

APPLIED ECONOMICS FOR MANAGERS SESSION 20—

I. REVIEW: TRADE AND COMMERCIAL POLICY

A. RICARDO'S ENDURING INSIGHT

1. TRADE BASED ON *COMPARATIVE* ADVANTAGE NOT ON *ABSOLUTE* ADVANTAGE
2. FREE MARKETS TEND TO EXPLOIT COMPARATIVE ADVANTAGE TO MUTUAL BENEFIT OF BOTH COUNTRIES
3. SOURCES OF COMPARATIVE ADVANTAGE
 - a. RESOURCE ENDOWMENTS
 - b. HISTORY—PATH DEPENDENCE

B. THE SIMPLE ECONOMICS OF PROTECTIONIST POLICIES

1. TOO MANY DOMESTIC RESOURCES ALLOCATED TO PROTECTED INDUSTRY
2. TOO LITTLE OF THE PROTECTED COMMODITY CONSUMED
3. LOSS OF VARIETY
4. LOSS OF INNOVATIVE PRESSURE

C. INTERNATIONAL TRADE AND FINANCE ACCOUNTING

1. THE FUNDAMENTAL EQUATION OF THE CURRENT ACCOUNT
2. $S_H + (T - G) - I = X - M$
3. CURRENT ACCOUNT EQUAL TO:
 - a. THE DIFFERENCE BETWEEN TOTAL DOMESTIC PRODUCTION AND DOMESTIC SPENDING
 - b. THE DIFFERENCE BETWEEN TOTAL DOMESTIC SAVINGS (PRIVATE & PUBLIC) AND DOMESTIC INVESTMENT

II. THE ISSUE THAT DARE NOT SPEAK ITS NAME: EQUITY

- A. MOVEMENT OVER TIME IN THE DISTRIBUTION OF INCOME AND WEALTH
- B. THE FUNCTIONAL DISTRIBUTION OF INCOME
- C. INCOME BY QUINTILE
- D. THE MOBILITY ISSUE

III. EXPLAINING GROWING INEQUALITY

- A. SATISFACTORY EXPLANATION MUST
 - 1. CAPTURE PERVASIVNESS OF THE CHANGE
 - a. ACROSS GROUPS
 - b. ACROSS REGIONS
 - 2. BE CONSITENT WITH ECONOMIC THEORY
- B. SOME ELEMENTS OF A MODEL
 - 1. INCREASED RETURN TO HUMAN CAPITAL
 - 2. INCREASED PREVALENCE OF “WINNER-TAKE-ALL MARKETS”—ATHLETES, MOVIE STARS, CEO’S

IV. DO WE CARE?

Share of aggregate income

Year	Lowest fifth	Second fifth	Third fifth	Fourth fifth	Highest fifth	Top 5 percent
2001	3.5	8.7	14.6	23.0	50.1	22.4
2000	3.6	8.9	14.8	23.0	49.8	22.1
1999	3.6	8.9	14.9	23.2	49.4	21.5
1998	3.6	9.0	15.0	23.2	49.2	21.4
1997	3.6	8.9	15.0	23.2	49.4	21.7
1996	3.7	9.0	15.1	23.3	49.0	21.4
1994	3.6	8.9	15.0	23.4	49.1	21.2
1993	3.6	9.0	15.1	23.5	48.9	21.0
1992	3.8	9.4	15.8	24.2	46.9	18.6
1991	3.8	9.6	15.9	24.2	46.5	18.1
1990	3.9	9.6	15.9	24.0	46.6	18.6
1989	3.8	9.5	15.8	24.0	46.8	18.9
1988	3.8	9.6	16.0	24.3	46.3	18.3
1987	3.8	9.6	16.1	24.3	46.2	18.2
1986	3.9	9.7	16.2	24.5	45.7	17.5
1985	4.0	9.7	16.3	24.6	45.3	17.0
1984	4.1	9.9	16.4	24.7	44.9	16.5
1983	4.1	10.0	16.5	24.7	44.7	16.4
1982	4.1	10.1	16.6	24.7	44.5	16.2
1981	4.2	10.2	16.8	25.0	43.8	15.6
1980	4.3	10.3	16.9	24.9	43.7	15.8
1979	4.2	10.3	16.9	24.7	44.0	16.4
1978	4.3	10.3	16.9	24.8	43.7	16.2
1977	4.4	10.3	17.0	24.8	43.6	16.1
1976	4.4	10.4	17.1	24.8	43.3	16.0
1975	4.4	10.5	17.1	24.8	43.2	15.9
1974	4.4	10.6	17.1	24.7	43.1	15.9
1973	4.2	10.5	17.1	24.6	43.6	16.6
1972	4.1	10.5	17.1	24.5	43.9	17.0
1971	4.1	10.6	17.3	24.5	43.5	16.7
1970	4.1	10.8	17.4	24.5	43.3	16.6
1969	4.1	10.9	17.5	24.5	43.0	16.6

INCOME MOBILITY TRANSITION MATRIX, 1968-91

	1991 Income Quintile					
1968 Income Quintile	Lowest	Second	Middle	Fourth	Highest	Total
Lowest	46.7	24.5	17.3	8.7	2.7	100.0
Second	23.6	26.2	26.4	14.3	9.6	100.0
Middle	13.6	21.8	20.2	26.2	18.2	100.0
Fourth	9.2	16.7	20.4	26.2	27.6	100.0
Highest	6.7	10.8	16.1	24.5	42.0	100.0
Total	100.0	100.0	100.0	100.0	100.0	

Source: Gottschalk tabulations of the PSID, (1997).
