

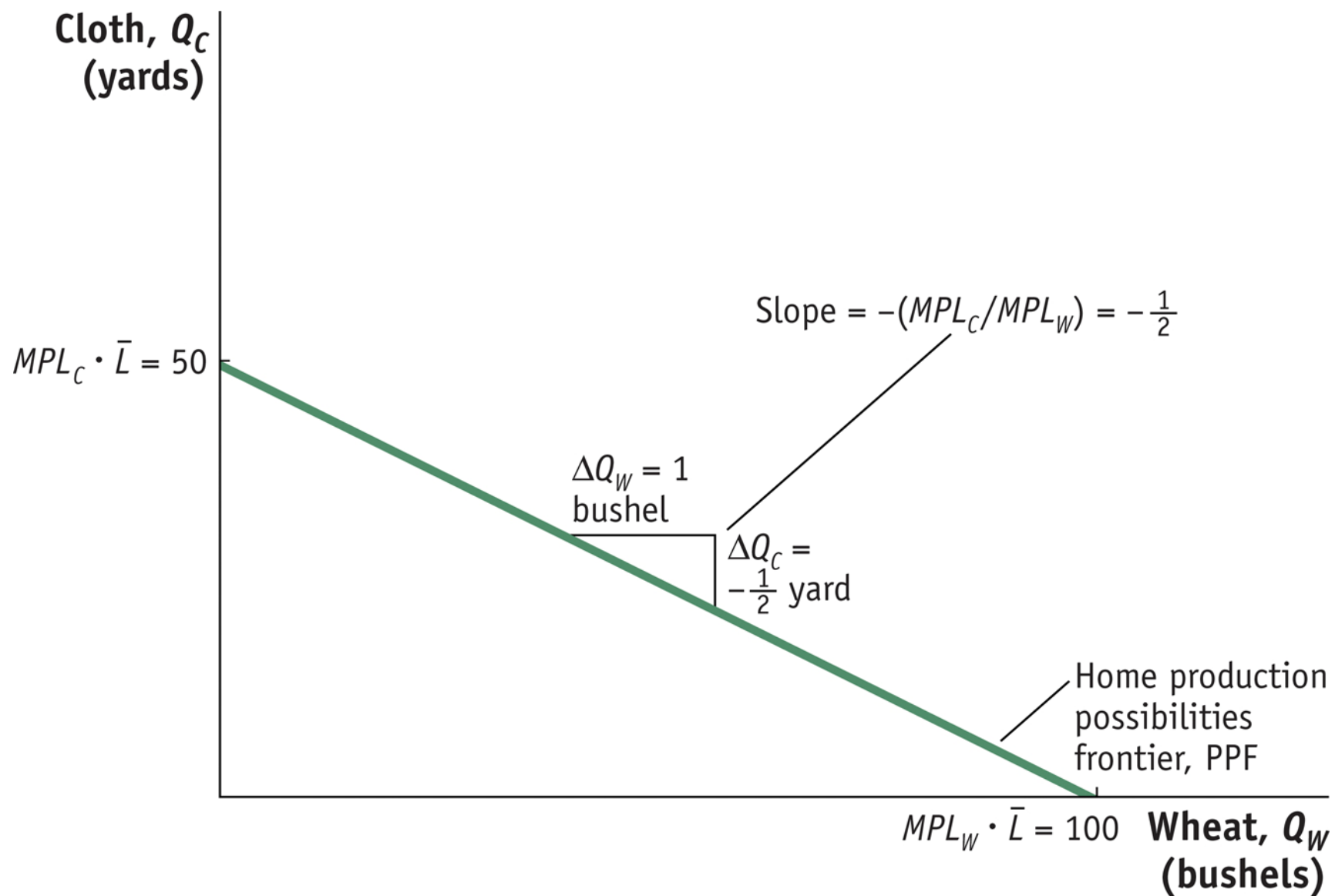
Public Affairs 856
Trade, Competition, and
Governance in a Global Economy

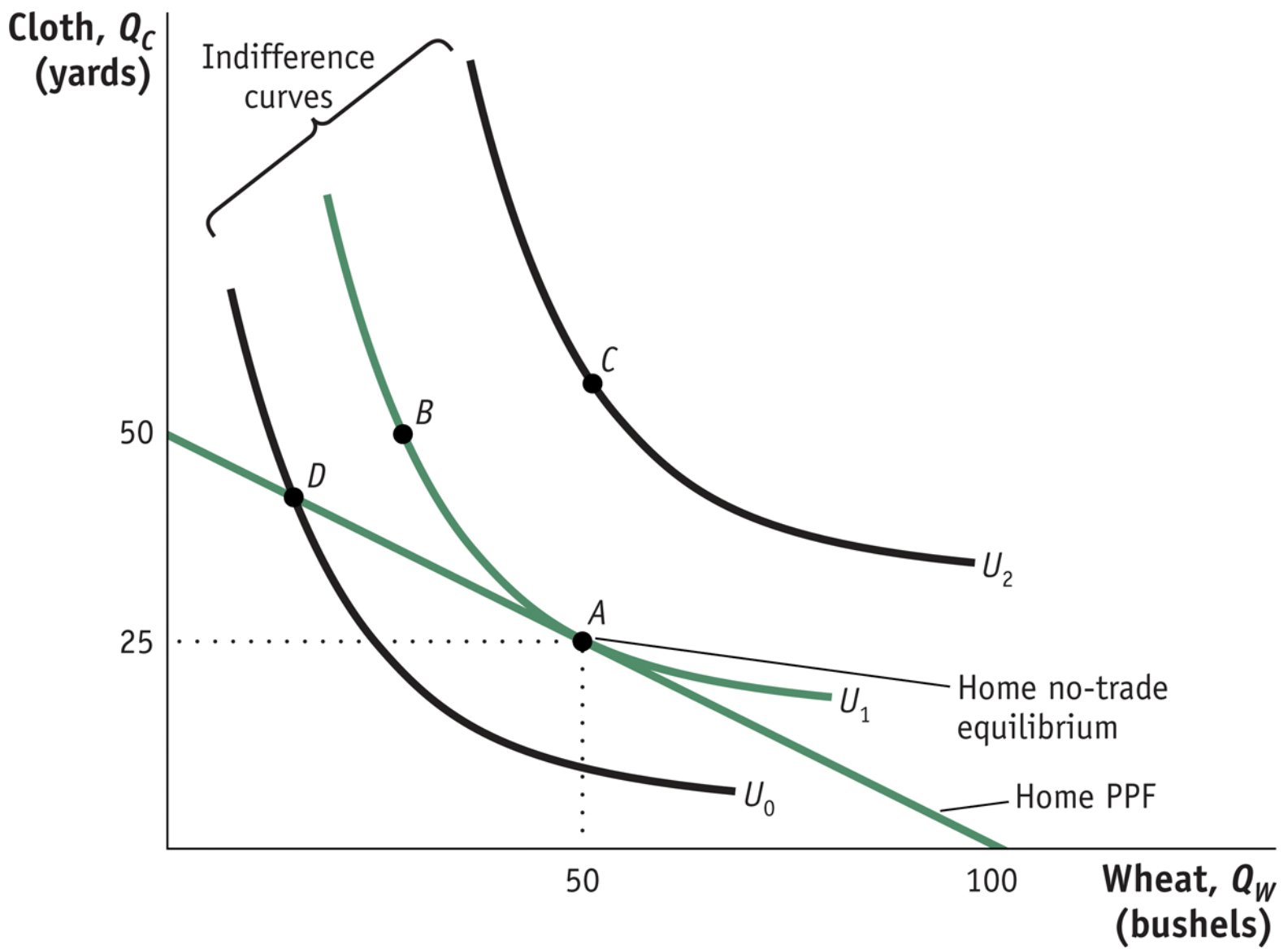
Lecture 3-4
1/30-2/4/2019

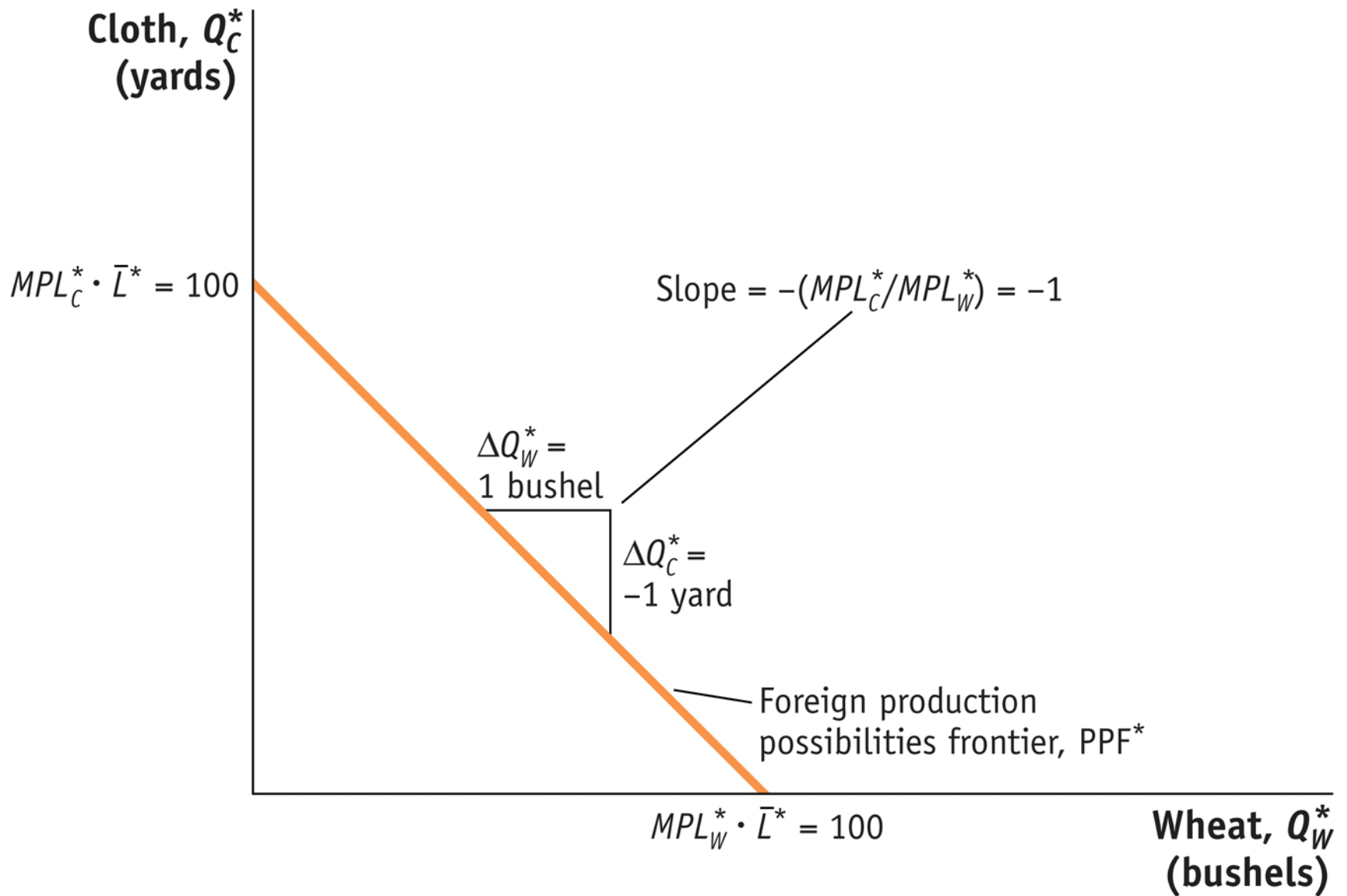
Instructor: Prof. Menzie Chinn
UW Madison
Spring 2019

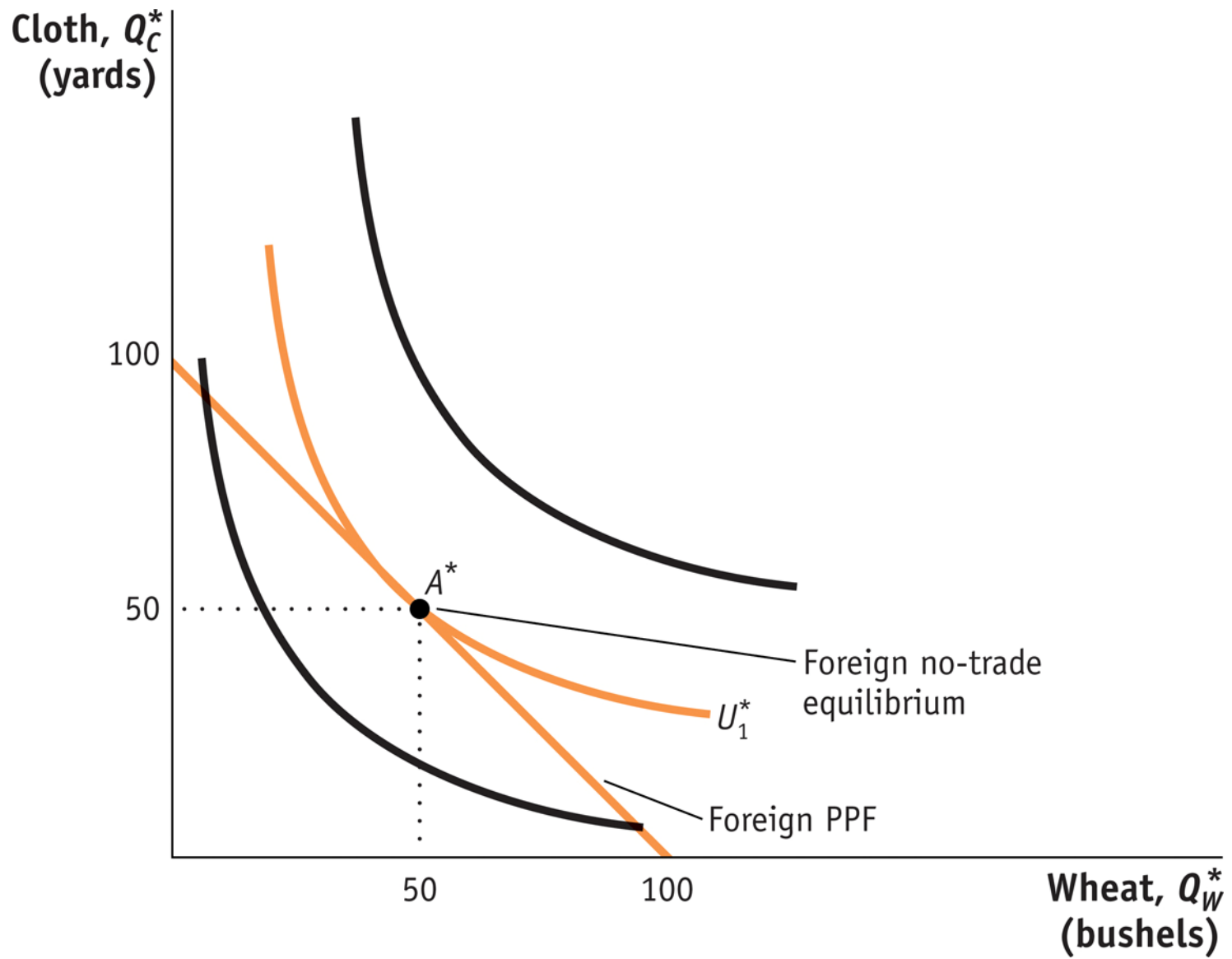
Technological Parameters

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

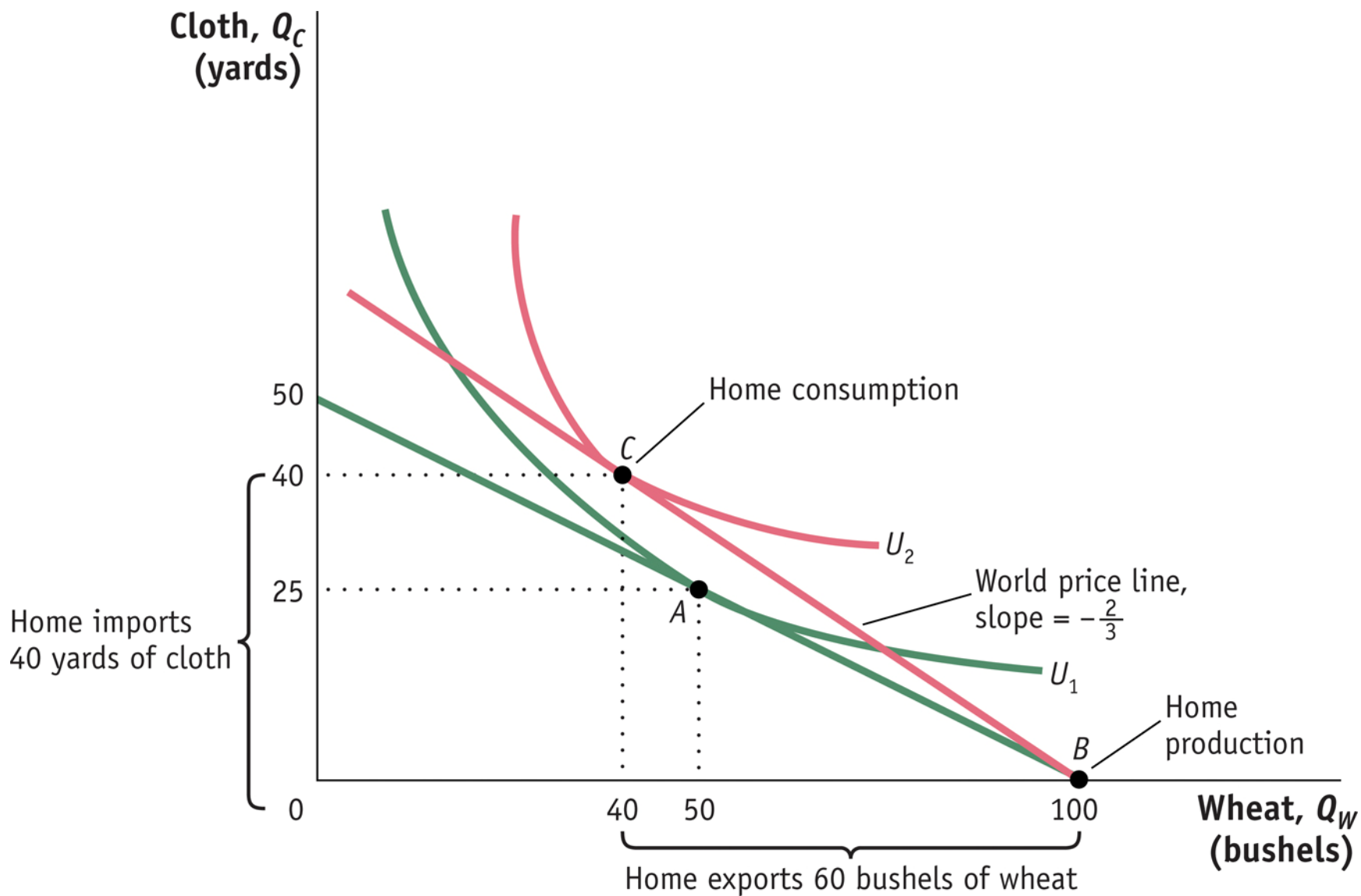


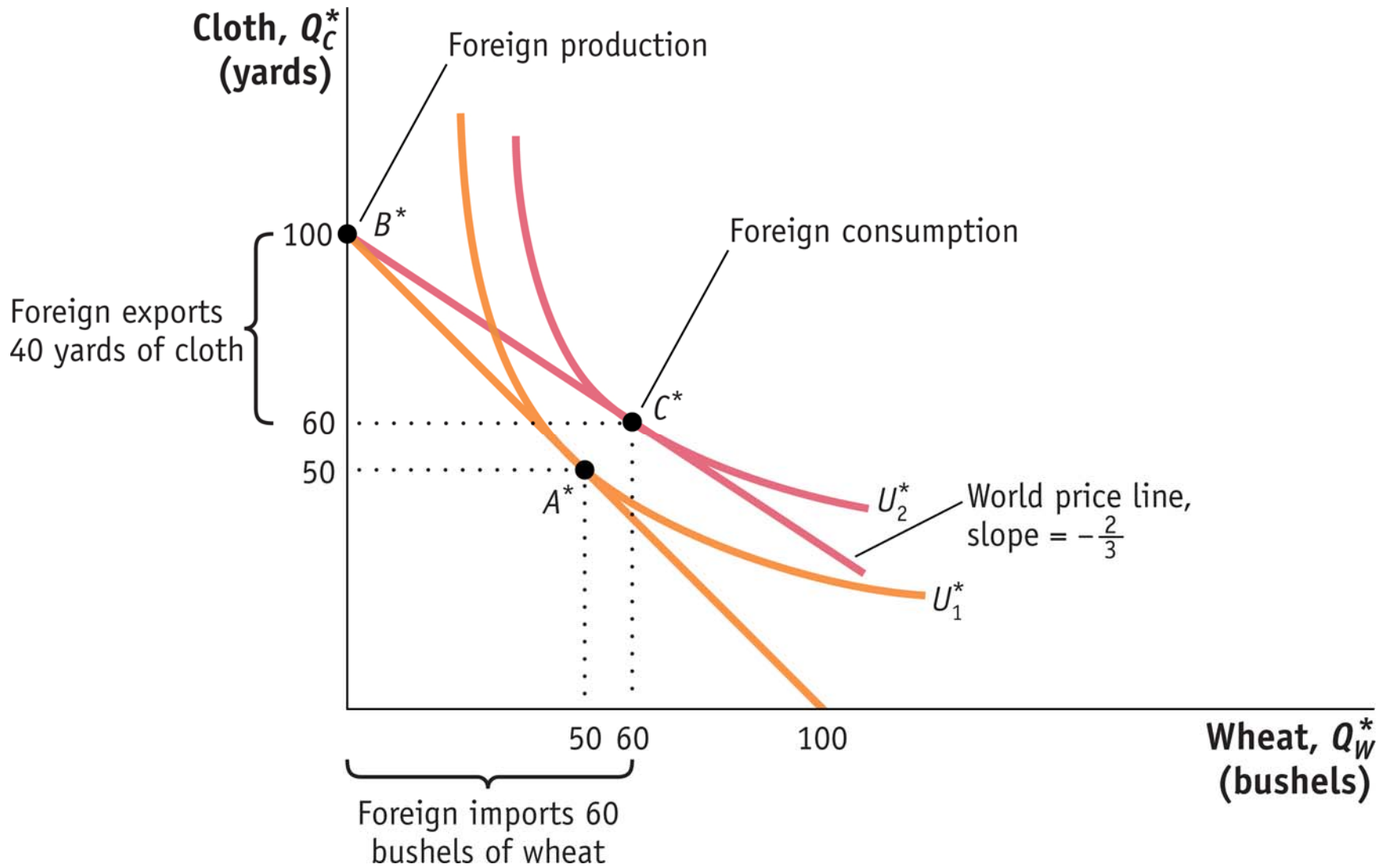






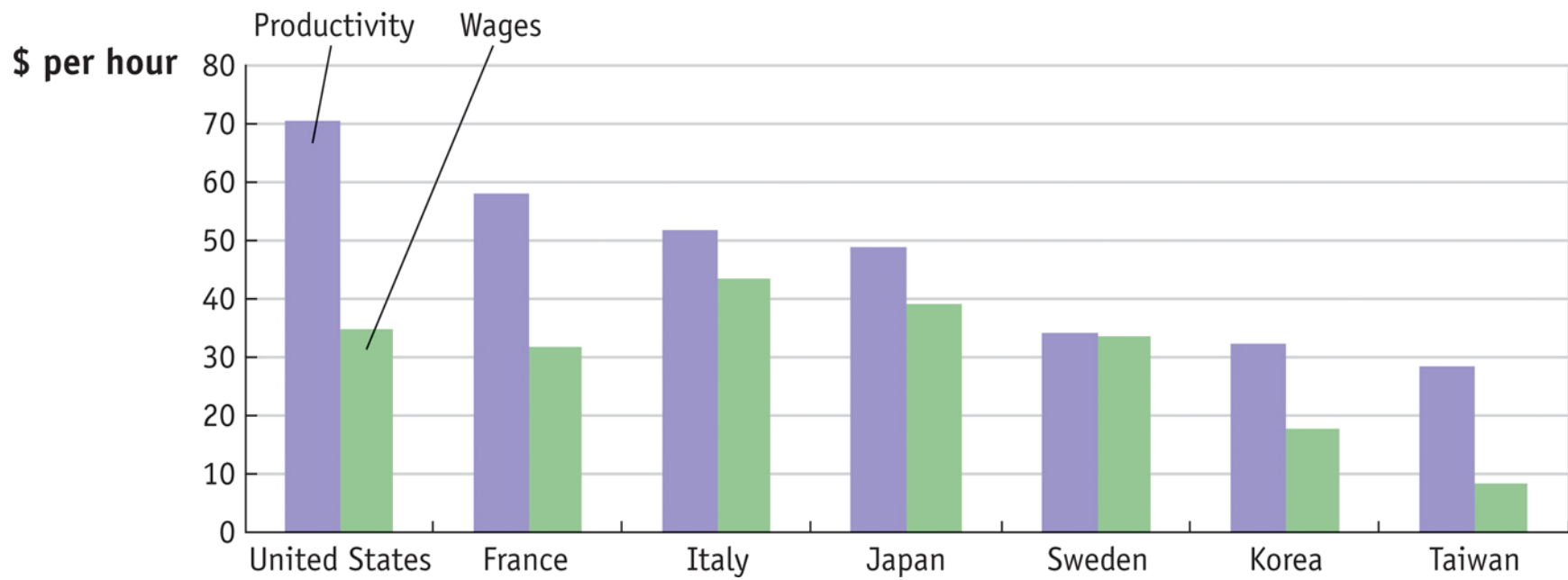
	United States	China	Absolute Advantage
	<i>Sales/Employee</i>	<i>Sales/Employee</i>	<i>U.S./China Ratio</i>
Apparel	\$56,000	\$23,000	2.4
Textiles	\$165,000	\$27,000	6.1
	<i>Bushels/Worker</i>	<i>Bushels/Worker</i>	<i>U.S./China Ratio</i>
Wheat	12,260	300	41
	Comparative Advantage		
Wheat/apparel ratio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

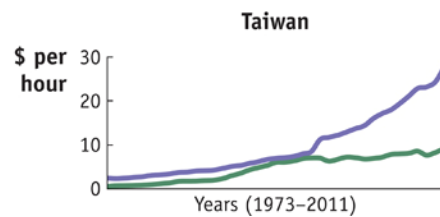
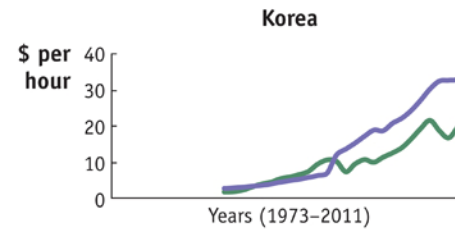
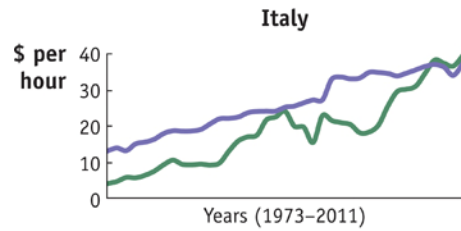
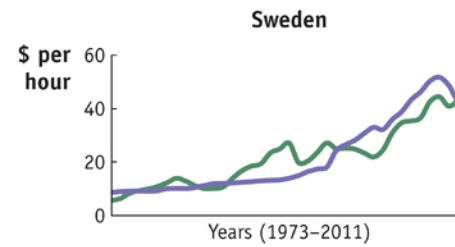
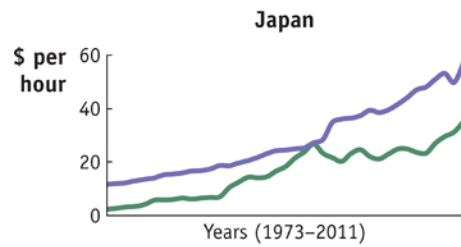
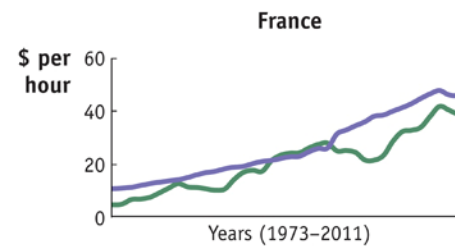
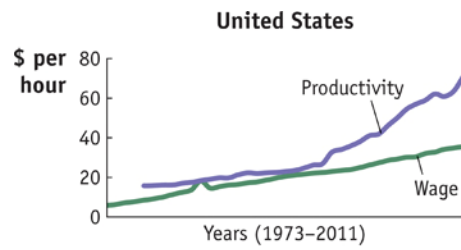




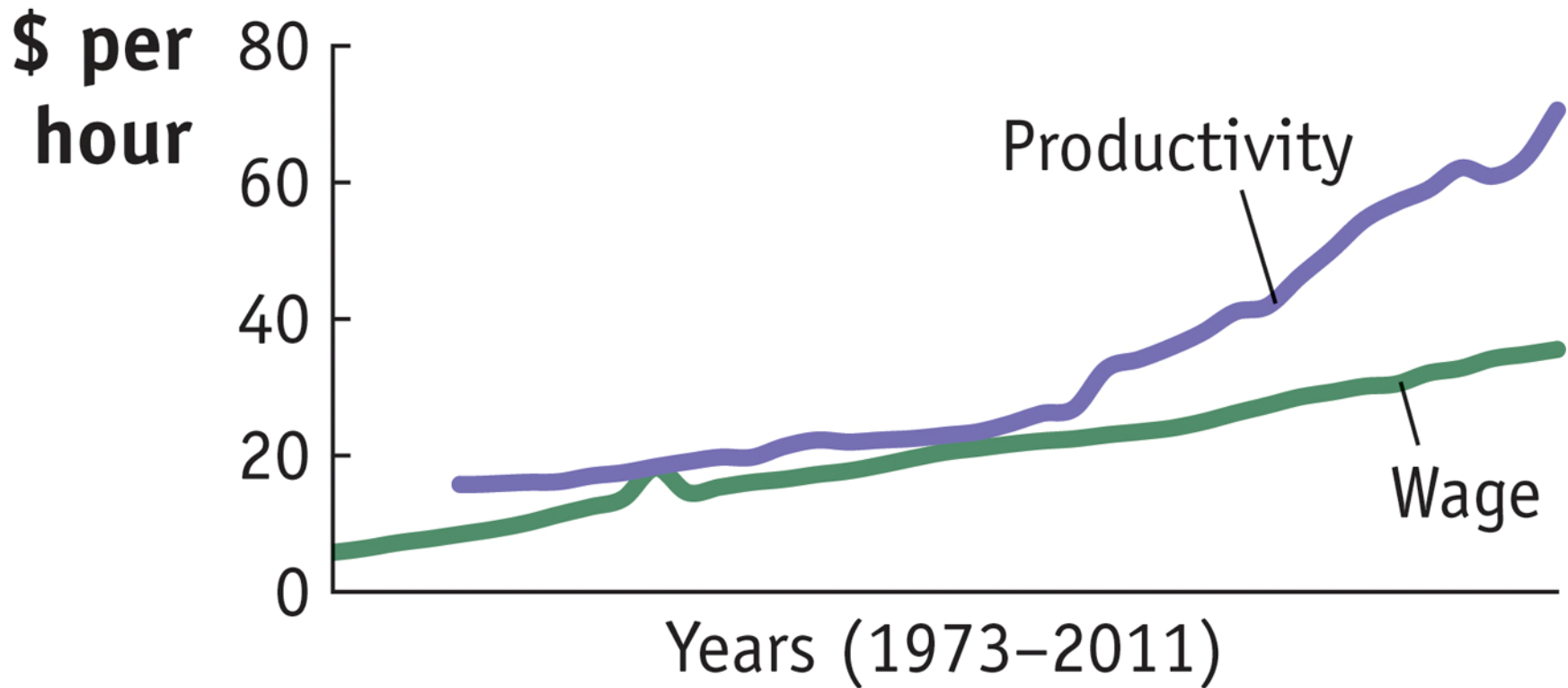
Real Wage Determination

- 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

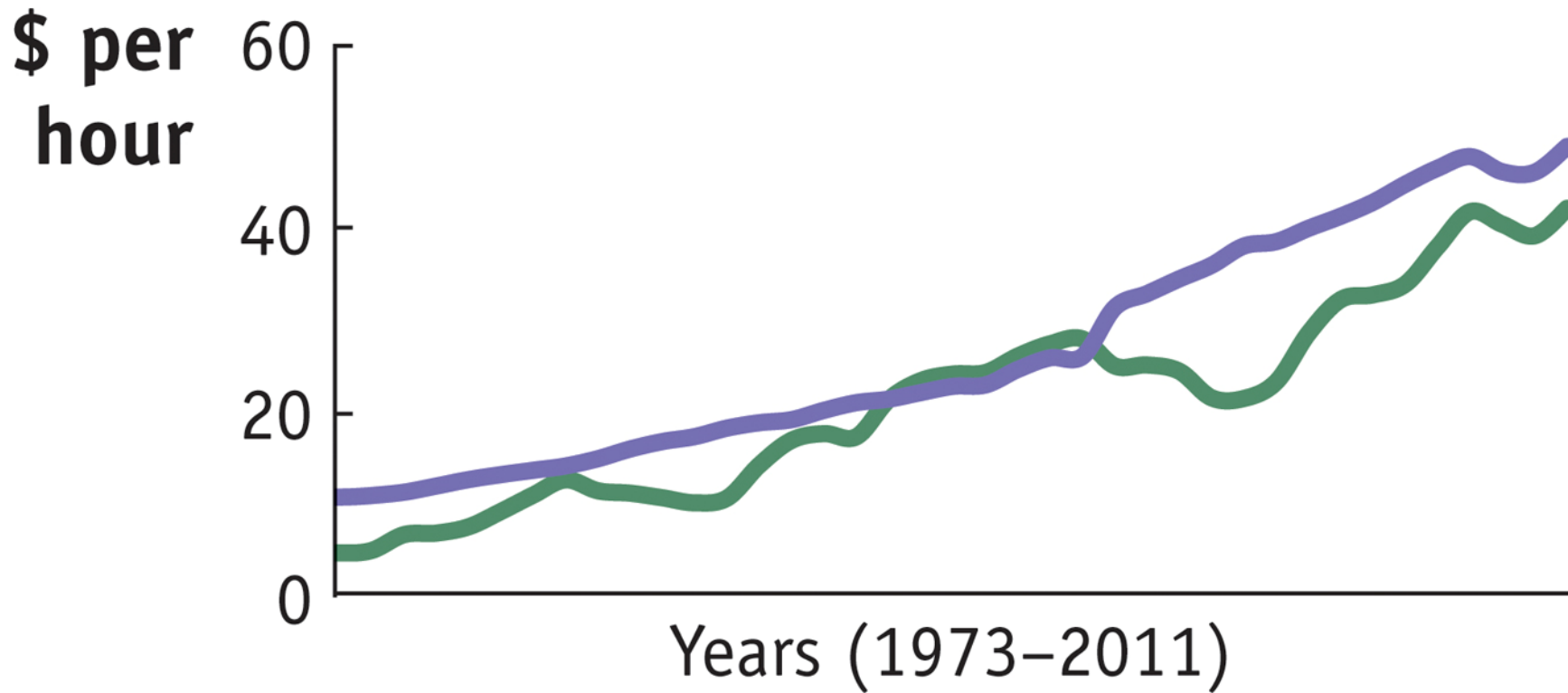




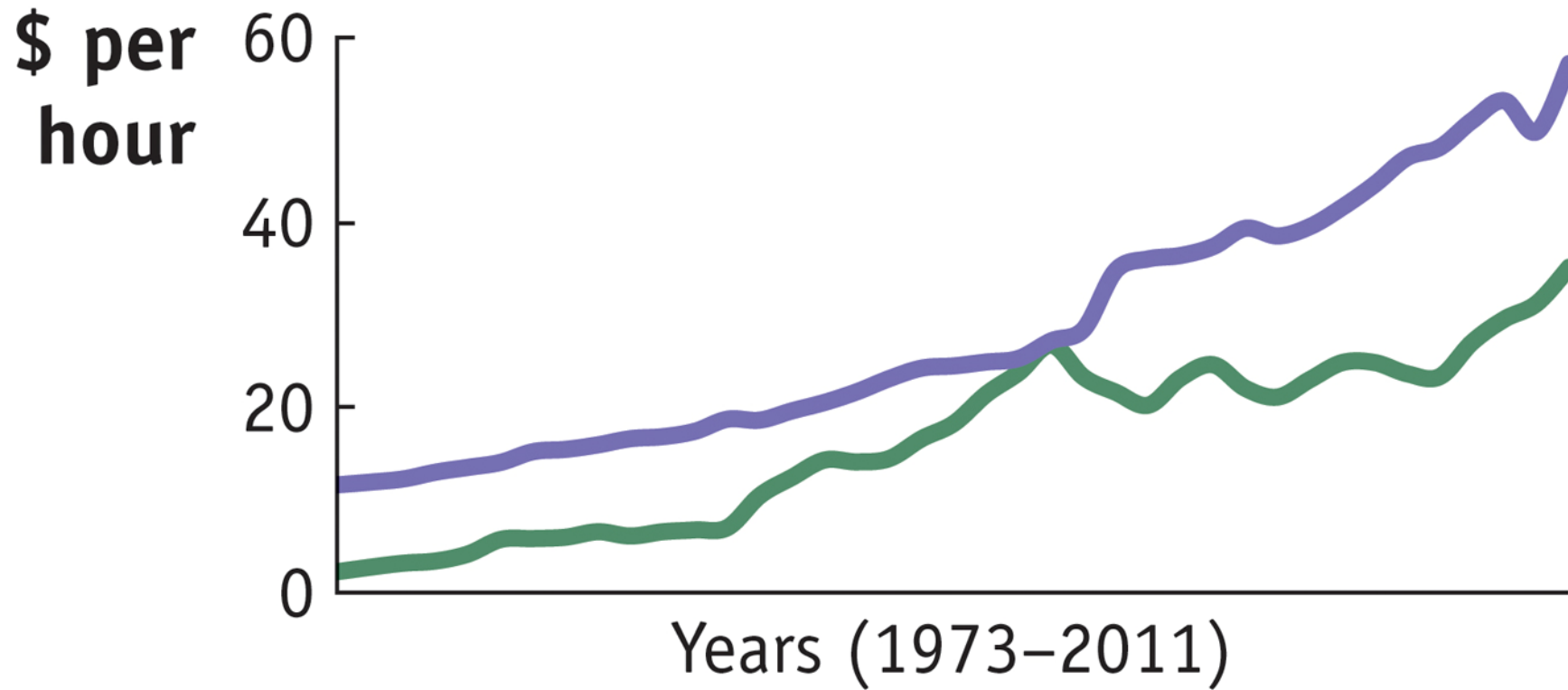
United States



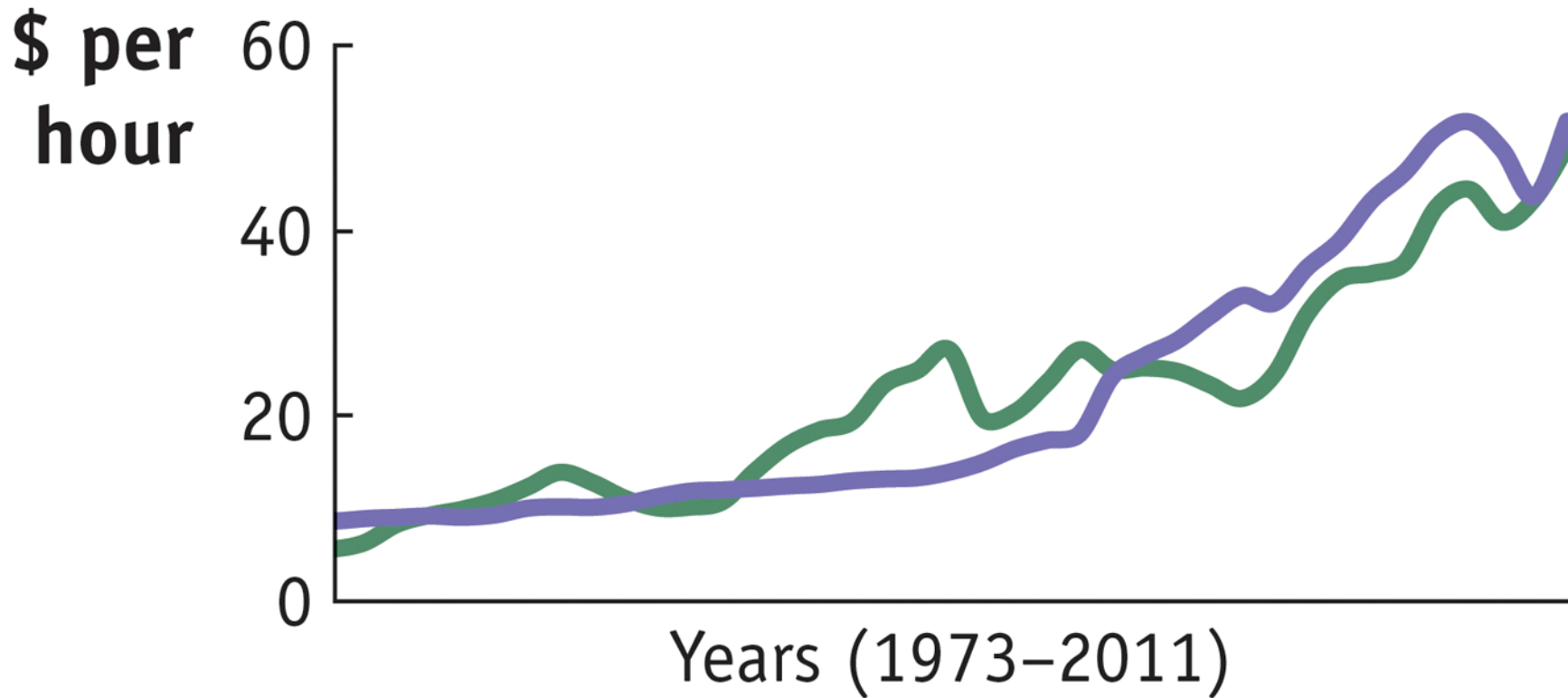
France



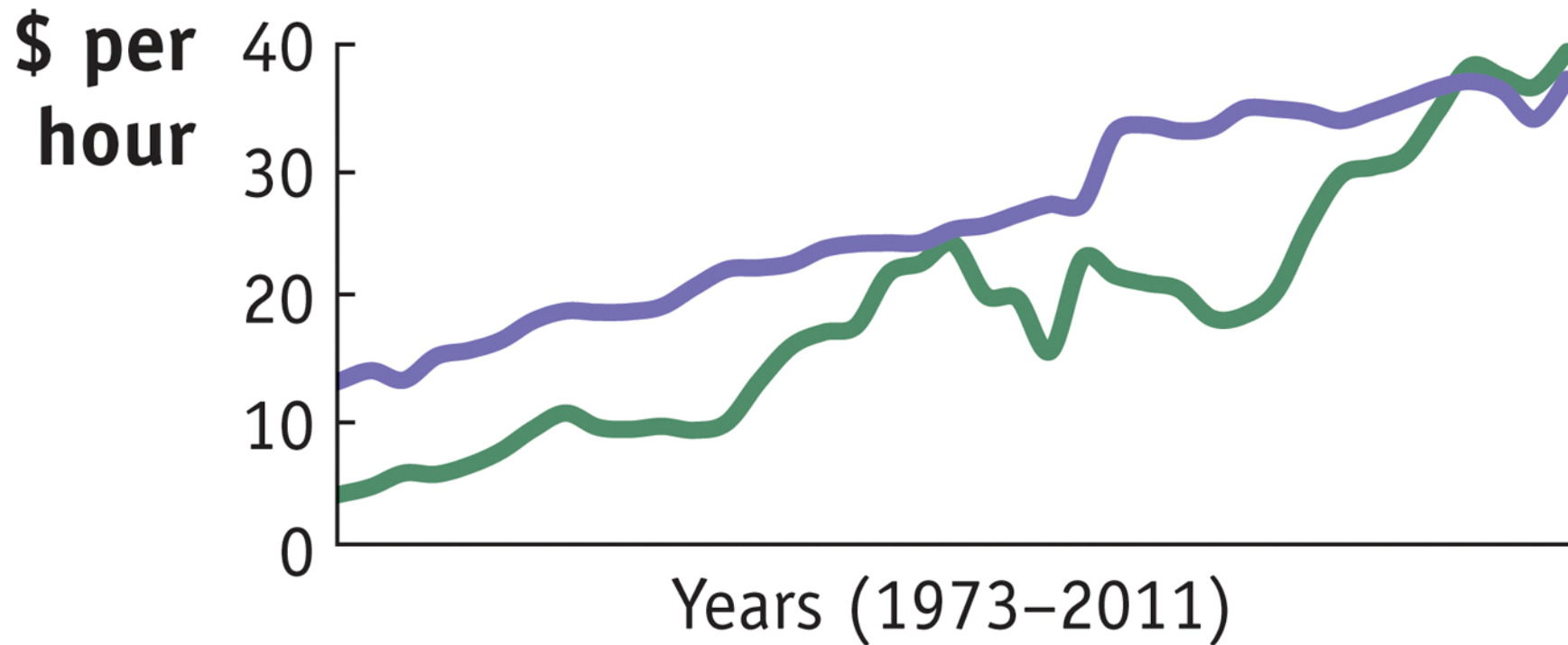
Japan



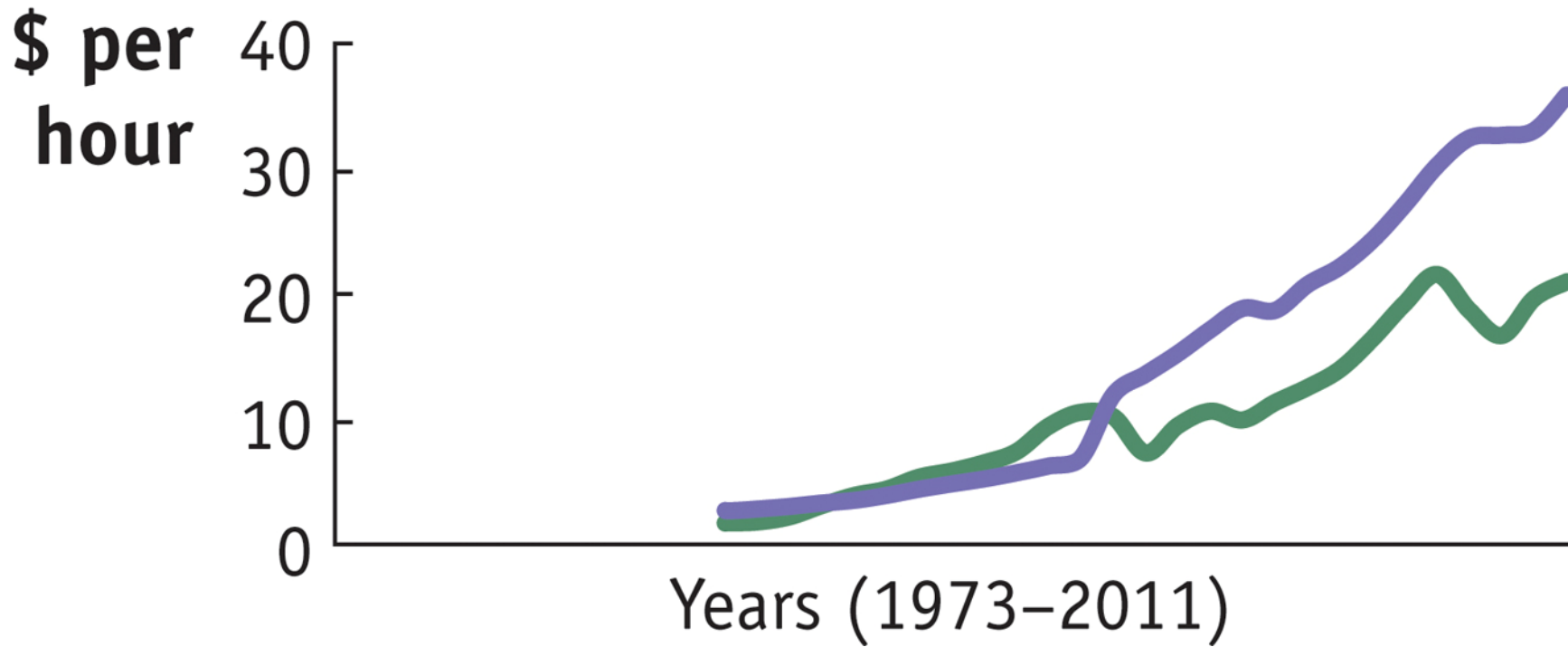
Sweden



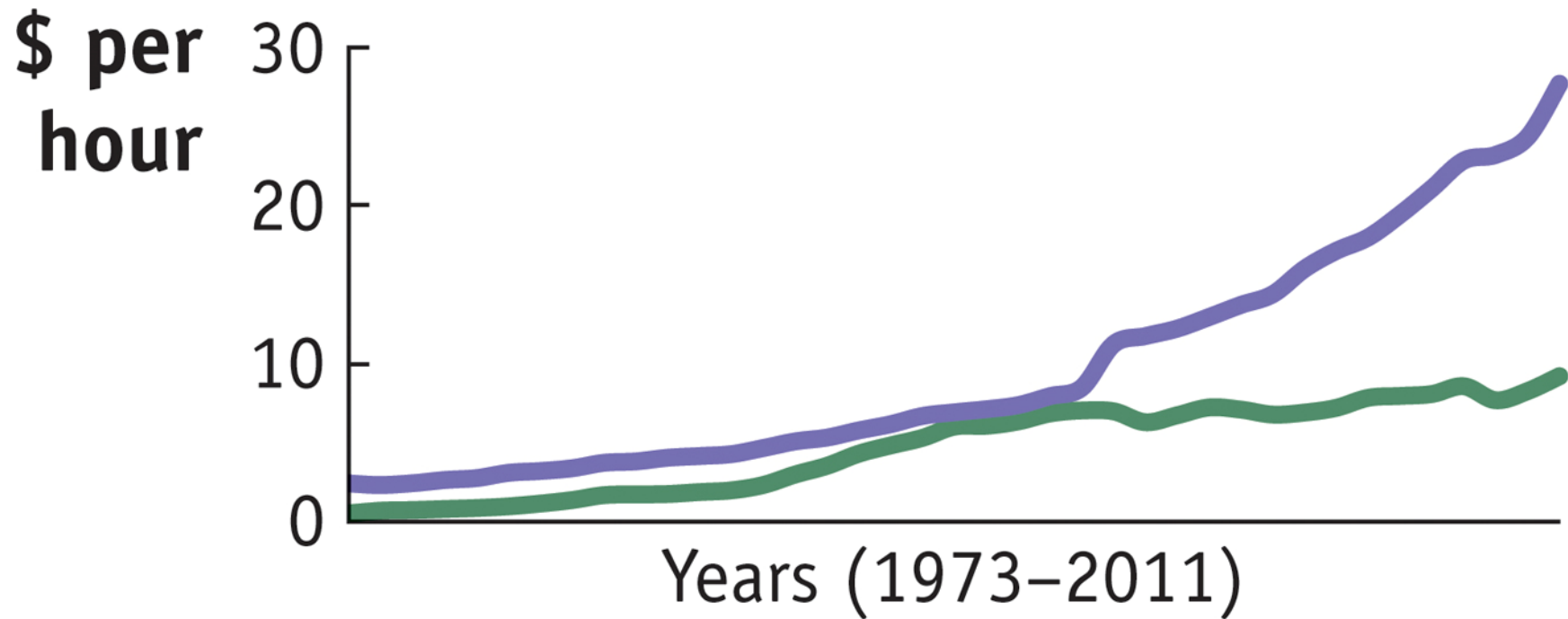
Italy



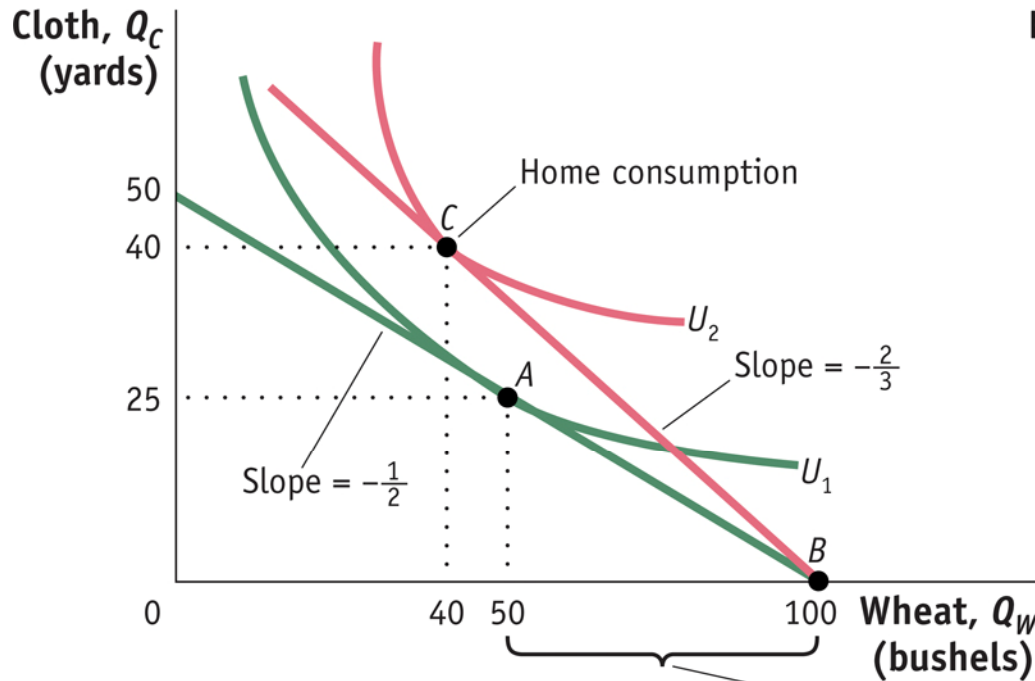
Korea



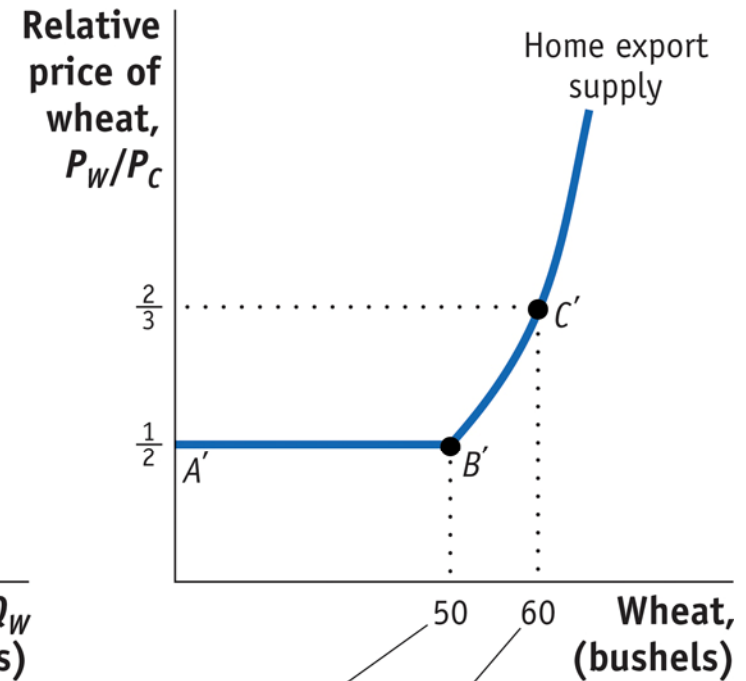
Taiwan



(a) Home Production and Consumption

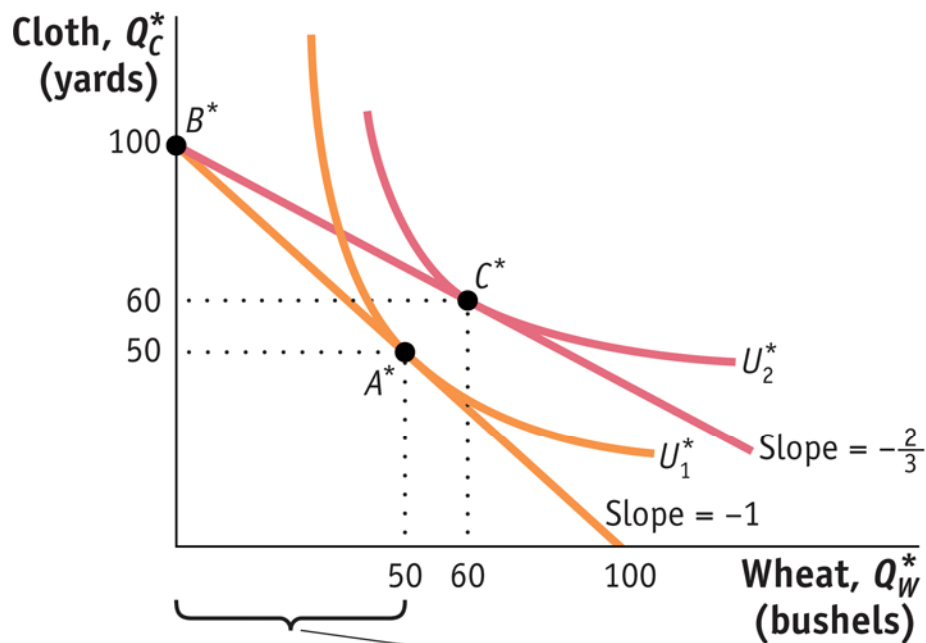


(b) Home Export Supply of Wheat

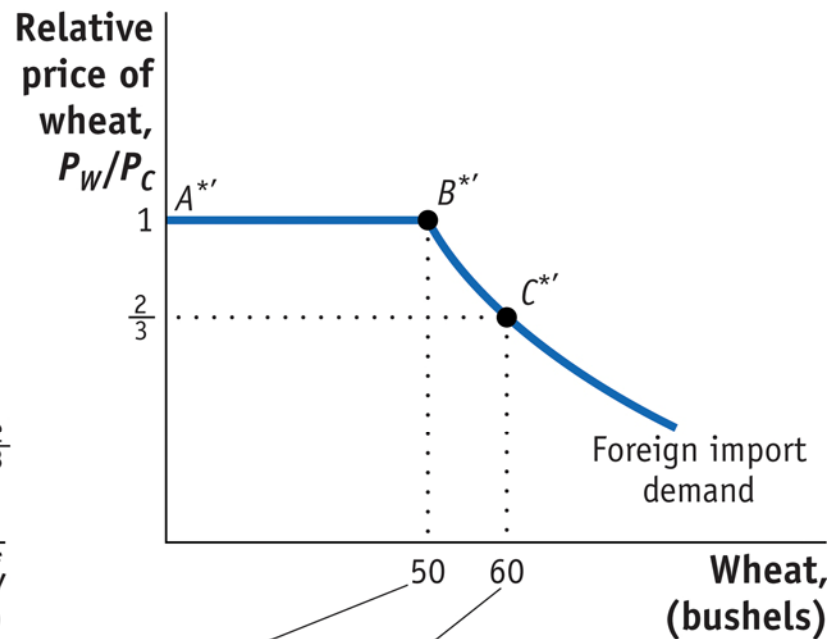


- 1. Home exports 0–50 bushels of wheat at a relative price of $\frac{1}{2}$ and . . .
- 2. . . 60 bushels of wheat at a relative price of $\frac{2}{3}$.

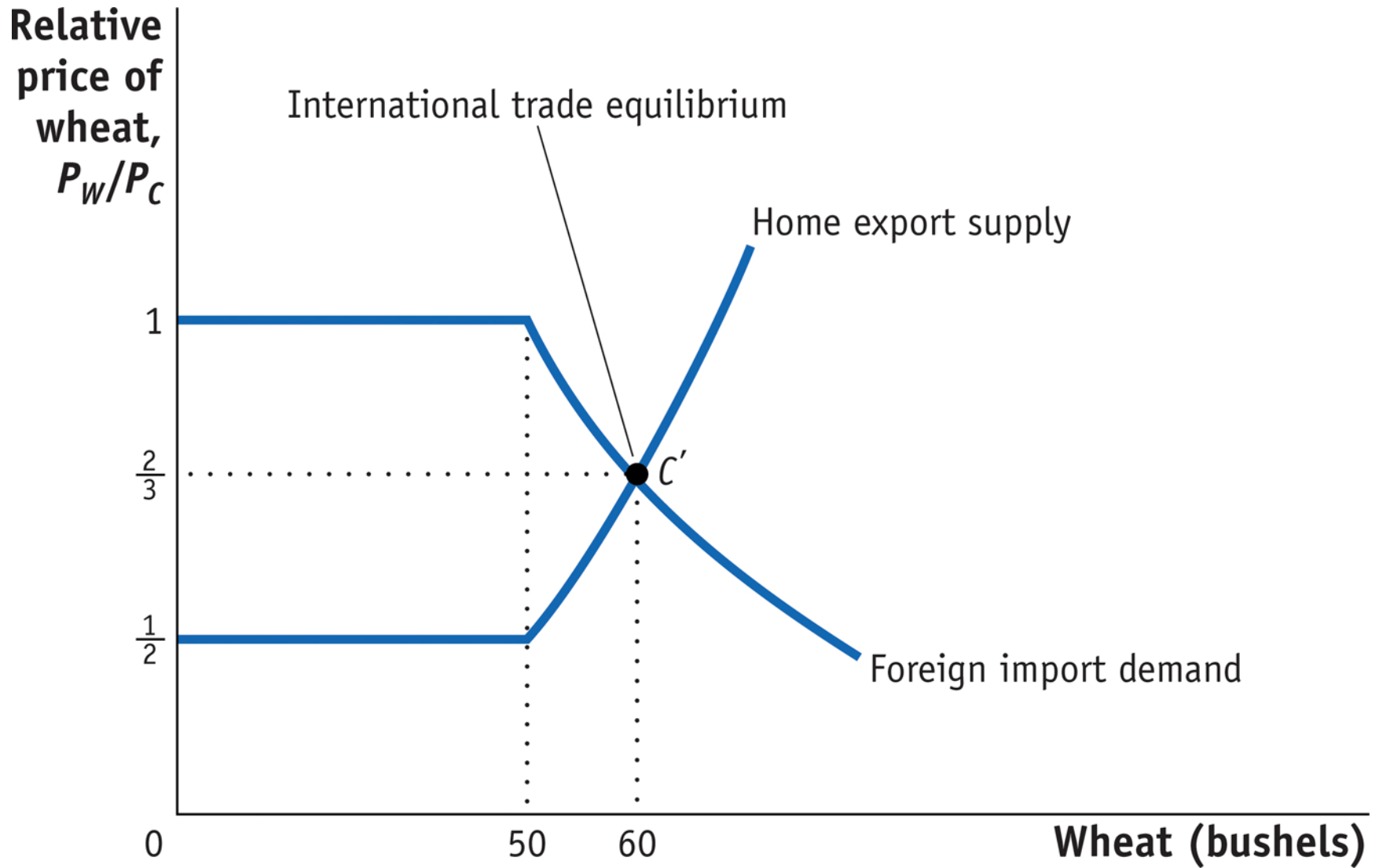
(a) Foreign Production and Consumption

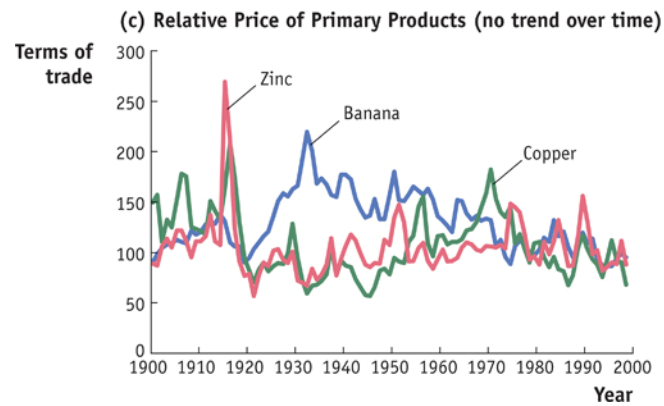
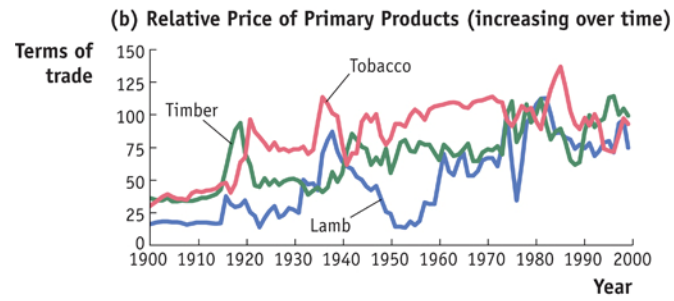
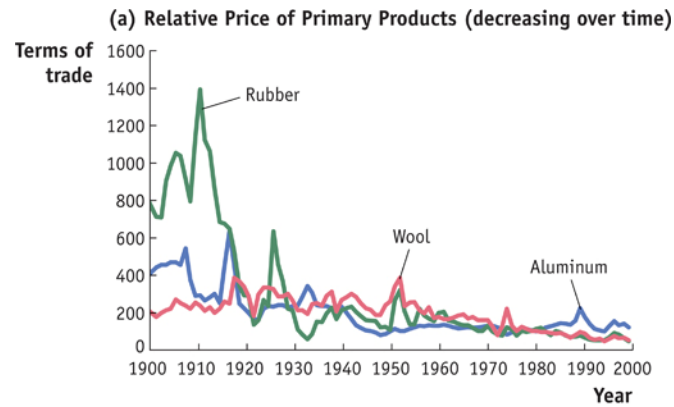


(b) Foreign Import Demand for Wheat

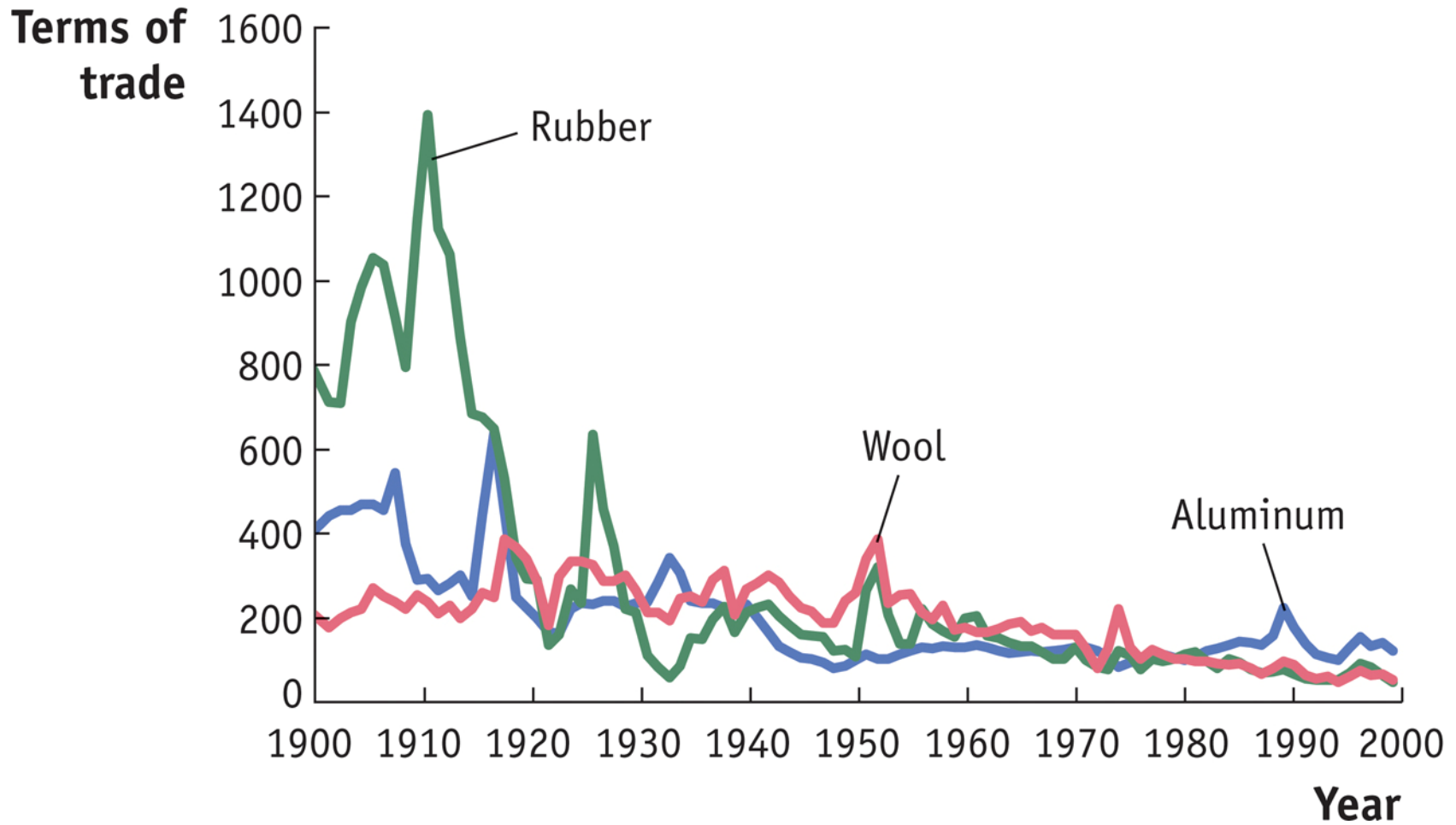


- 1. Foreign imports 0–50 bushels of wheat at a relative price of 1 and . . .
- 2. . . 60 bushels of wheat at a relative price of $\frac{2}{3}$.

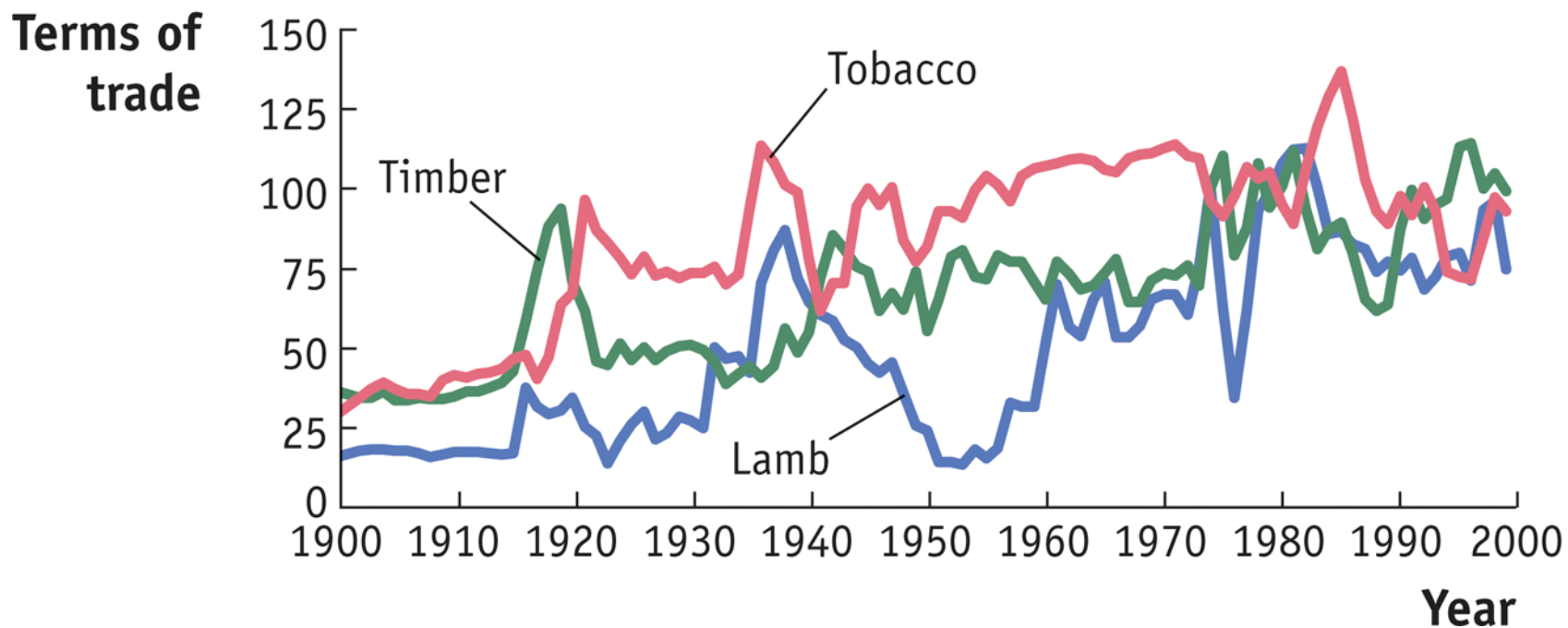




(a) Relative Price of Primary Products (decreasing over time)



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



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

