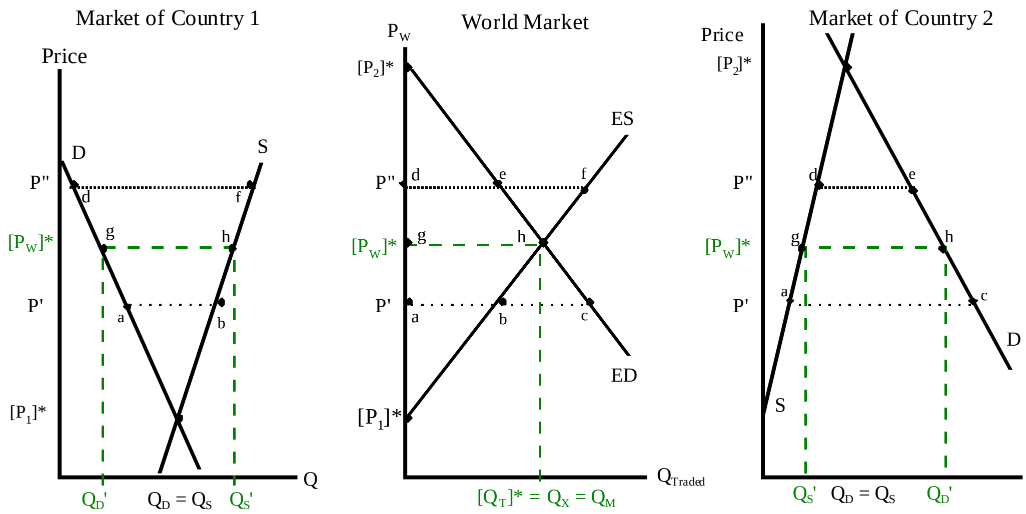
ECN230 The Microeconomics of International Trade

Part I. Developing a model of international trade
Session 1. Introduction to the Economics of International Trade

1. What is international economics?
  1.1 Overview
    1.1.1 A synthesis of economic theory: macro and micro economics and related theory
    1.1.2 Define globalization
  1.2 Relation to economic theory
    1.2.1 Macroeconomic theory - the macroeconomy and the trade sector: Y = C + I + G + (X - M)
      [a] What is (X – M)? What is its relation to GDP and to the rest of the macroeconomy?
      [b] Is a positive trade balance a desired policy goal? Is exporting better than importing?
    1.2.2 Microeconomic theory – behavior of economic agents
      [a] Consumer theory: utility maximization, demand, efficiency in consumption, social welfare
      [b] Producer theory: profit maximization/cost minimization, supply, production efficiency
      [c] Market theory: perfect and imperfect competition; trade strategy by firm/government
    1.2.3 Partial and general equilibrium analysis and public policy
  1.3 Use of the synthesis to address complex issues, e.g., economic sustainability, trade disputes/war
    1.3.1 Trade and income: economic growth, development, sectoral analysis, income inequality GDP
    1.3.2 Trade and wages and employment
    1.3.3 Trade and factor mobility
    1.3.4 Trade and strategy: gov't trade/industrial policy; firm behavior (supply chains, FDI, export)
  1.4 State of the international economy: globalization and general trends
    1.4.1 Post-war multilateral institutions: UN, IMF, WB; GATT/WTO
    1.4.2 Trends in indicators of globalization: trade in goods/services; capital and labor flows
    1.4.3 Restrictions on globalization: policies restricting trade or factor flows
    1.4.4 Trade patterns by sector (ag, manu, services): export value; prices, share of exports by country
    1.4.5 Changing patterns of trade and strategy/behavior
  1.5 Basic international trade questions
    1.5.1 Why do nations trade?
    1.5.2 What determines trade?
    1.5.3 What determines price?
2. Partial equilibrium analysis: 2 country, 1 product trade model (3-panel diagram)
  2.1 Model specification and assumptions
    2.1.1 One net importing country and one net exporting country
    2.1.2 Conditions: identical good; competitive markets, no transactions/transport cost; no government
  2.2 Explaining trade: deriving ES = [S-D], ED = [D-S] and determining world price (ES = ED)
  2.3 Law of one price (LOOP) and the importance of the basic assumptions

Two-country, one sector partial equilibrium trade model



Key concepts: Partial equilibrium analysis, ES, ED, LOOP, price convergence Review questions: What are some significant changes in the world economic system and how are they affecting international trade? What role do supply and demand play in international trade? How do the underlying assumptions of a simple partial equilibrium analysis matter for understanding trade patterns?