

ECN230 Final exam review session

1. Globalization and its drivers
2. Modeling international trade
 - 2.1 Partial equilibrium model – 3-panel diagram
 - 2.1.1 Supply and demand and excess supply and excess demand
 - 2.1.2 Law of one price: conditions, meaning and implications
 - 2.2 General equilibrium model: Ricardian and Heckscher-Ohlin-Samuelson
 - 2.2.1 Comparative and absolute advantage
 - 2.2.2 Specialization and trade
 - 2.2.3 Gains from trade, adjustment costs and social welfare effects
 - 2.2.4 Terms of trade and changes in TOT
 - 2.3 Theorems and relationship between factor markets and goods markets
 - 2.3.1 Relative factor prices, output prices, capital-labor ratio and factor endowments
 - 2.3.2 Theorems: factor proportions, factor price equalization, Stolper-Samuelson and Rybczynski theorem
 - 2.3.3 Underlying conditions and implications
 - 2.3.4 Technology, trade and other factors affecting factor prices and use/employment
3. Growth and dynamics effects of trade: changes in factor endowment and productivity
 - 3.1 Non-sector-specific growth vs sector-specific growth (neutral vs non-neutral)
 - 3.2 Pro-trade and anti-trade effects on production and consumption
 - 3.3 Trade dependence/reliance over time
 - 3.4 Small vs large country effects (real versus TOT effects)
 - 3.5 Related issues: total factor productivity, middle income trap, Dutch disease, dependency theory (Prebisch-Singer hypothesis)
4. Trade policy and welfare analysis
 - 4.1 Government objectives vs WTO principles of non-discrimination, transparency, and predictability
 - 4.2 Small and large country effects: economic, trade and welfare implications
 - 4.3 Import and export tariffs, quotas and subsidies (ad valorem and specific)
 - 4.4 Related issues: interpretation of welfare effects, optimal policy, maximum revenue generating, rent-seeking, strategy, policy response, Lerner symmetry
5. Government's role in growth, development and welfare improvement
 - 5.1 Theory of the 1st best versus theory of the 2nd best
 - 5.2 Case for free trade:
 - 5.2.1 Role of the government limited to investment in infrastructure, support for research and development, providing market information, social safety net, etc.
 - 5.2.2 Political economy argument: policy choice captured by special interests and negative consequences (economic dualism, prevention of markets functioning)
 - 5.3 Case for intervention:
 - 5.3.1 Inclusion of the valuation of public goods (social cost/benefit) in addition to private goods, cases of market failure, externality, and non-competitive behavior
 - 5.3.2 Infant industry arguments, import substitution industrialization, industrial policy and strategy
 - 5.3.3 Strategy and related issues: premature or deindustrialization and sectoral changes over time (agriculture vs manufacturing, manufacturing vs services)
6. Relaxing other HOS assumptions: imperfect competition and international factor mobility
 - 6.1 Imperfect competition
 - 6.1.1 Large-country cases of resource endowment and use/abuse of market power
 - 6.1.2 Economies of scale: internal/external, intra-industry trade, product differentiation and consumer choice
 - 6.1.3 Market structure, changes in importance of factor endowments/markets, goods markets, production functions, production possibilities, trade and welfare
 - 6.2 International factor mobility: factor employment, relative prices and welfare cost/benefit
 - 6.2.1 Labor mobility by type, motivation; and relation to trade and capital flows
 - 6.2.2 Capital mobility by type, motivation, and its relation to trade and labor flows
7. Internationalization strategy: export versus foreign direct investment
 - 7.1 Ownership advantages and industry structure
 - 7.2 Horizontal integration or coordination versus vertical integration/coordination
 - 7.3 Location-specific variables and policy and regulatory space