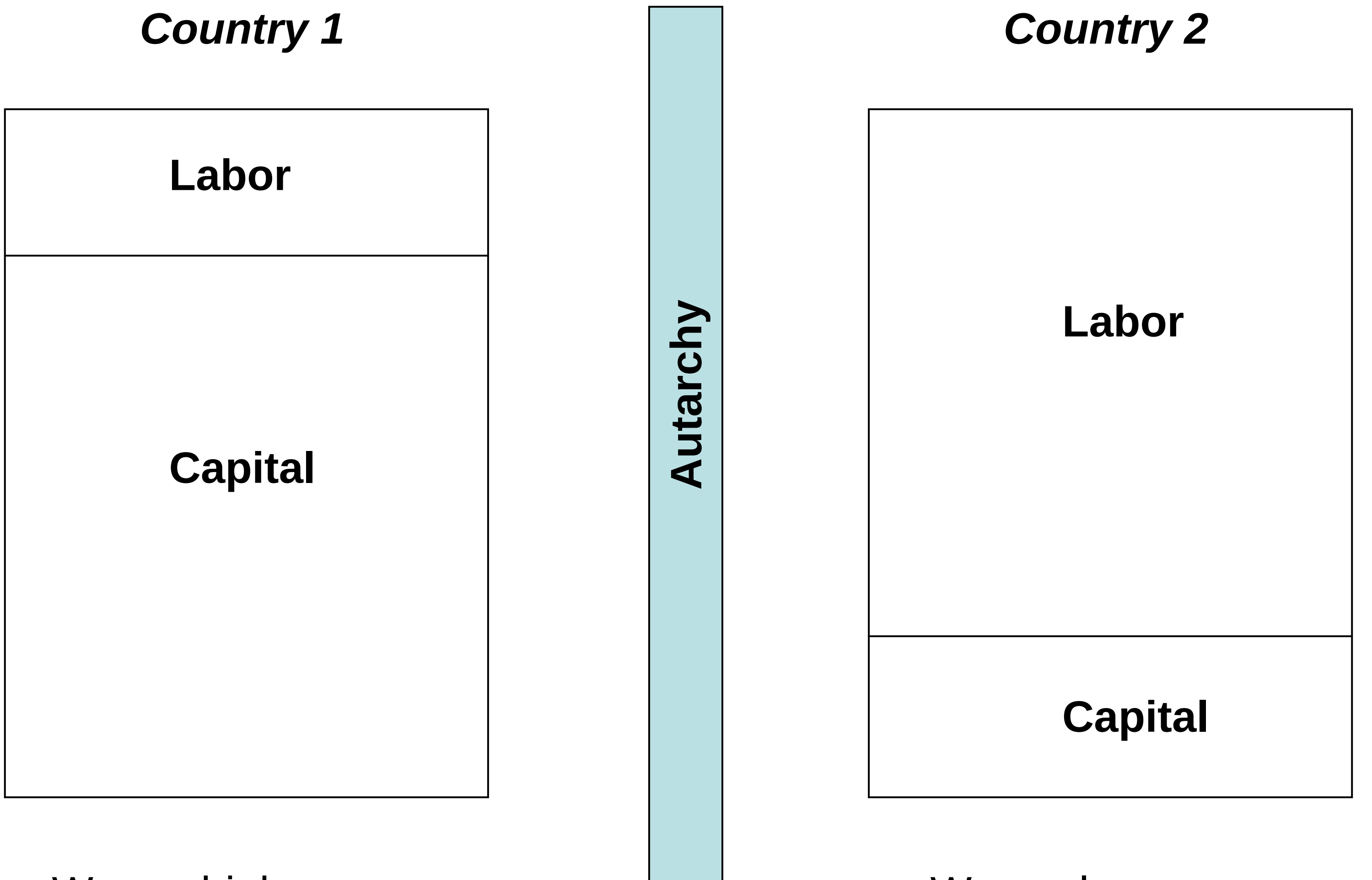
Basic Economics of Trade

- Comparative Advantage
  - Adam Smith and David Ricardo
  - All countries benefit if they export goods that they produce most efficiently

	Output per worker per year		***Opportunity Cost***	
	computers	pairs of shoes	1 computer	1 pair shoes
U.S.	50	200	4 pairs shoes	0.25 computer
Brazil	5	175	35 pairs shoes	0.03 computer

Heckscher-Ohlin Explained



Wages high

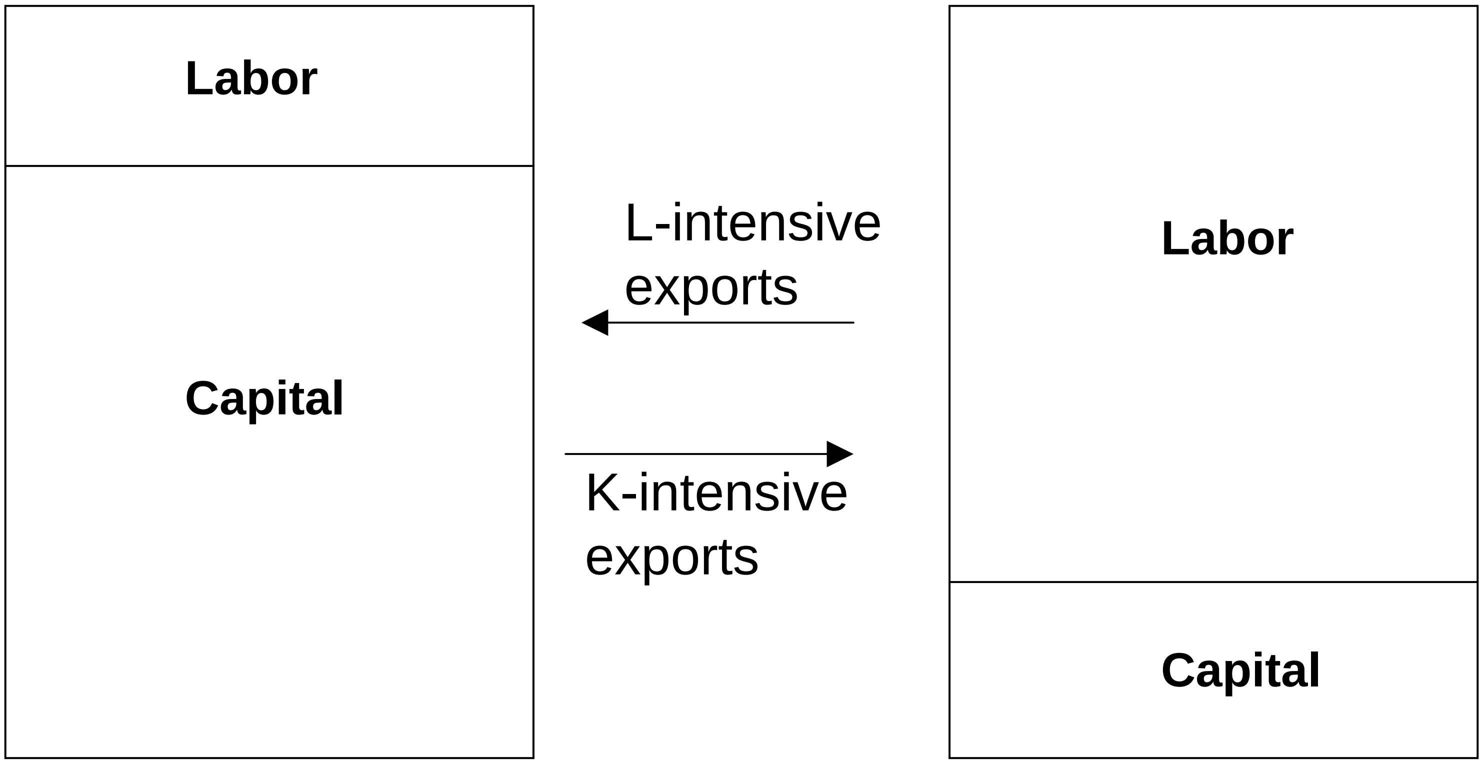
Interest rates low

Wages low

Interest rates high

Heckscher-Ohlin Explained

Country 1 ***Country 2***



Wages fall

Interest rates rise

Wages rise

Interest rates fall

Two Models of Interest Group Competition Over Trade Policy

	H-O/S-S	**R-V/Specific Factors**
The Principal Actors	Factors of Production or Classes	Industries or Sectors
How Mobile are Factors of Production?	Perfectly Mobile Across Sectors of the Economy	Immobile Across Sectors of the Economy
Who Wins and Who Loses from International Trade?	Winner: Abundant Factor—capital in the Advanced industrialized countries. Loser: Scarce Factor—labor in the advanced industrialized countries.	Winner: Labor and Capital Employed in Export-Oriented Industries. Loser: Labor and Capital Employed in Import-Competing Sectors.
Central Dimension of Competition Over Trade Policy	Protectionist Labor Versus Liberalizing Capital	Protectionist Import-Competing Industries Versus Liberalizing Export-Oriented Industries