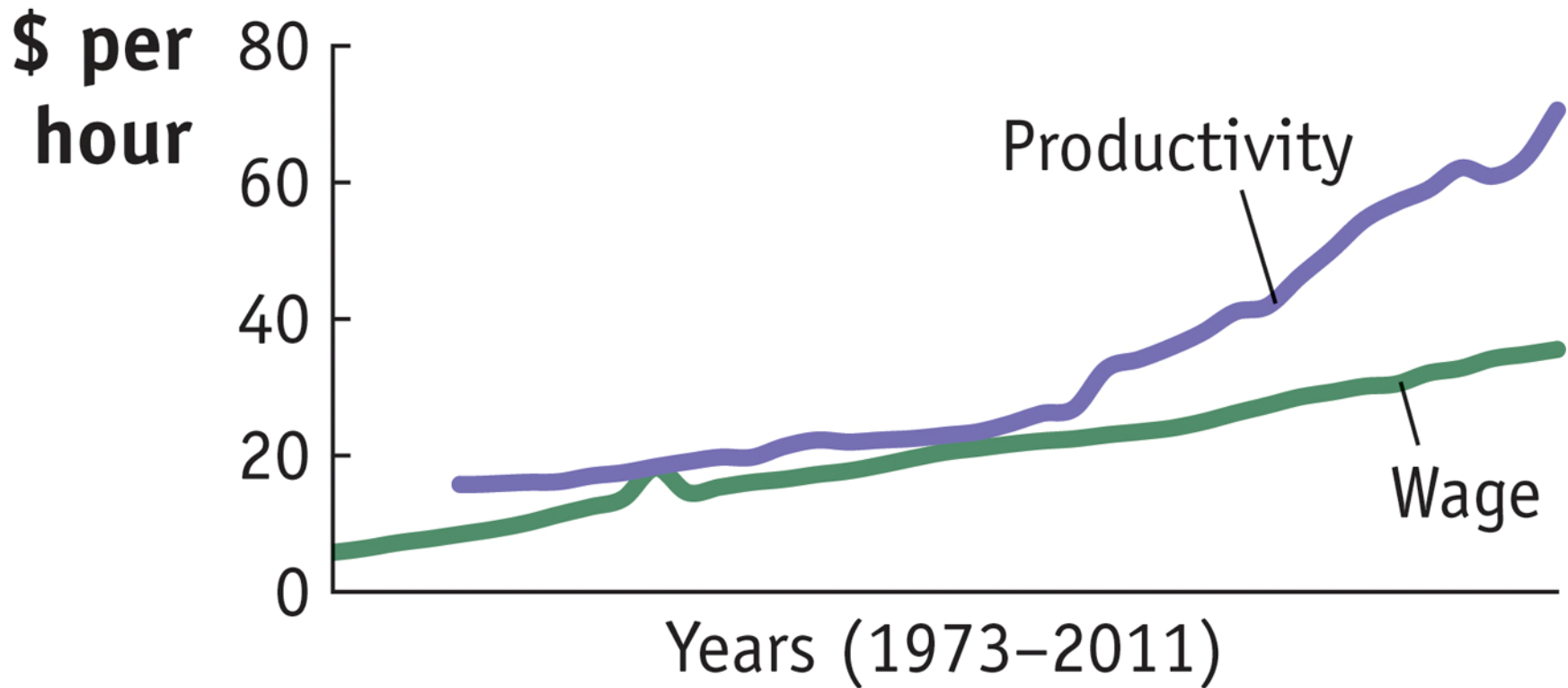
Real Wage Determination

- Note that P_w/P_c is relative price = $2/3$
- Home Wage
- $MPL_w = 4$ bushels or
- $(P_w/P_c) \times MPL_w = 8/3$ yards
- Foreign Wage
- $(P_c^*/P_w^*) \times MPL_c^* = 3/2$ bushels or
- $MPL_c^* = 1$ yard

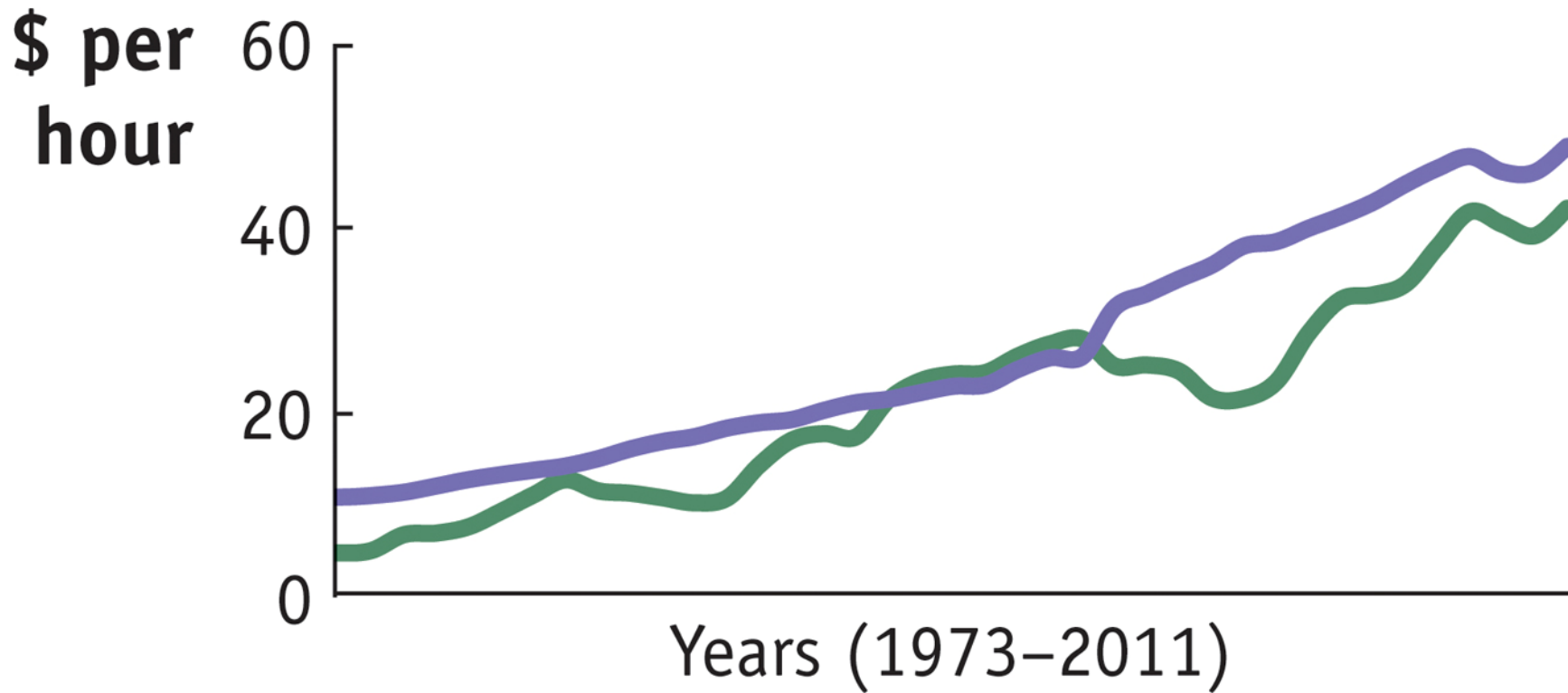




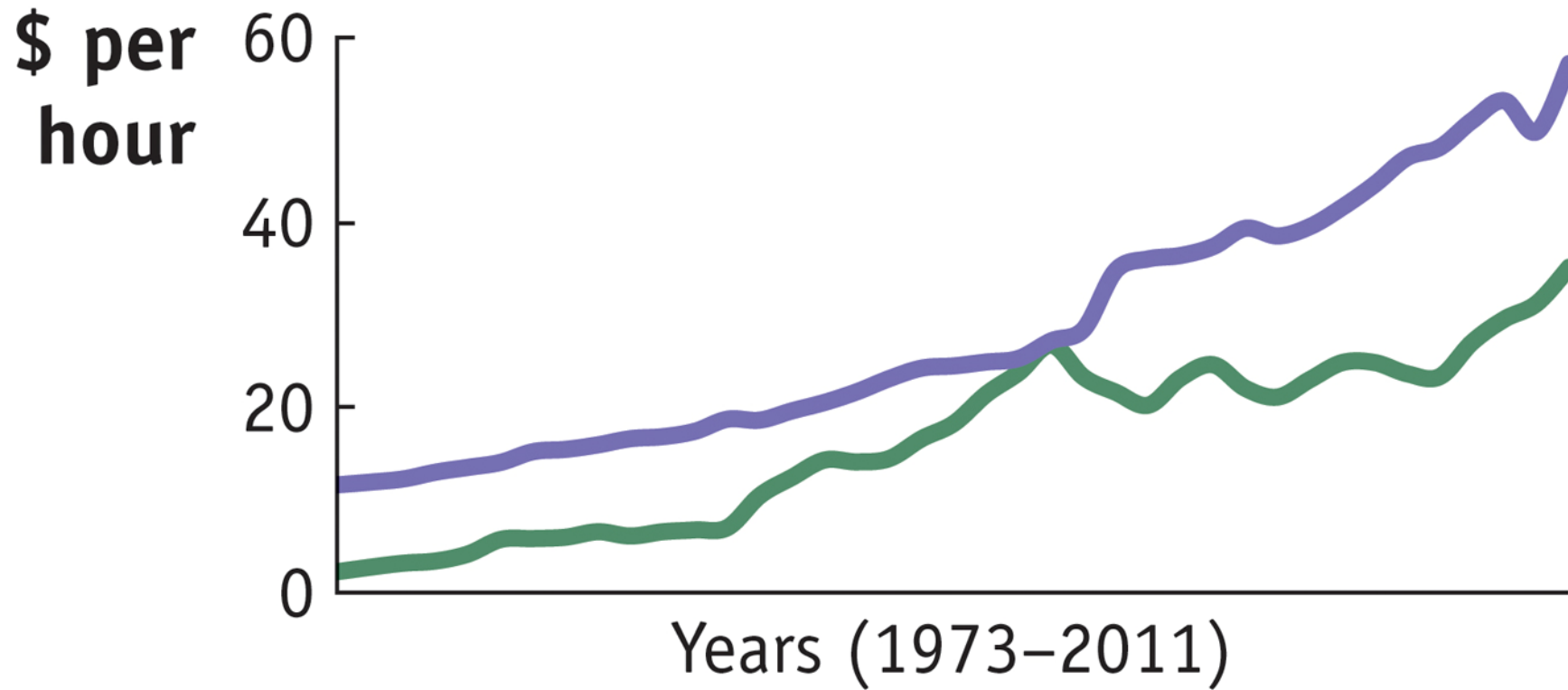
United States



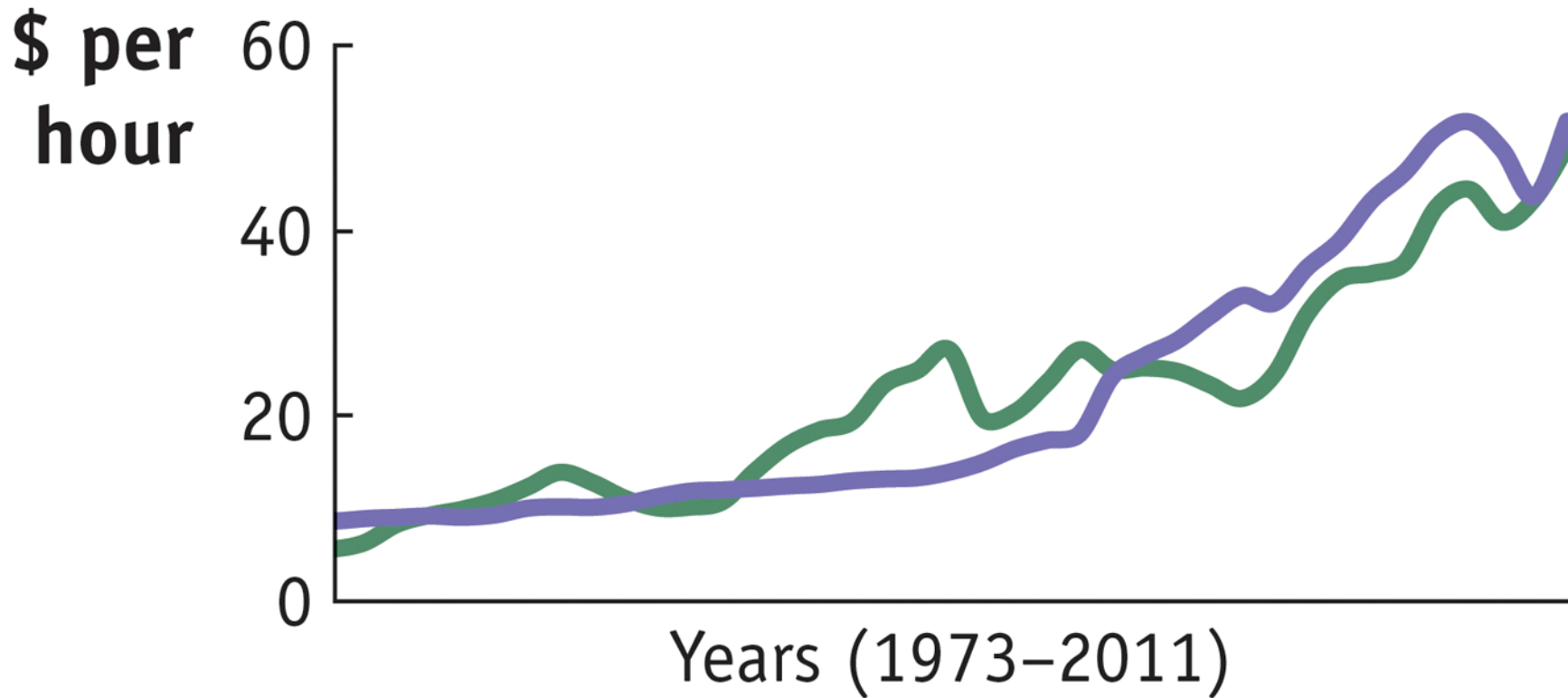
France



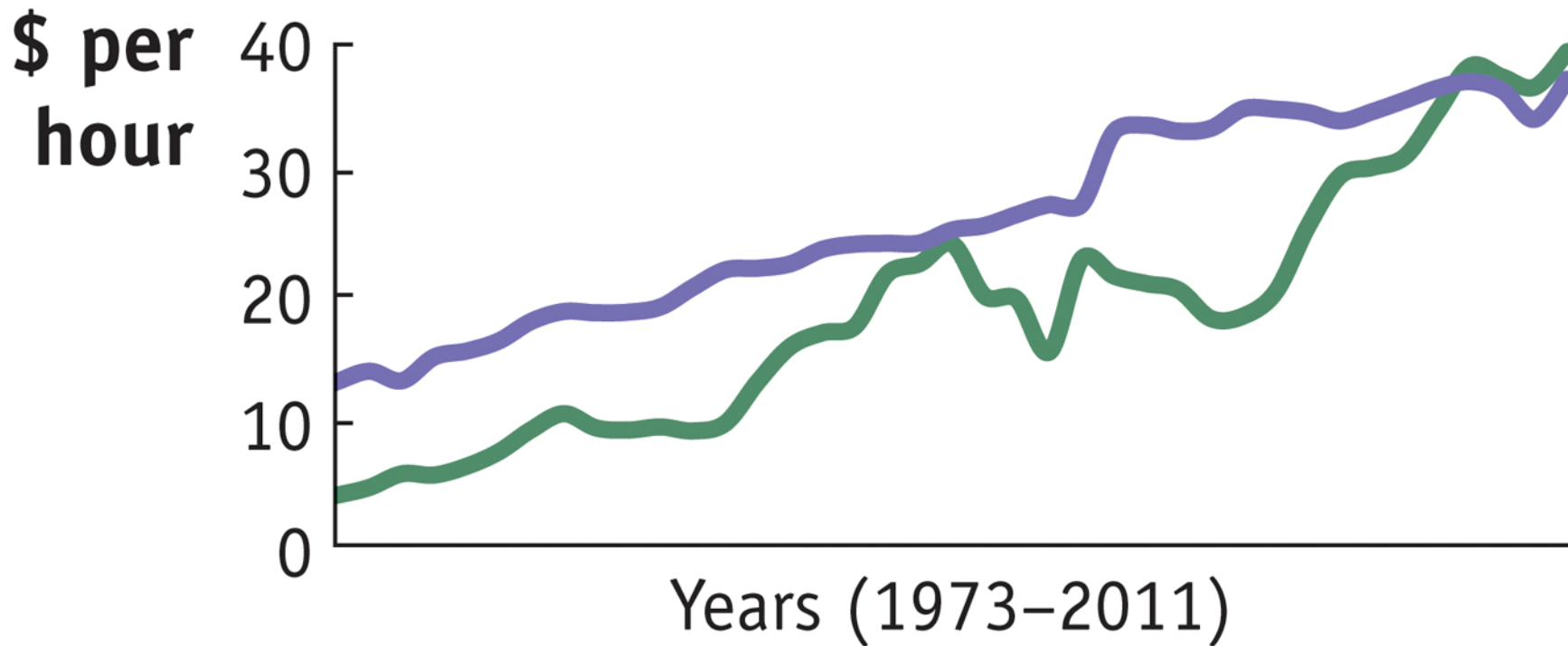
Japan



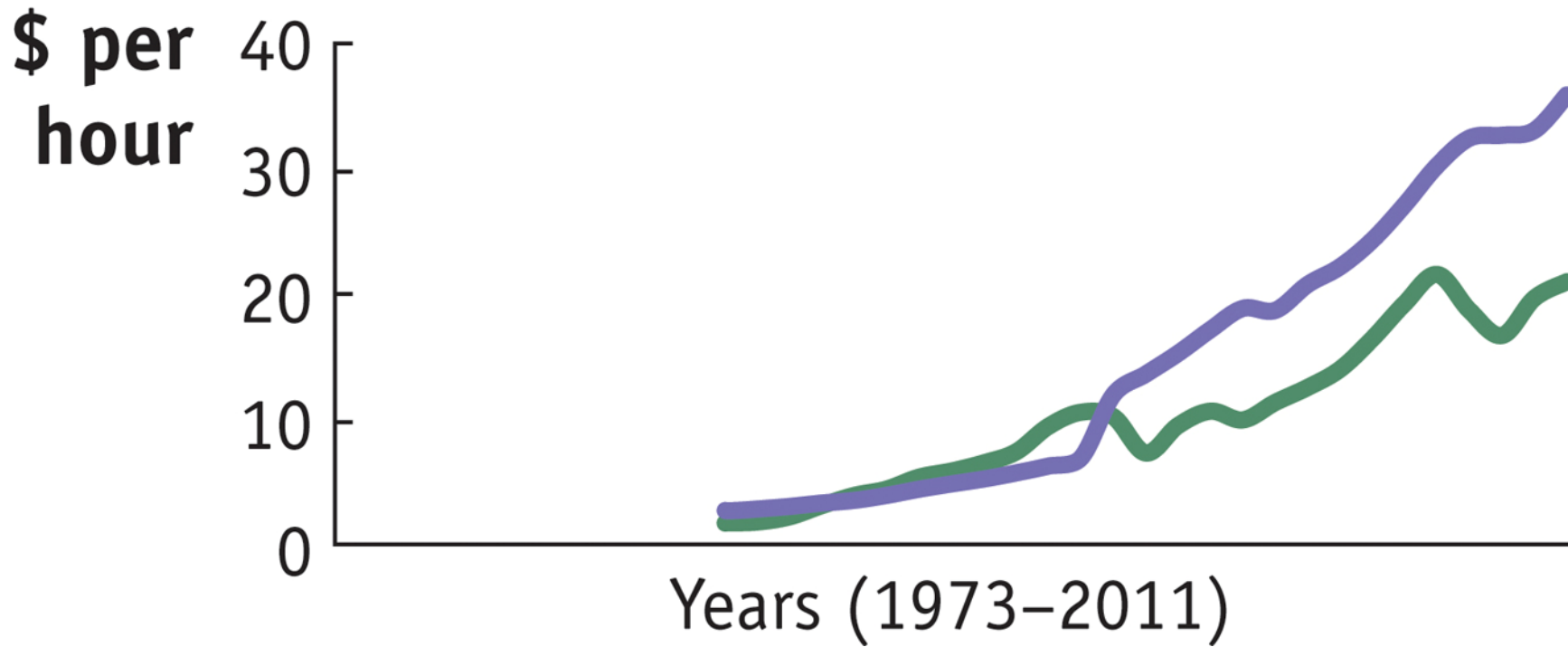
Sweden



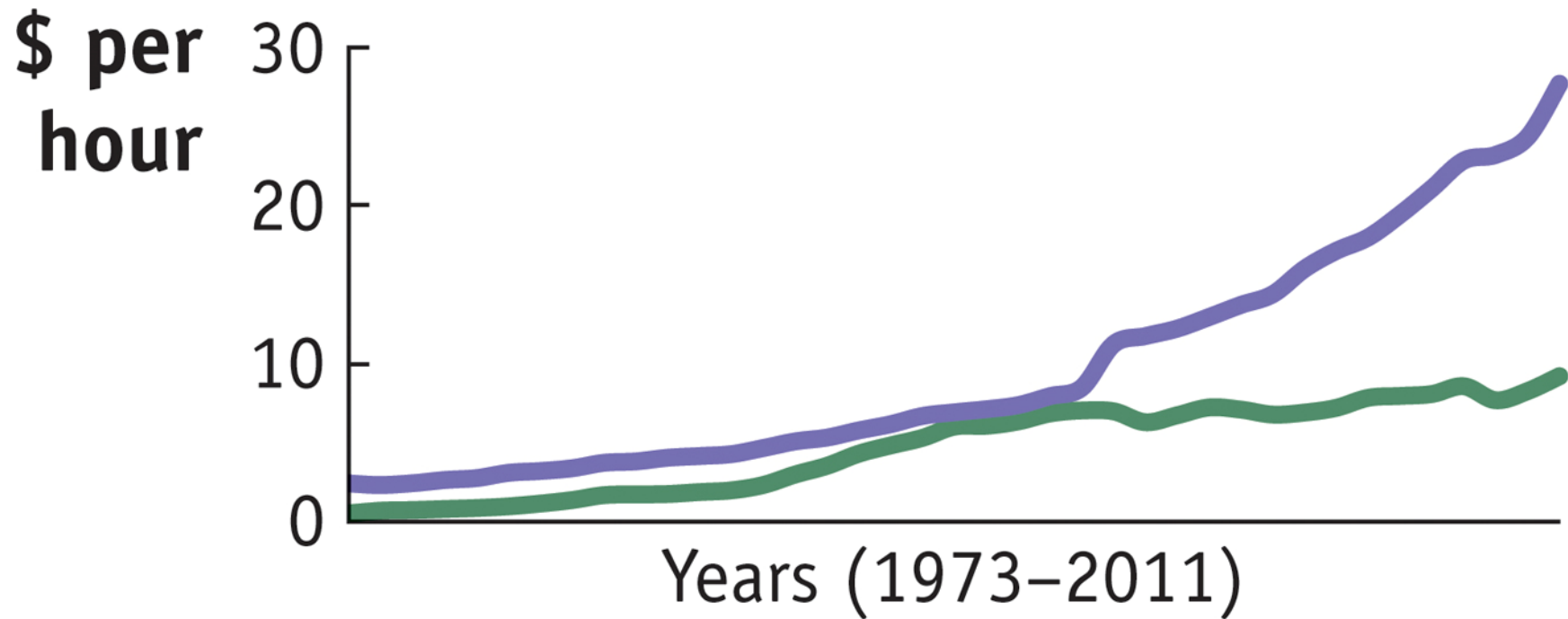
Italy



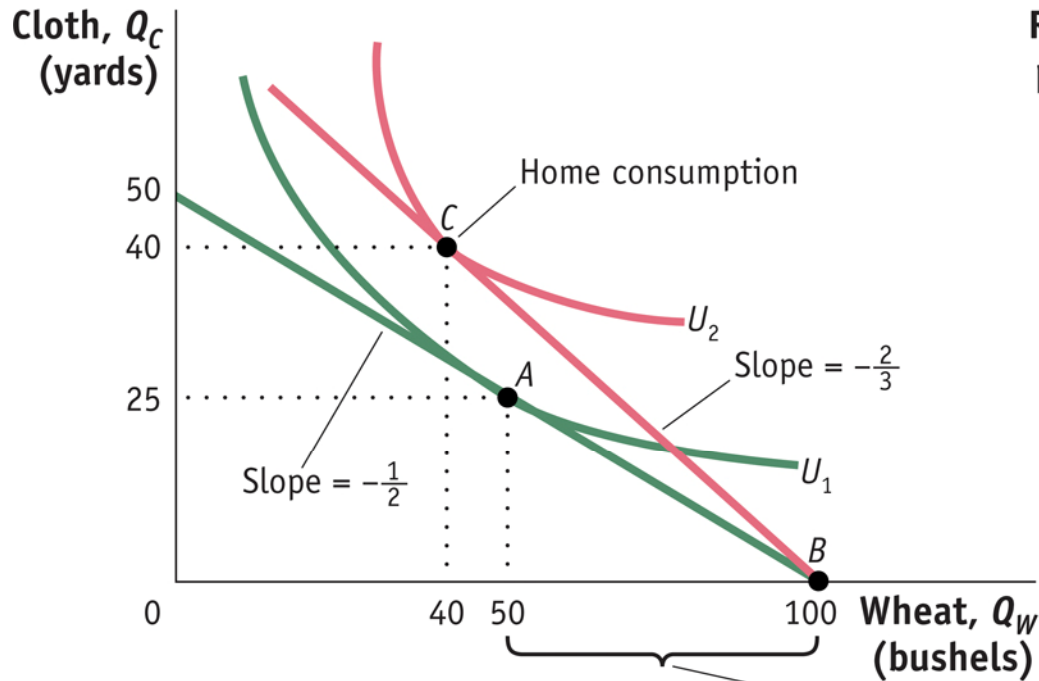
Korea



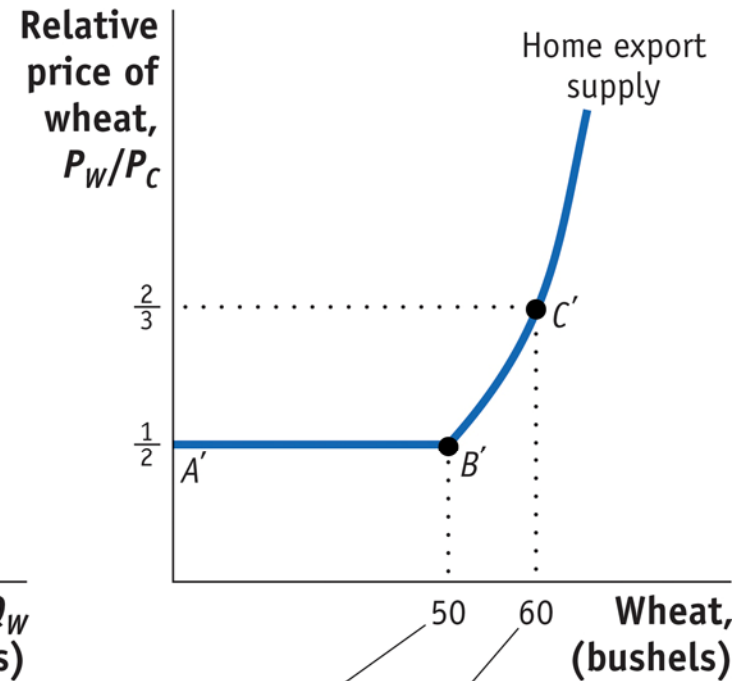
Taiwan



(a) Home Production and Consumption

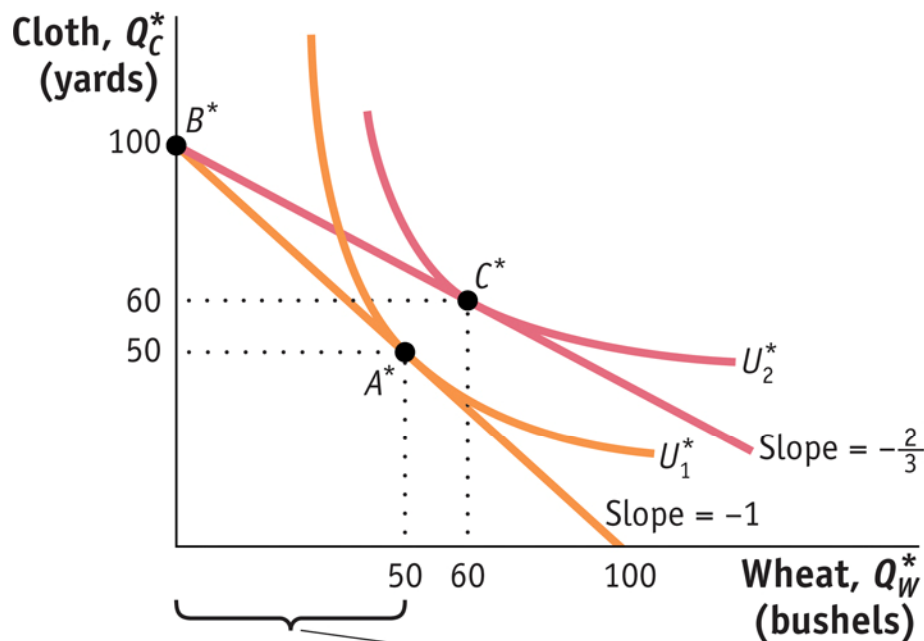


(b) Home Export Supply of Wheat

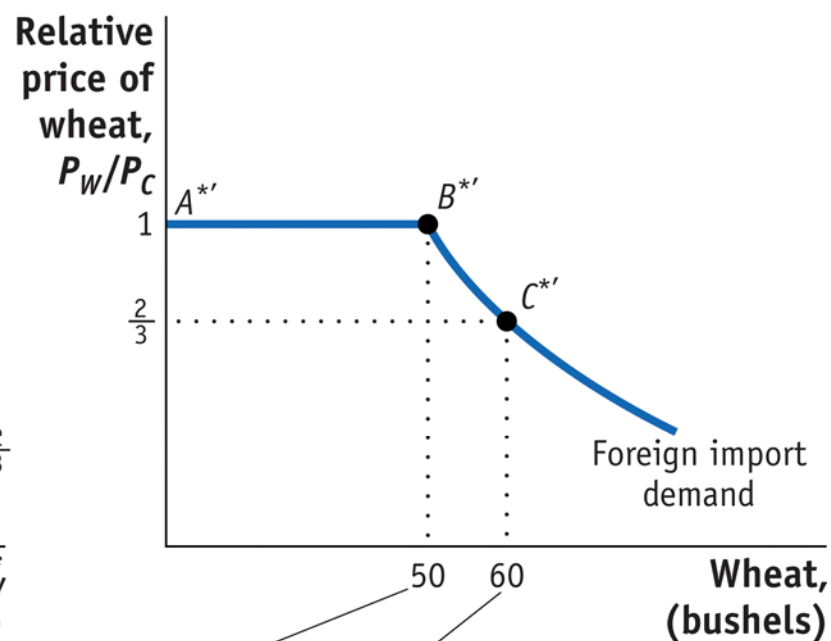


- 1. Home exports 0–50 bushels of wheat at a relative price of $\frac{1}{2}$ and . . .
- 2. . . 60 bushels of wheat at a relative price of $\frac{2}{3}$.

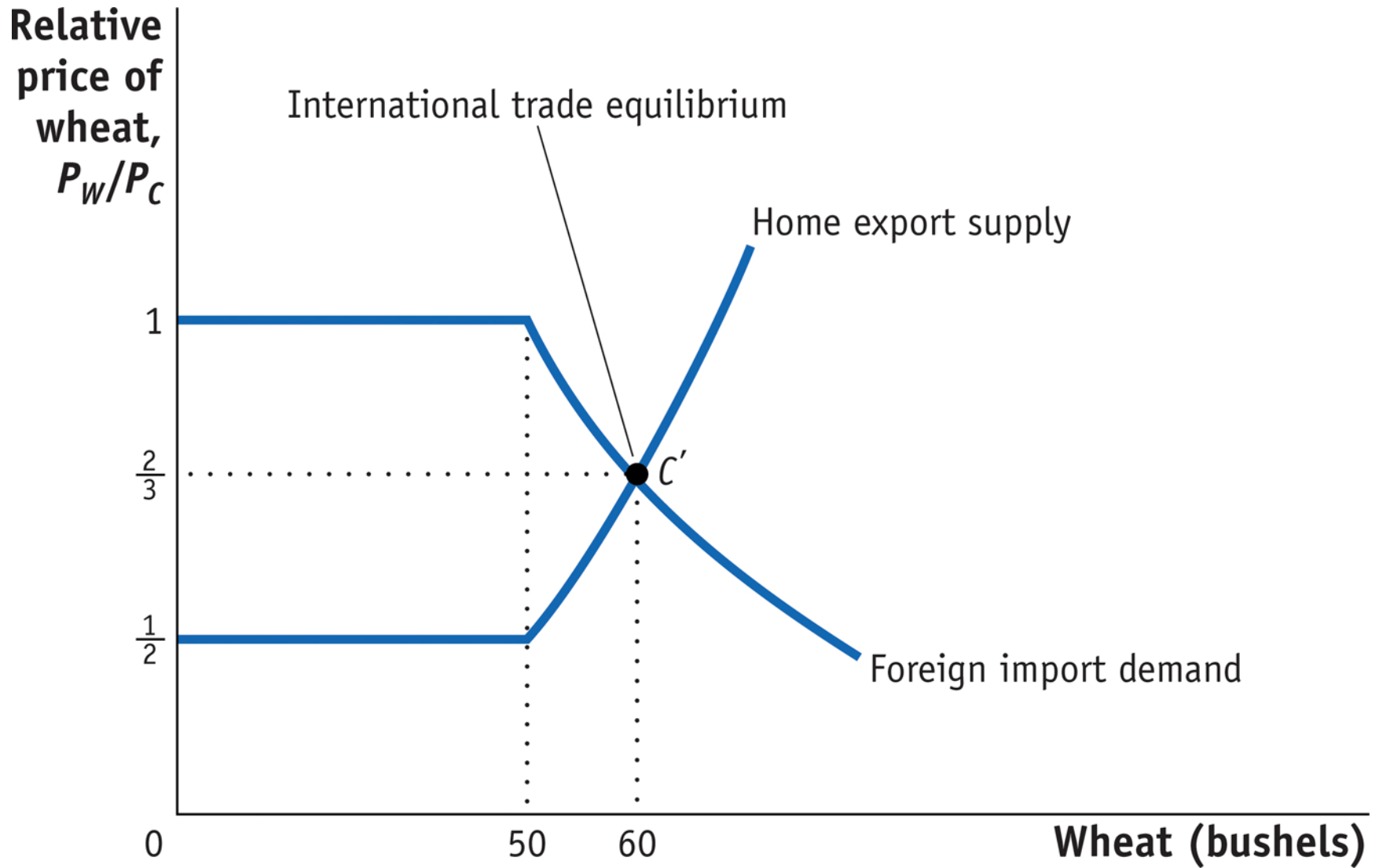
(a) Foreign Production and Consumption

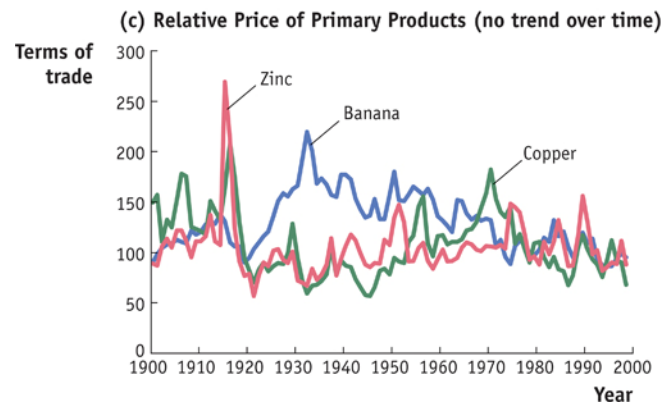
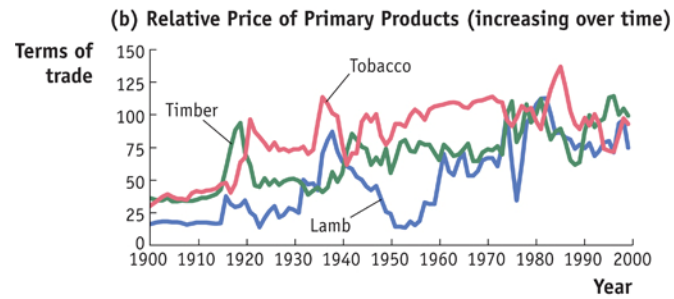
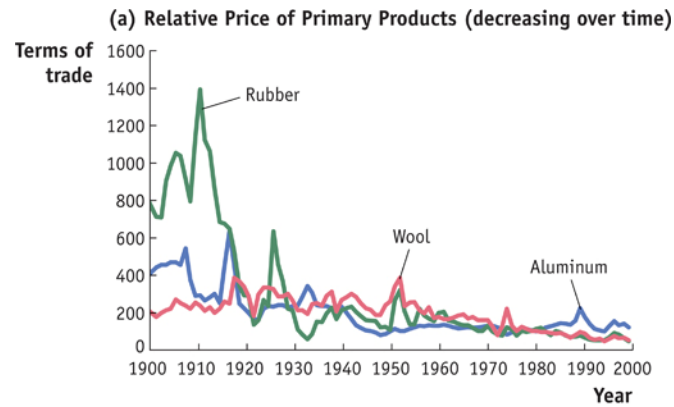


(b) Foreign Import Demand for Wheat

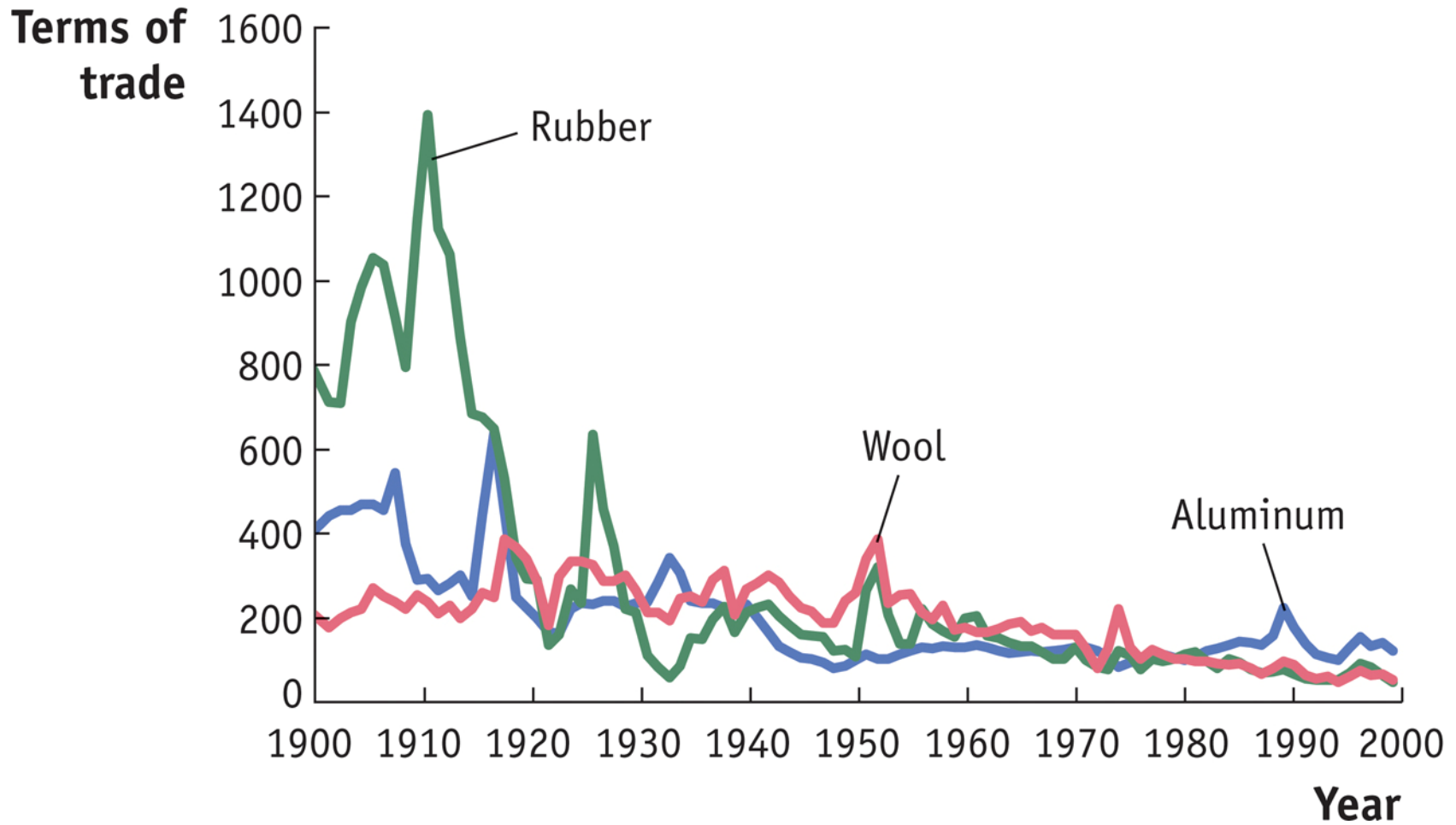


- 1. Foreign imports 0–50 bushels of wheat at a relative price of 1 and . . .
- 2. . . 60 bushels of wheat at a relative price of $\frac{2}{3}$.

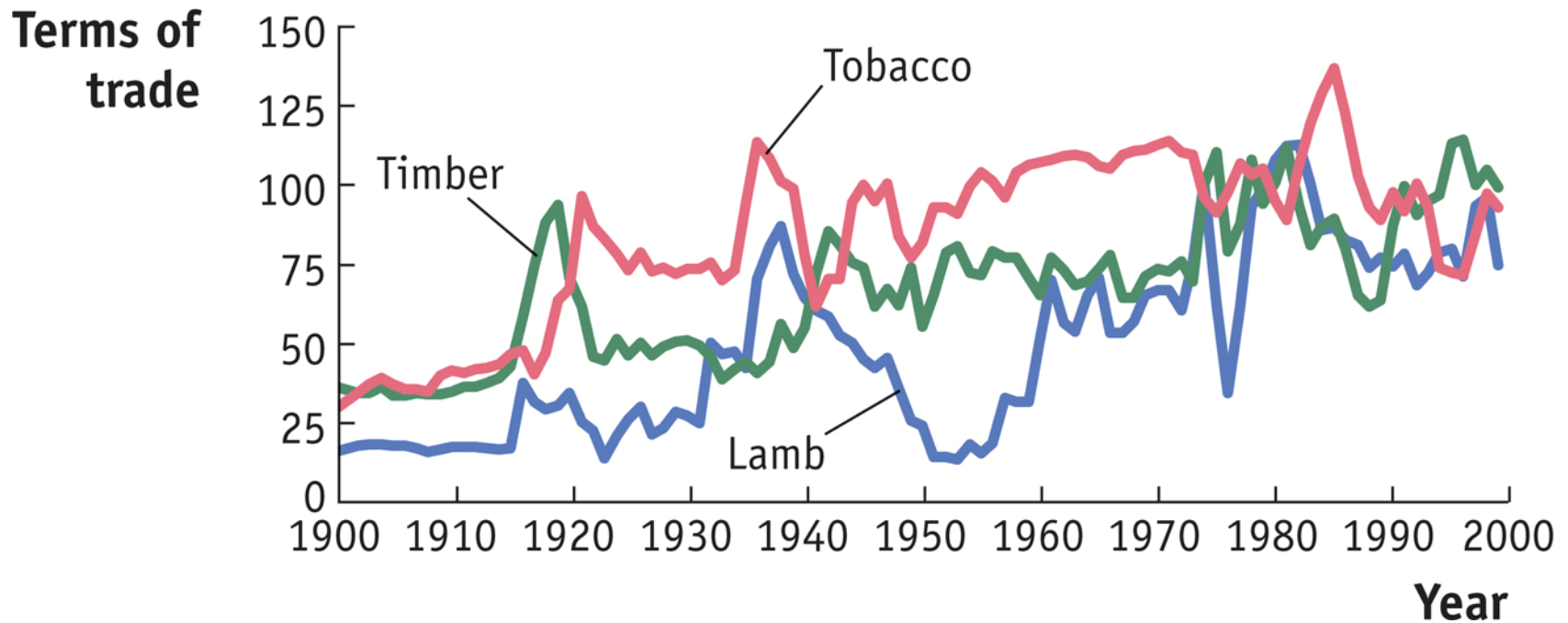




(a) Relative Price of Primary Products (decreasing over time)



(b) Relative Price of Primary Products (increasing over time)



(c) Relative Price of Primary Products (no trend over time)

