Part B Outline
International Trade

I. Explaining Patterns of Trade and International Prices and Interpreting their Consequences
   A. Absolute advantage (Smith), comparative advantage (Ricardo), and the Mutual Gains from Trade
   B. Ricardian theory of trade (classical view) and the pattern of trade
      1. Constant opportunity cost, tendency to complete specialization
      2. Differences in labor productivity determine cost differences
      3. What determines differences in labor productivity?
   C. Factor endowments theory of trade (Heckscher-Ohlin view) and the pattern of trade
      1. Increasing opportunity cost, tendency to incomplete specialization
      2. Differences in factor endowments determine cost differences before trade
      3. Export goods that use intensively the factors a country has in abundance
      4. How is factor abundance measured and how does a country's share of world income reflect its demand for factors at home?
   D. Other explanations of trade patterns
      1. Economies of scale and creating comparative advantage
      2. New product innovation and the product cycle
   E. Welfare statements and the gains from trade
      1. Reliance on potential welfare measures, since don't force compensation to be paid by winners to losers.
      2. Consumers surplus
         a. Difference between what willing to pay and the market price
      3. Producers surplus
         a. Difference between marginal cost of production (price at which willing to supply) and the market price
   F. Changing Income Distribution under the Factor Endowments Theory
      The example of reduced demand for an importable good.
      1. Industry effects--both capital and labor in the impacted industry lose in the short run
      2. Factor effects--the factor used intensively in the impacted industry loses in the long run
   G. Changing terms of trade
      1. Changing factor supplies and the supply of exports v. import competing goods
      2. Importance of price and income elasticities of demand in determining international prices
      3. When can terms of trade effects be so adverse that a country becomes worse off when it grows (immizerizing growth)?

II. Commercial Policies Affecting International Merchandise Trade
   A. Import Restrictions and Protection of Domestic Producers
      1. Tariffs--ad valor em and specific
         a. Distributional issues--possible effects on consumers, producers, government
         b. Economic efficiency effects--net of all distributional effects one dollar one vote
      2. Quotas, voluntary export restraints and orderly marketing agreements
a. What is the tariff equivalent of a quota and who gains it?
b. What is the influence of growth, changing cost conditions or currency
depreciation on this tariff equivalent?

3. Market power and the optimal tariff
   a. Under what demand and supply conditions can a tariff make a country better off?
   b. At whose expense does this gain come?

4. Issues of unfair competition
   a. Subsidization and countervailing duties
   b. Market discrimination and dumping

B. Policies of particular interest to developing countries
1. Import substitution industrialization
   a. Infant industry arguments and economies of scale
   b. A tariff regime and the effective rate of protection for a particular good
2. Export promotion
   a. Non-traditional exports and the elasticity of export demand
   b. Gaining market access and trade barriers in developed countries
   c. Diversification of exports so less reliance on a single commodity price
3. NAFTA and other regional trading agreements
4. The Uruguay Round of multilateral trade talks and the World Trade Organization

III. Trade in Factors of Production
   A. Foreign direct investment (foreign management control)
      1. Why may foreigners offer more to buy U.S. firms than Domestic Buyers offer?
      2. Technology transfers--source of growth or exploitation?
      3. Tax incentives and government controls
   B. Immigration
      1. Effects on income and income distribution
      2. Distinctions between skilled v. unskilled labor
      3. Externalities, public services and taxes