## Session 8. General equilibrium trade analysis, continued

5. Theory of factor markets: relation of output and input prices and factor allocation
    5.6 Free trade implications: output price changes, input prices, and income distribution
        5.6.1 Changes in relative output prices: ↑ (↓) P of exportable good (importable good)
        5.6.2 Changes in relative factor prices: ↑ (↓) return to abundant factor (scarce factor)
        5.6.3 Income equality improves in South, worsens in North
        5.6.4 TOT improves in both countries (real increase in income/purchasing power)

South's manufacturing sector   South's agricultural sector
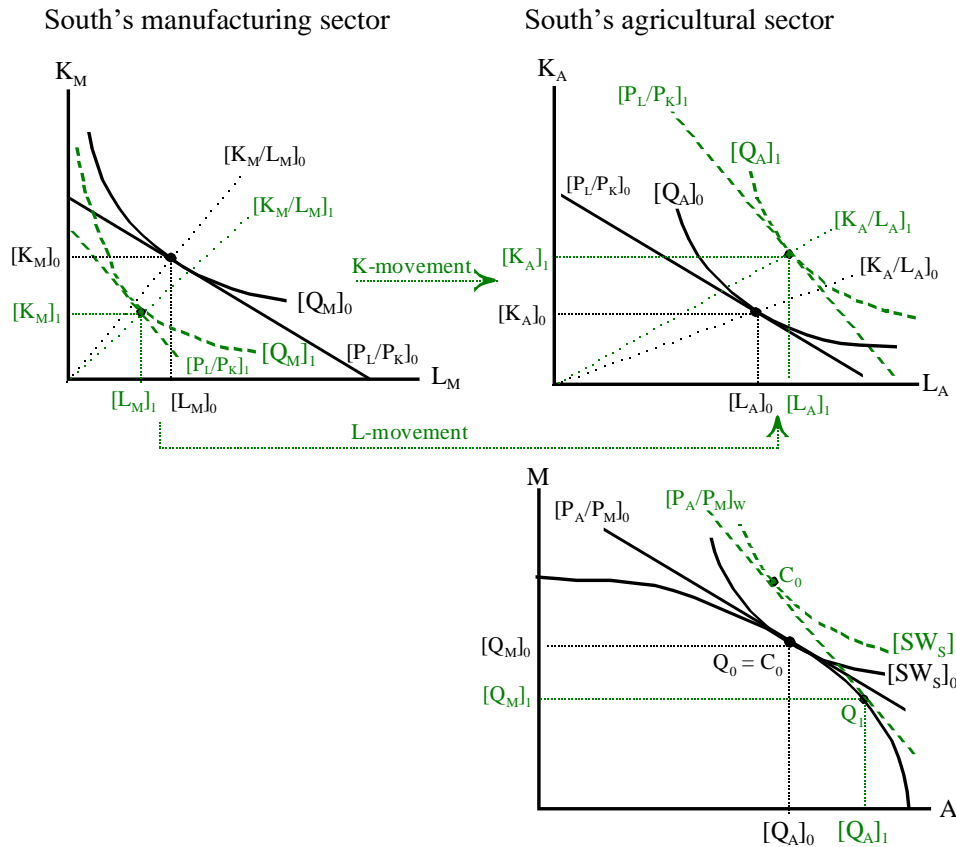
    5.7 Pareto optimality, social welfare and income distribution
        5.7.1 Pareto optimality in a trade context
        5.7.2 Winners and losers from trade
        5.7.3 Social welfare
6. Summary of the H-O-S Model: Theory vs Practice and Empirics
    6.1 Theoretical expectations: given info, predictions, evidence
        6.1.1 Factor proportions theorem and the Leontief paradox
        6.1.2 Factor-price equalization theorem
        6.13. Rybcyznski theorem
        6.1.4 Stolper-Samuelson theorem
    6.2 Labor markets and readings on trade and wages
        6.2.1 Labor mobility and wage rate flexibility
        6.2.2 North-South trade effect on wages
        6.2.3 Technological change and effect on wages
        6.2.4 Trends in North-South trade and income convergence
        6.2.5 Trends in income inequality in North and South

Key concepts: Absolute advantage, comparative advantage, terms of trade, gains from trade, cost of adjustment, general equilibrium, factor endowment, factor intensity, Pareto optimality
Review questions: How do the assumptions of the Ricardian and H-O-S models matter for understanding trade patterns, gains from trade and economic adjustment costs? How do supply and demand and the size of a country affect international trade under the H-O-S model? How is efficiency related to free trade? How does liberalizing trade raise issues with income distribution? Who wins/loses from trade? What are the limitations of the H-O-S model? How does relaxing some of the assumptions affect the conclusions or lessons from the theory? What do the theorems predict about international trade? What evidence is there of the patterns of trade conforming to the theory and the expected theoretical outcomes?