## Growth: Effects on Production, Consumption and Trade

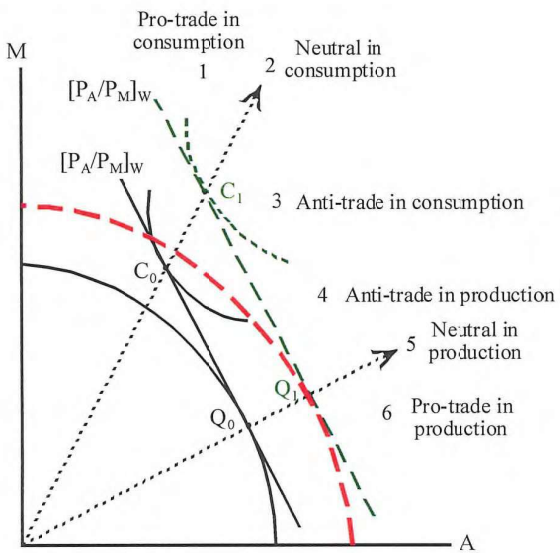
Consider neutral growth and its implications on consumption and production

Growth that is neutral (from either a change in technology or factor endowments) implies that the production possibilities does not shift disproportionately in favor of one sector or another.

If growth is neutral in production, then the mix of production maintains its proportion of GDP that existed prior to the growth. If growth is neutral in consumption, then the mix of consumption maintains its proportion of GDP that existed prior to the growth.

Meaning of points 1-3 relate to the possible effects on consumption

1: Growth has a pro-trade effect in consumption
2: Growth has a neutral effect in consumption
3: Growth has an anti-trade effect in consumption




Meaning of points 4-6 relate to the possible effects on production

4: Growth has an anti-trade effect on production
5: Growth has a neutral effect on production
6: Growth has a pro-trade effect on production

## In-class exercise on Growth: Production, Consumption, Trade and SW

Consider the growth scenarios for a *small* agricultural exporting nation (South's perspective).

Case 1: (i) Sector-specific growth in agriculture; (ii) pro-trade effect on production; and (iii) pro-trade effect on consumption.

Case 2: (i) Sector-specific growth in agriculture; (ii) pro-trade effect on production; and (iii) anti-trade effect on consumption.

Case 3: (i) Sector-specific growth in manufacturing; (ii) neutral effect on production; and (iii) pro-trade effect on consumption.

Case 4: (i) Sector-specific growth in manufacturing, (ii) anti-trade effect on production, and (iii) neutral effect on consumption.

Objective:

Determine how production, Q, consumption, C, and quantity traded, $Q_T$, are affected. That is, show whether $Q_A$, $Q_M$, $C_A$, $C_M$, and $Q_T$ increase (↑), decrease (↓) or whether it is uncertain (?) given the information above. Use a simple model to defend your answer.

| | $Q_A$ | $Q_M$ | $C_A$ | $C_M$ | $Q_T$ |
|---|---|---|---|---|---|
| Case 1 | | | | | |
| Case 2 | | | | | |
| Case 3 | | | | | |
| Case 4 | | | | | |