

10-14-08

PLAN / OVERVIEW OF TOPIC COVERED UP TO NOW

WHY TRADE
 \neq TECH
 \neq FACTOR ENDOW!

EXAM 1

RICARDO

S.F.

- PERFECT COMPETITION
- CONSTANT RETURNS TO SCALE

NEXT

\neq FACTOR ENDOW!

H-O

HECKSCHER

DH LIN

- P.C.
- CONSTANT RETURNS TO SCALE

-2-

RICARDO

S.F.

H-O



CLASSICAL
TRADE
MODELS

H-3-

- 1) PATTERN OF TRADE
- 2) FACTOR RETURNS
AUT \rightarrow FT
- 3) EMPIRICAL TESTING
- 4) OTHER REFINEMENTS

H-O EXAMPLE

2 COUNTRIES: H, F(*)

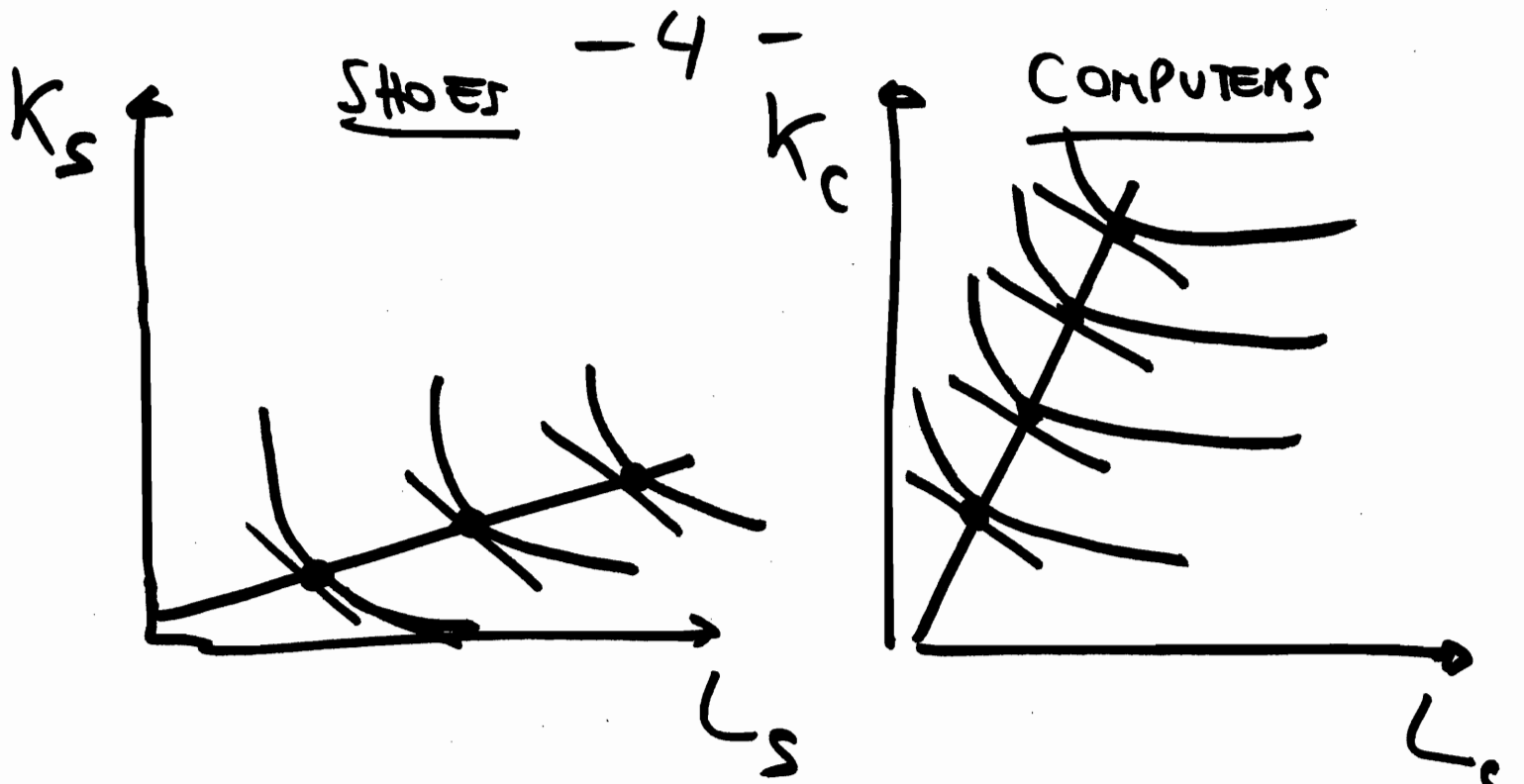
2 GOODS: SHOES, COMPUTERS

2 FACTORS: L, K

TECHNOLOGIES:

SHOES: L-INTENSIVE

COMPUTERS: K-INTENSIVE



$$(\text{slope}) = \frac{w}{r}$$

DEF: $\frac{K_S}{L_S} < \frac{K_C}{L_C}$

FOR ALL $\frac{w}{r}$ VALUES

- TECHNOLOGIES ARE IDENTICAL ACROSS COUNTRIES.
- CONSTANT RETURNS TO SCALE
- IDENTICAL PREFERENCES ACROSS COUNTRIES

- 5 -

- HOME IS RELATIVELY CAPITAL
ABUNDANT

FOREIGN IS RELATIVELY
LABOR ABUNDANT :

$$\frac{K}{L} > \frac{K^*}{L^*}$$

- AUTARKY TO
FREE TRADE

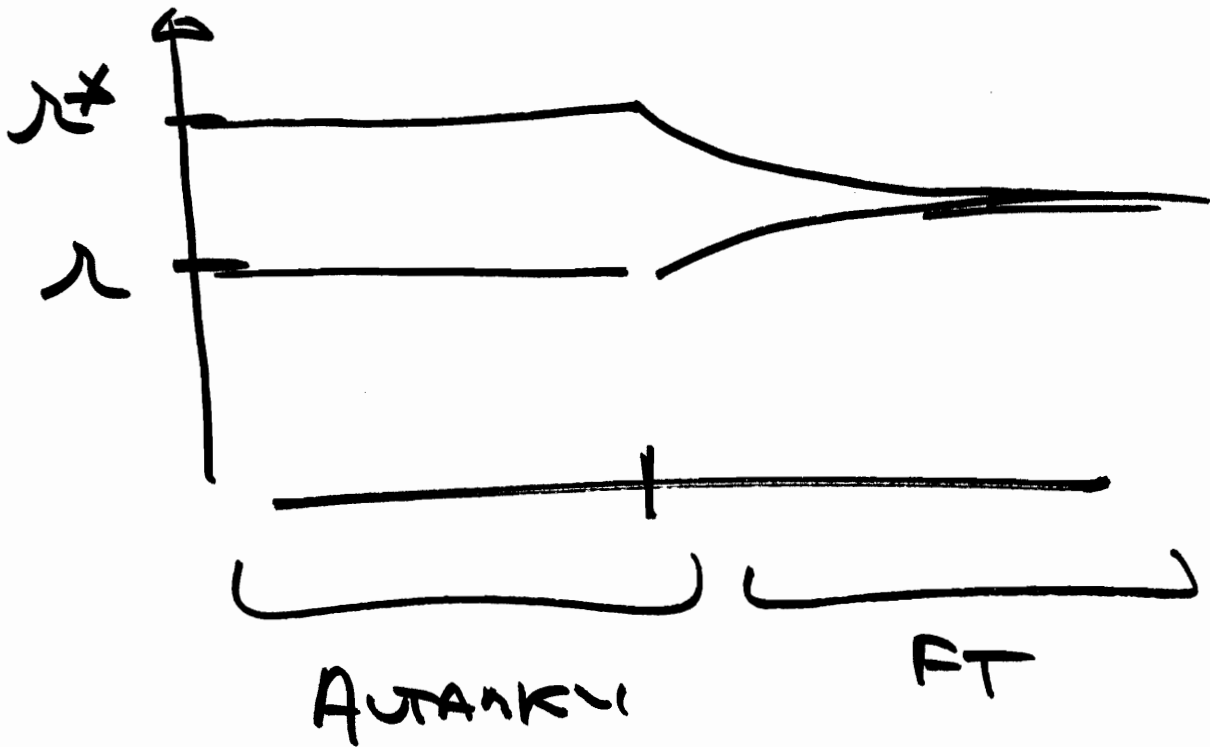
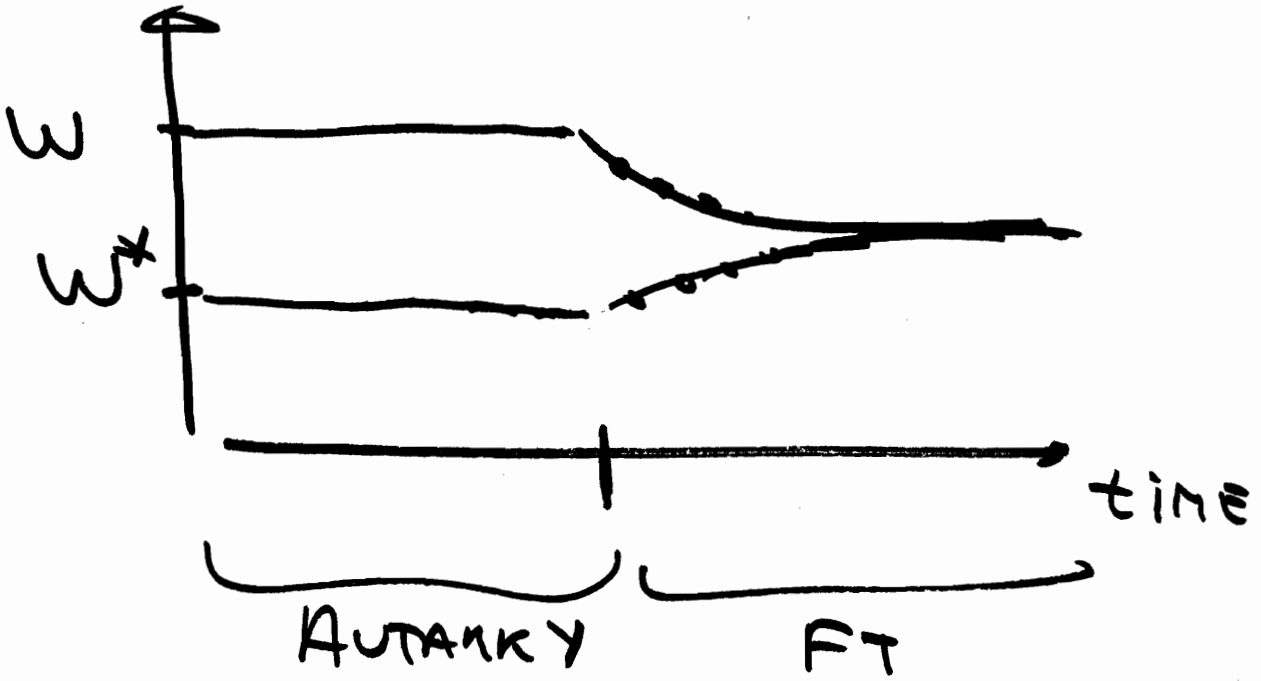
- 6 -
PREVIEW OF RESULTS

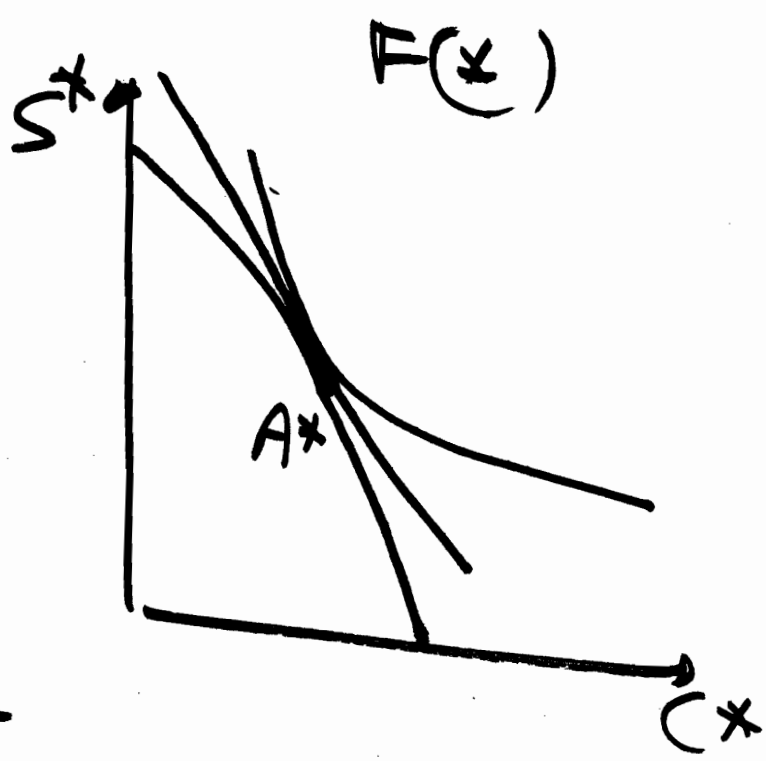
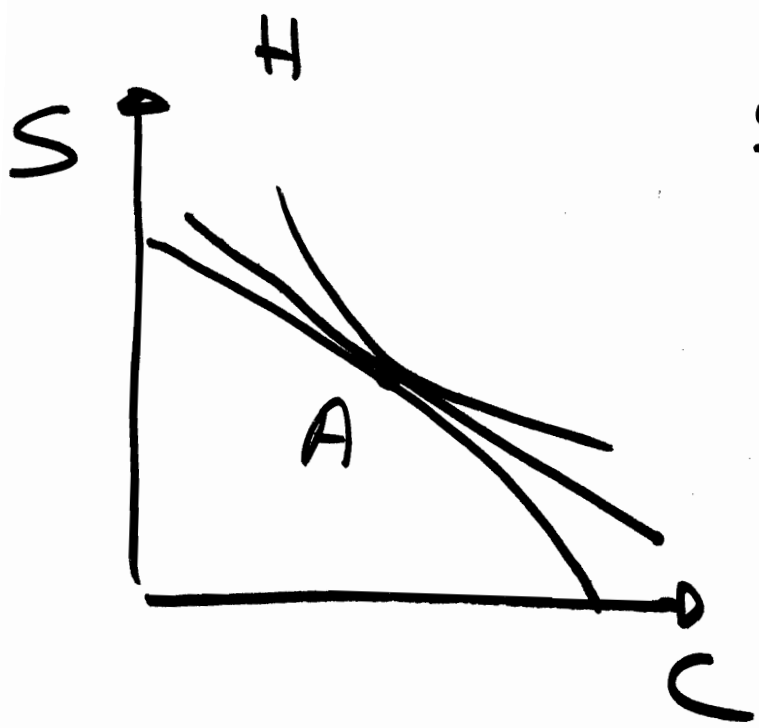
- COUNTRIES EXPORT COMMODITY THAT USES INTENSIVELY THE RELATIVELY ABUNDANT FACTOR

HOME WILL EXPORT COMPUTERS
FOREIGN " " SHOES

- ABUNDANT FACTOR GAINS SCARCENESS IS WORSE OFF WHEN COUNTRIES MOVE FROM AUTARKY TO FT

- IN FT FACTOR RETURNS ARE EQUALIZED ACROSS COUNTRIES -



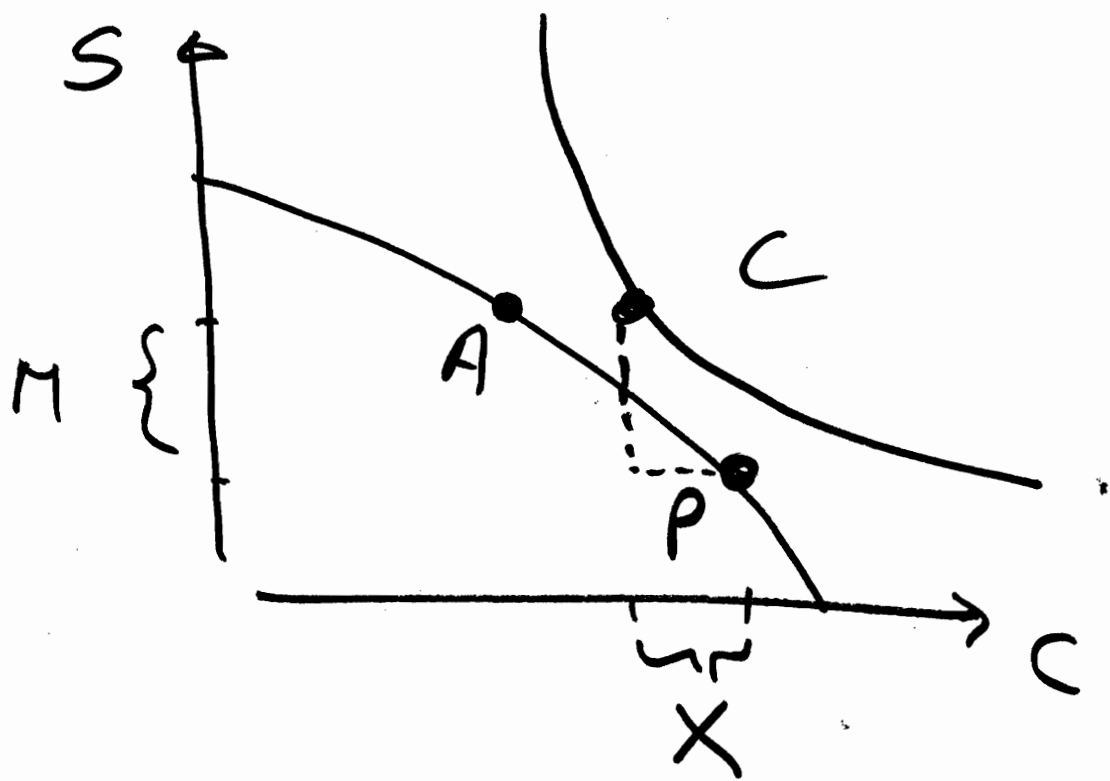


$$\left(\frac{p_c}{p_s}\right)^{\#} < \left(\frac{p_c}{p_s}\right)^*$$

FT PRICES:

$$\left(\frac{p_c}{p_s}\right)^{\#} < \left(\frac{p_c}{p_s}\right)^{FT} < \left(\frac{p_c}{p_s}\right)^*$$

Home: AUT → AT



HOME EXPORTS COMPUTERS
 IMPORTS SHOES

PRODUCTION

↑ PROD. OF COMPUTERS
 ↓ " OF SHOES

⇒ SHOE SECTOR BECOMES
 SMALLER & RELEASES
 K & L, NOTICE

-10 "
IT RELEASES "MORE L THAN
K"

- COMPUTER SECTOR BECOMES
LARGER & WANTS TO
ABSORB RELATIVELY
MORE K THAN L

⇒ K BECOMES RELATIVELY
MORE SCARCE.

L BECOMES RELATIVELY
MORE ABUNDANT

(REMEMBER \bar{K} & \bar{L}
(CONSTANT))

⇒ PRICES HAVE TO
RESPOND:
 $w \downarrow$ $r \uparrow$