

1.1 — Why Trade Matters

ECON 324 • International Trade • Fall 2020

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[🔗 ryansafner/tradeF20](https://github.com/ryansafner/tradeF20)

[🌐 tradeF20.classes.ryansafner.com](https://tradeF20.classes.ryansafner.com)



Outline



[Why Trade Matters](#)

[About This Course](#)





Why Trade Matters

The Importance of International Trade



- In 2008, the world produced about \$50 trillion (at current prices)
- \$16 trillion (about 30%) was sold across national borders



Krugman, Paul, Maurice Obstfeld, and Mark Melitz, 2011, *International Economics: Theory & Policy*, 9th ed., p.10

The Importance of International Trade

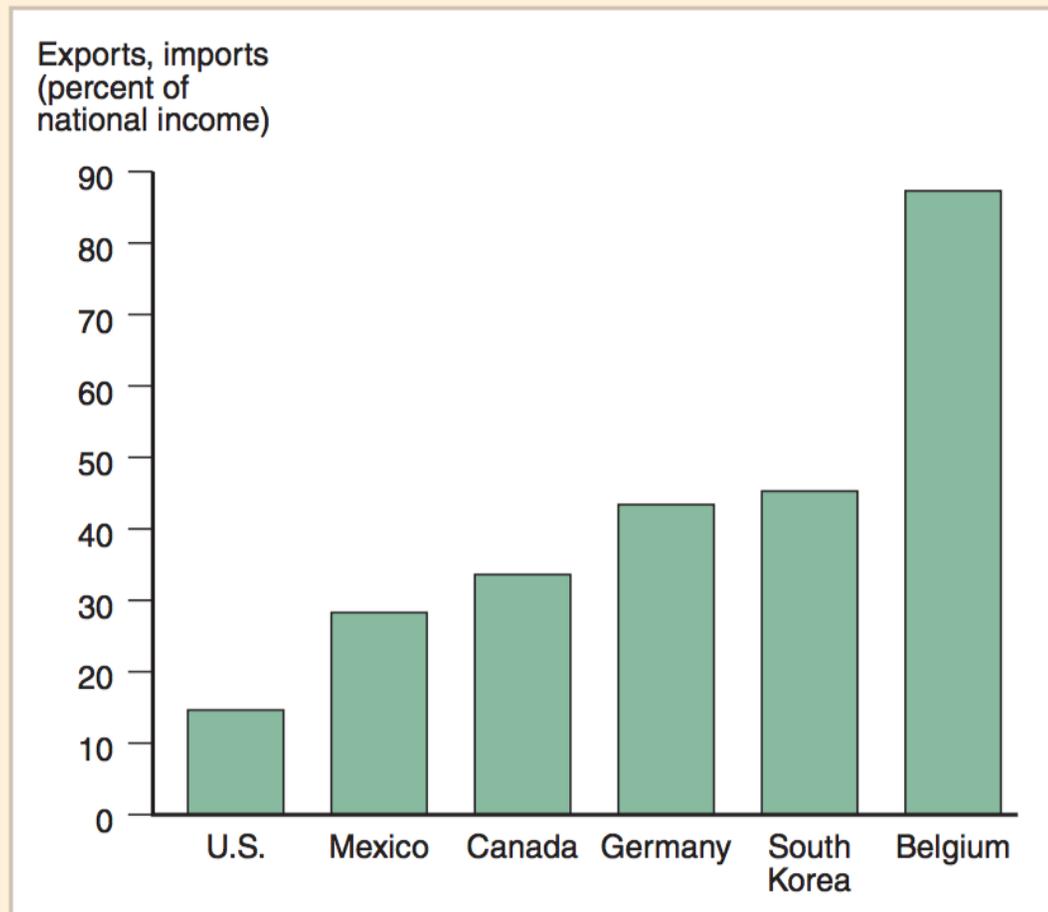


Figure 1-2

**Average of Exports and Imports
as Percentages of National
Income in 2007**

International trade is even more important to most other countries than it is to the United States.

Source: Organization for Economic Cooperation and Development.



What Gets Traded Internationally

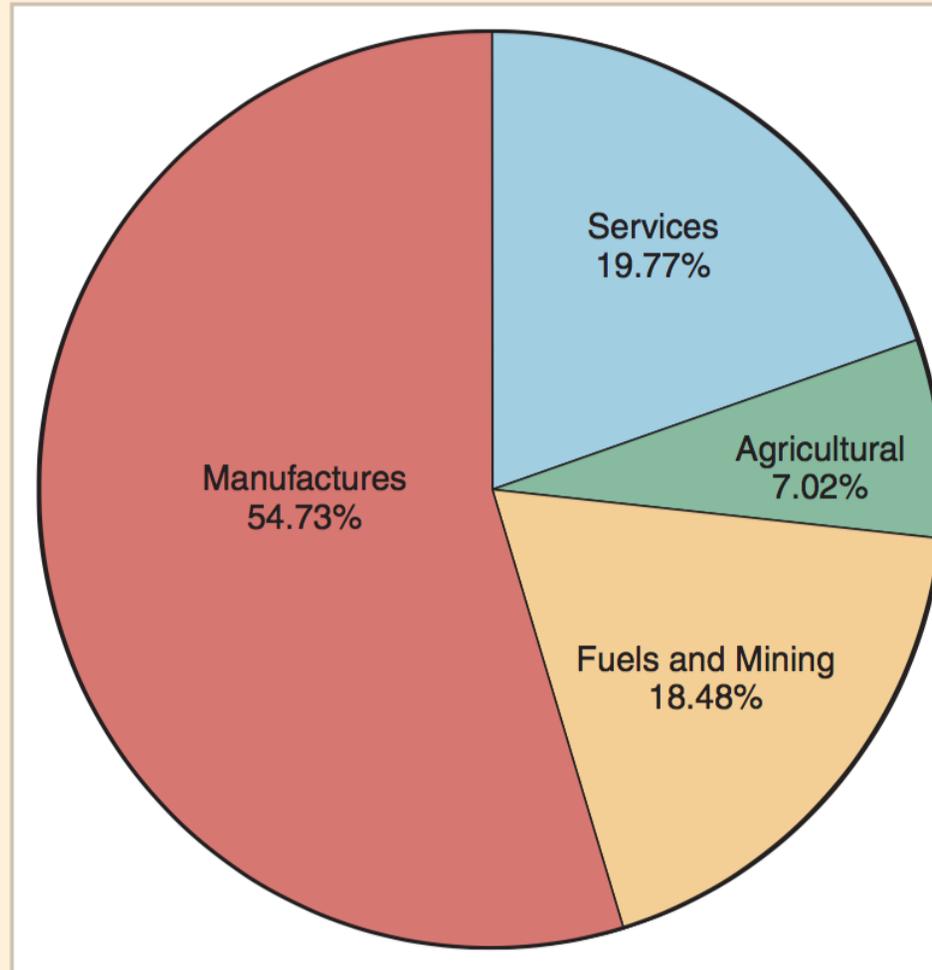


Figure 2-5

The Composition of World Trade, 2008

Most world trade is in manufactured goods, but minerals—mainly oil—remain important.

Source: World Trade Organization.



Who *We* Trade With

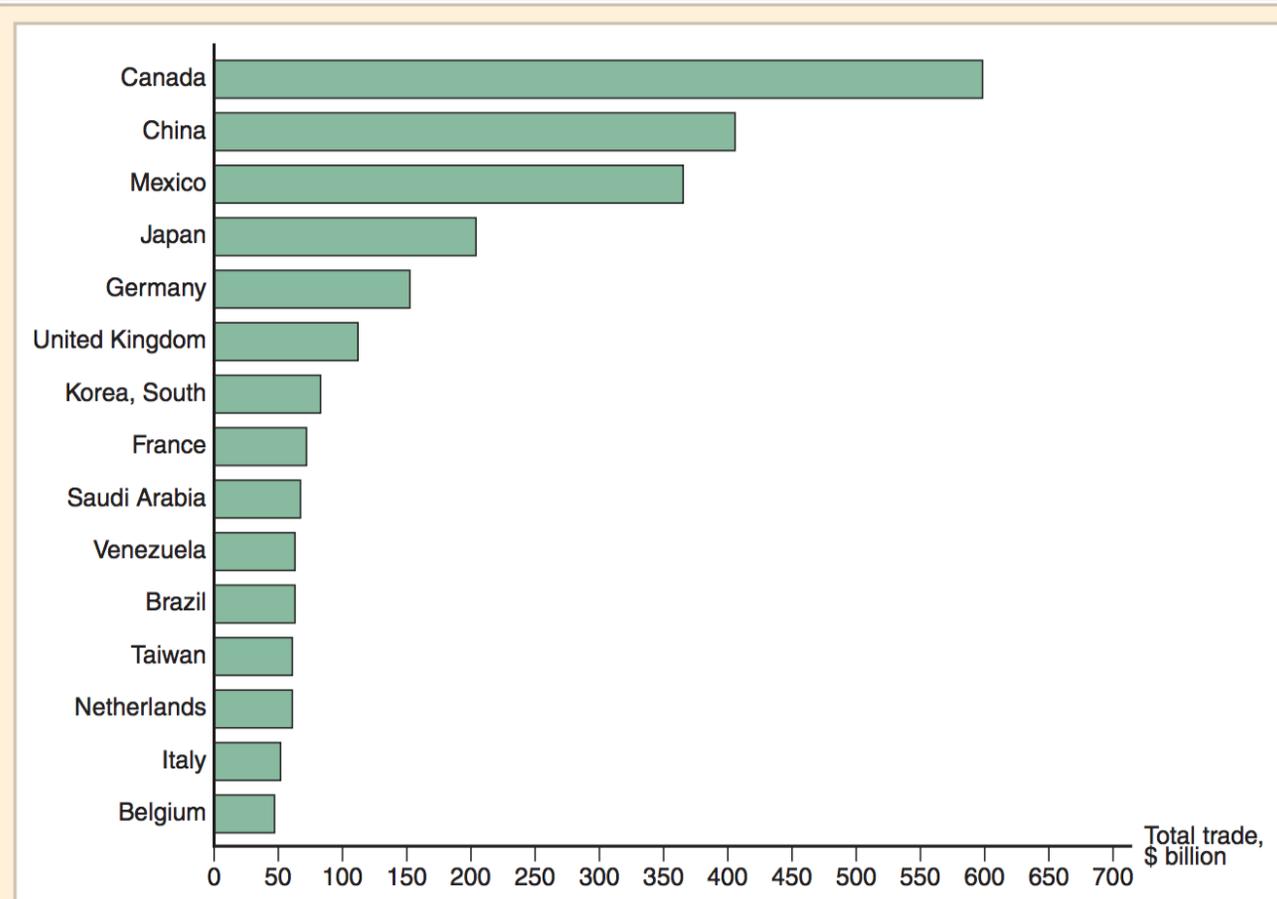


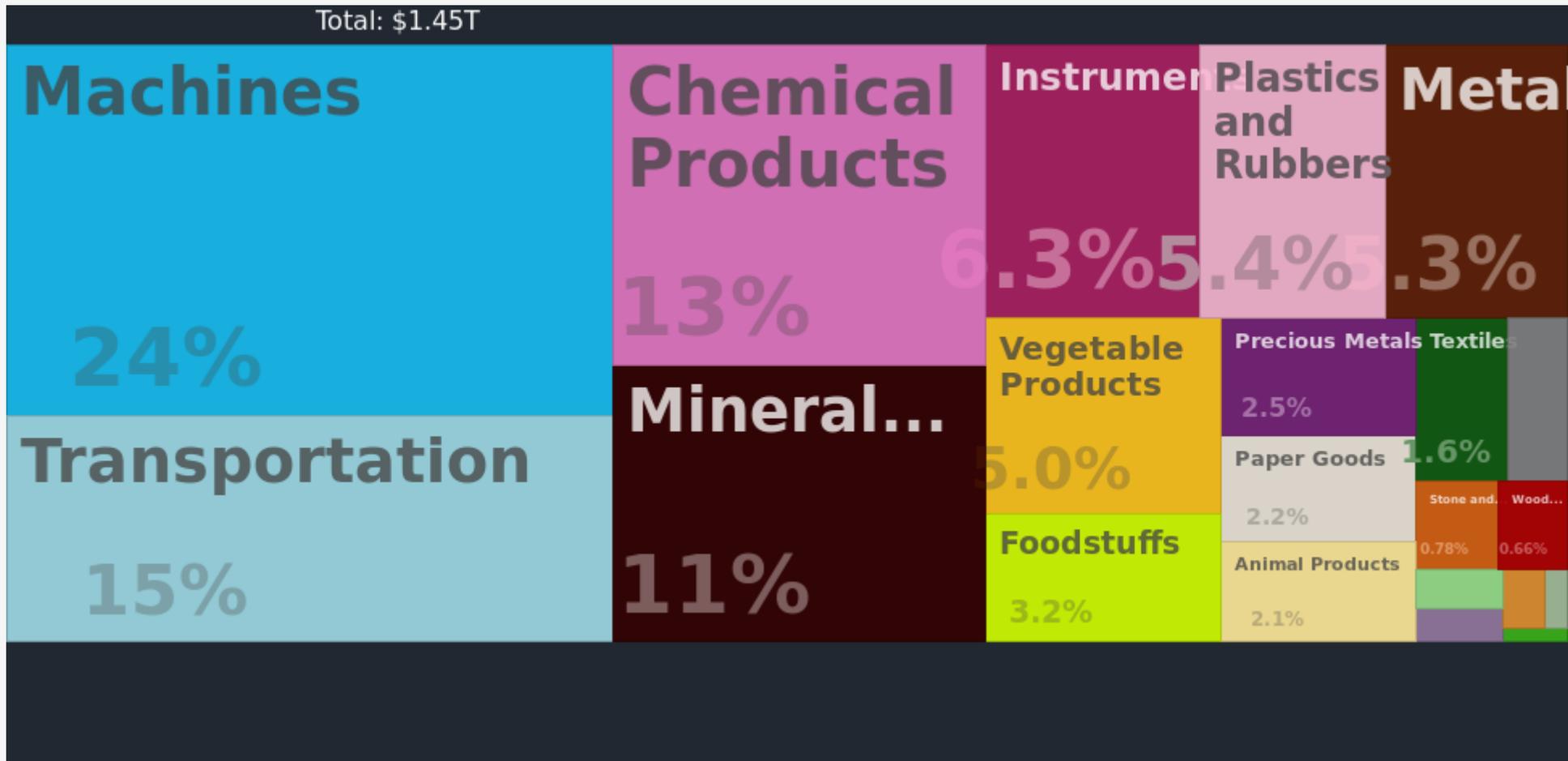
Figure 2-1

Total U.S. Trade with Major Partners, 2008

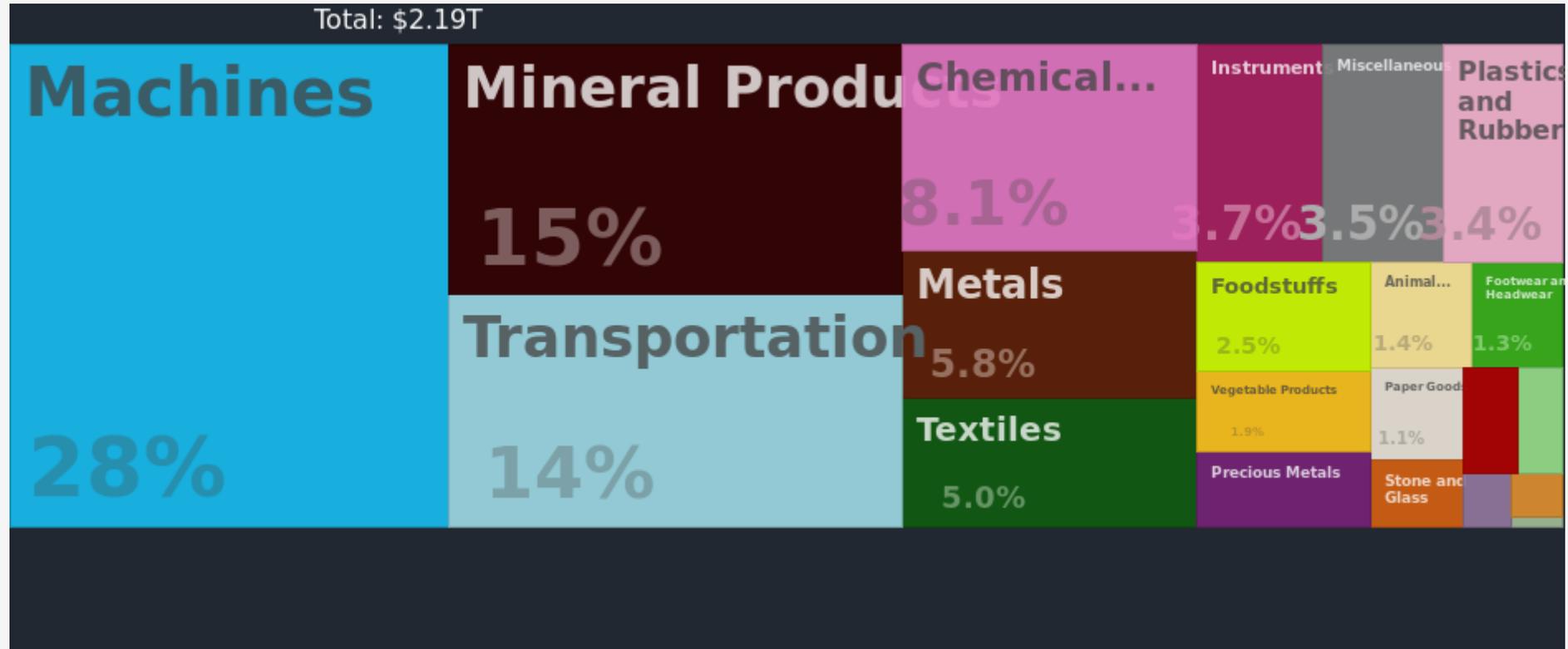
U.S. trade—measured as the sum of imports and exports—is mostly with 15 major partners.

Source: U.S. Department of Commerce.

What We *Export*



What We *Import*



U.S. Imports: [MIT Observatory of Economic Complexity](#)

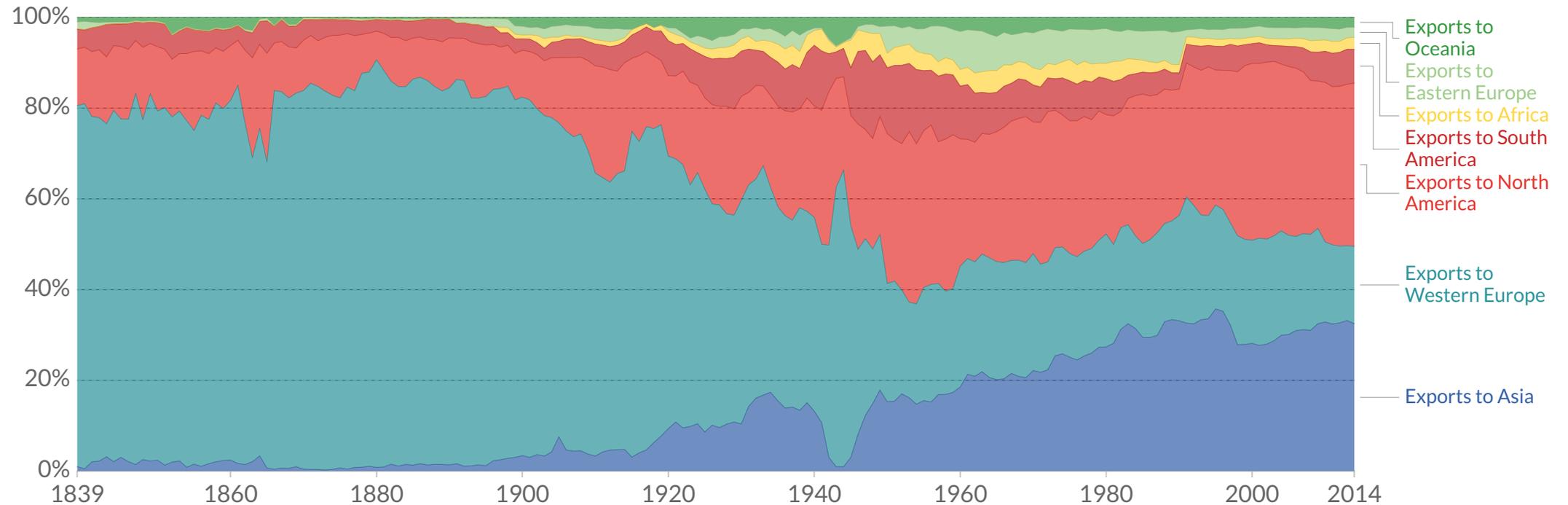
Who We Trade With (Exports) Has Changed



Merchandise exports by continent of destination, United States, 1827 to 2014

Our World
in Data

Figures correspond to the value of merchandise exports by continental destination as a share of GDP. All partner countries are classified into continent groupings according to OWID's classification.



Source: Fouquin and Hugot (CEPII 2016)

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[↔ Change entity](#) Relative

CHART

TABLE

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A Major Change in Trading Climate



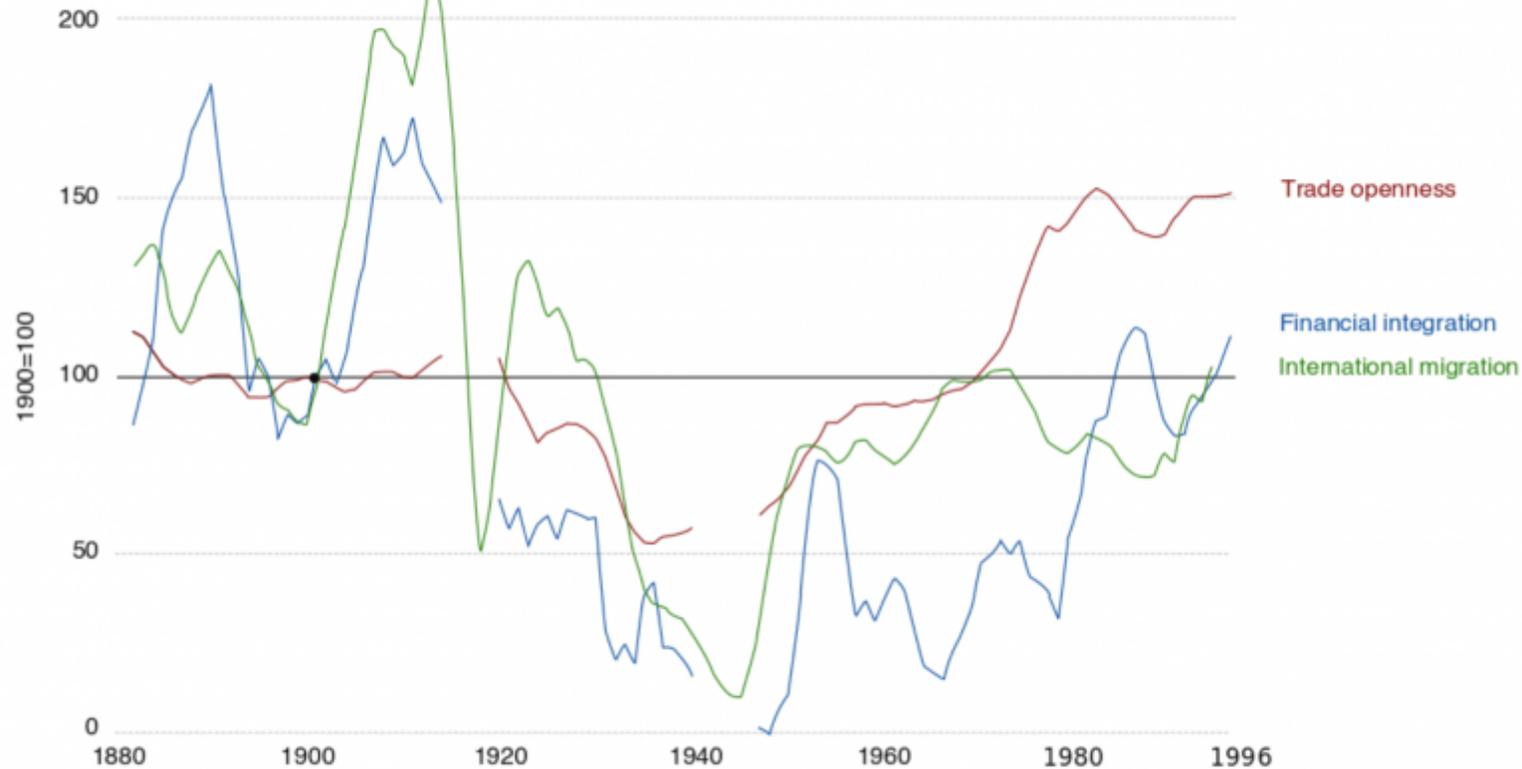
But That's Happened Before (Often Because of War)



Migration, financial integration and trade openness, World, 1880-1996

This chart shows the evolution of three indicators measuring integration in commodity, labor, and capital markets over the long run. All indicators are indexed, so that 1900 = 100.

Our World
in Data



Note: Commodity market integration is measured by computing the ratio of goods exports to GDP. Labor market integration is measured by dividing the migratory turnover by population. Financial integration is measured using Feldstein-Horioka estimators of current account disconnectedness.

Source: Broadberry and O'Rourke (2010), *The Cambridge Economic History of Modern Europe: Volume 2, 1870 to the Present*. Cambridge University Press

This is a visualization from OurWorldinData.org, where you find data and research on how the world is changing. Licensed under CC-BY-SA by the authors Esteban Ortiz-Ospina and Diana Beltekian

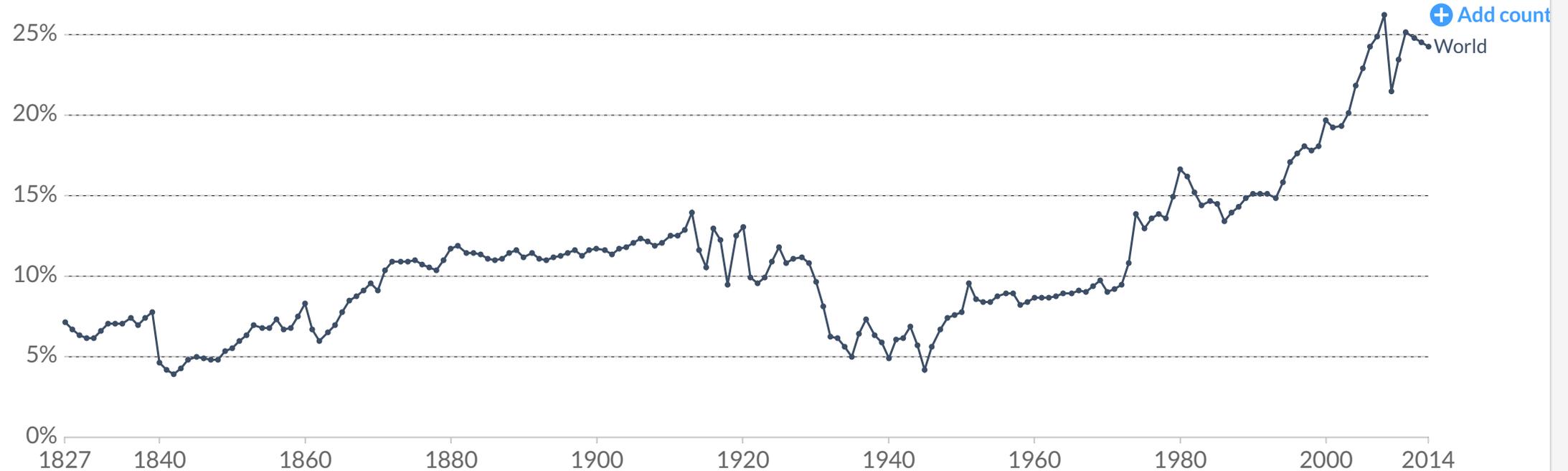
The Value of International Trade in the Global Economy



Value of exported goods as share of GDP, 1827 to 2014

Estimates correspond to merchandise export-to-GDP ratios.

Our World
in Data



Source: Fouquin and Hugot (CEPII 2016)

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MAP

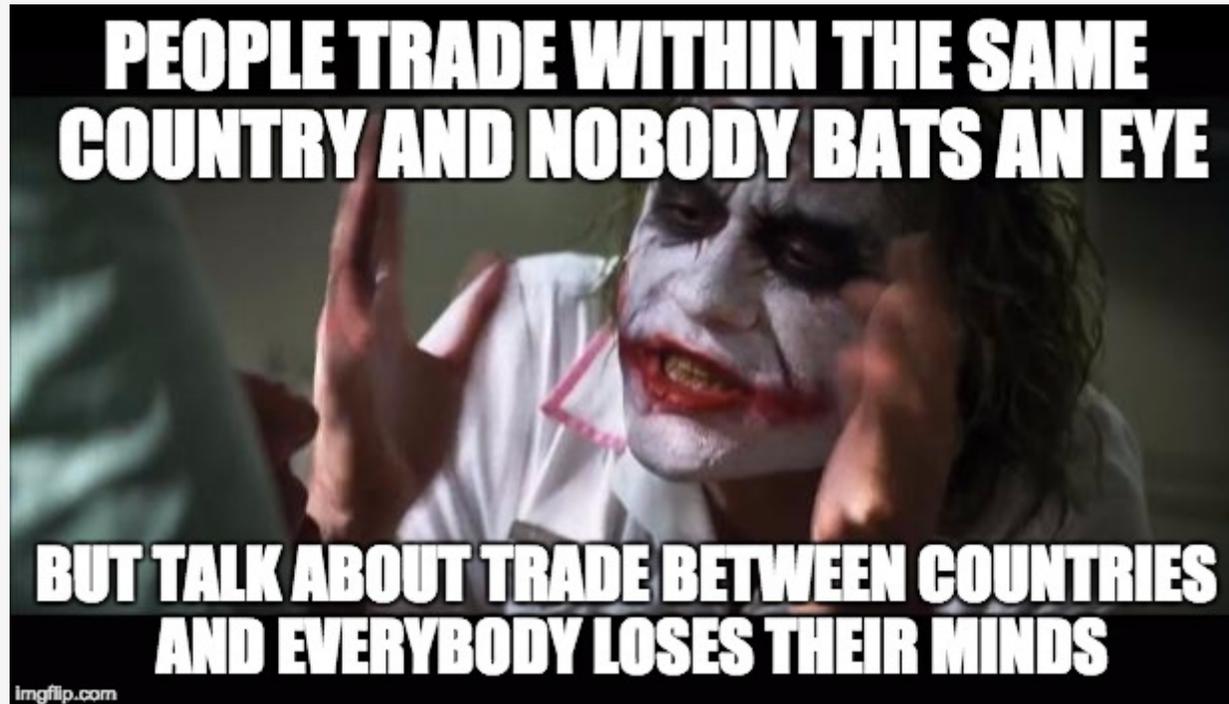
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Common Biases Against Trade





Why Care About Trade?

The "Great Fact"

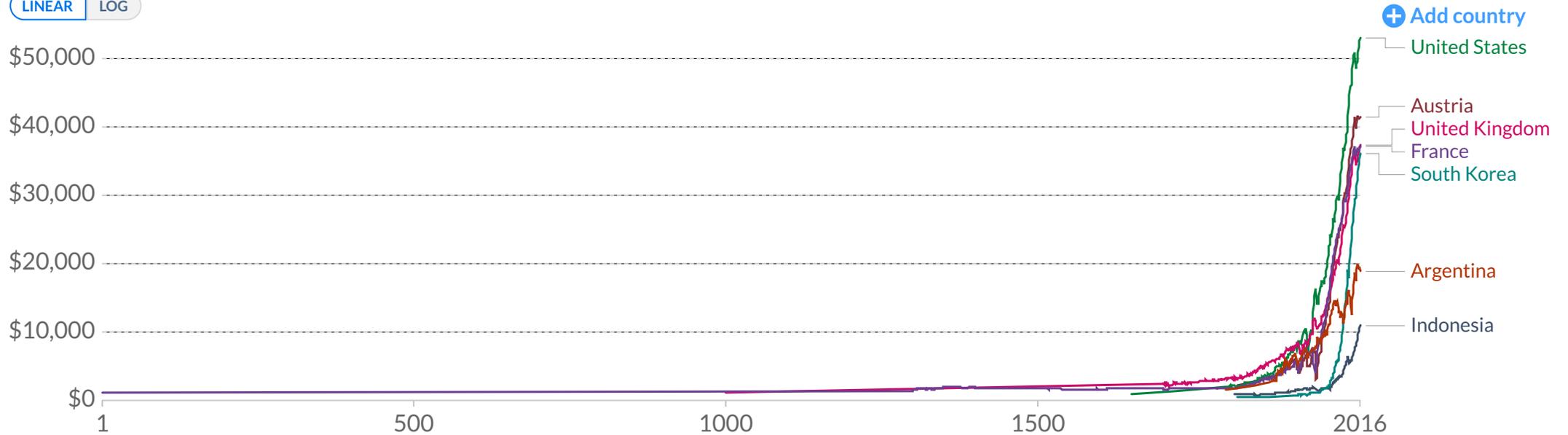


Our World
in Data

GDP per capita, 1 to 2016

GDP per capita adjusted for price changes over time (inflation) and price differences between countries – it is measured in international-\$ in 2011 prices.

LINEAR LOG



+ Add country

United States

Austria

United Kingdom

France

South Korea

Argentina

Indonesia

Source: Maddison Project Database (2018)

OurWorldInData.org/economic-growth • CC BY

Note: These series are adjusted for price differences between countries based on only a single benchmark year, in 2011. This makes them suitable for studying the growth of incomes over time but not for comparing income levels between countries.



Relative change

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The "Great Fact"

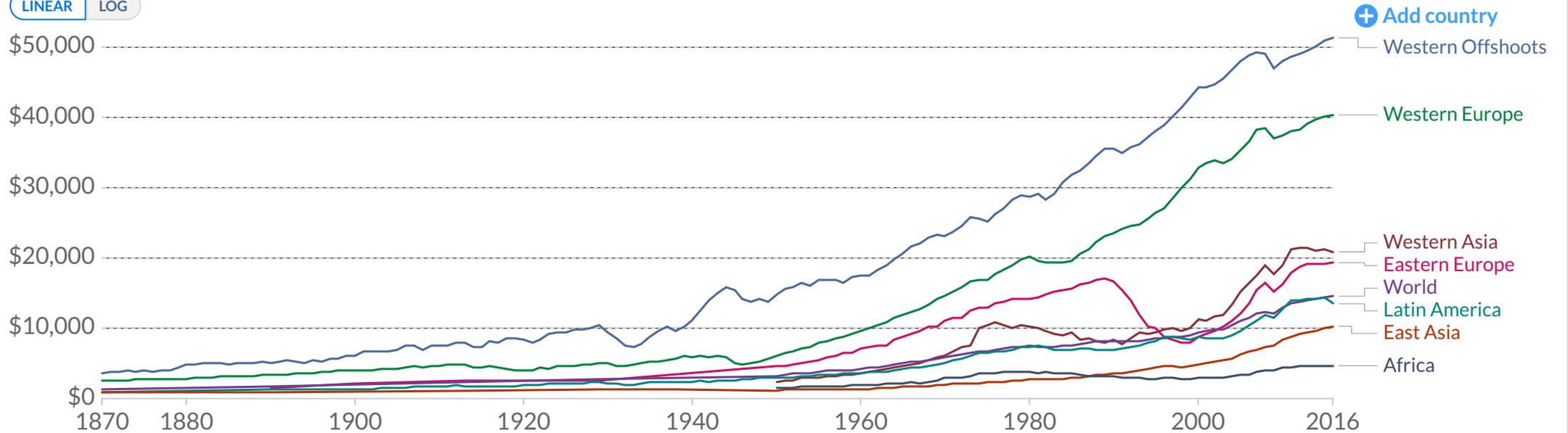


GDP per capita, 1870 to 2016

Our World in Data

GDP per capita adjusted for price changes over time (inflation) and price differences between countries – it is measured in international-\$ in 2011 prices.

LINEAR LOG



Source: Maddison Project Database (2018)

OurWorldInData.org/economic-growth • CC BY

Note: These series are adjusted for price differences between countries using multiple benchmark years, and are therefore suitable for cross-country comparisons of income levels at different points in time.



Relative change

CHART

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Self-Sufficiency...and Poverty



Where We ALL Began



Dierdre N. McCloskey

1942-

Two centuries ago the world's economy stood at the present level of Chad or Bangladesh. In those good old days of 1800...the average human consumed in modern-day prices...roughly \$3 a day, give or take a dollar or two...The only people much better off than the \$3 average were lords or bishops or some few of the merchants. It had been this way for all of history, and for that matter all of pre-history. With her \$3, the typical denizen of the earth could eat a few pounds of potatoes, a little milk, very occasionally a scrap of meat. A wool shawl. A year or two of elementary education, if exceptionally lucky. At birth she had a 50-50 chance of dying before she was 30 years old. Perhaps she was a cheerful sort, and was "happy" with illiteracy, disease, superstition, periodic starvation, and lack of prospects. After all, she had her family and faith and community, which interfered with every choice she made. But anyway she was desperately poor, and narrowly limited in human scope. (pp. 11-12)

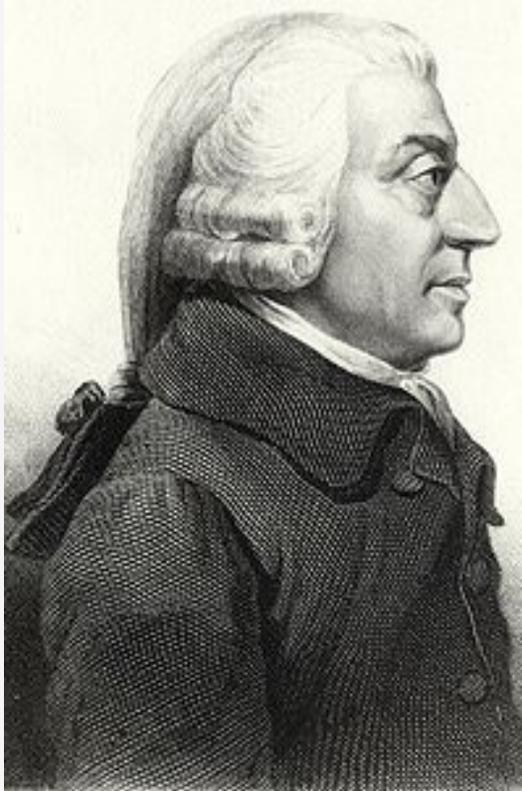
Complete Interdependence...and Prosperity



We've Come SO Far



Interdependence



“In civilized society [man] stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons...man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only,” (Book I, Chapter 2.2)

Smith, Adam, 1776, [*An Enquiry into the Nature and Causes of the Wealth of Nations*](#)

Adam Smith

1723-1790

Our Confined Generosity



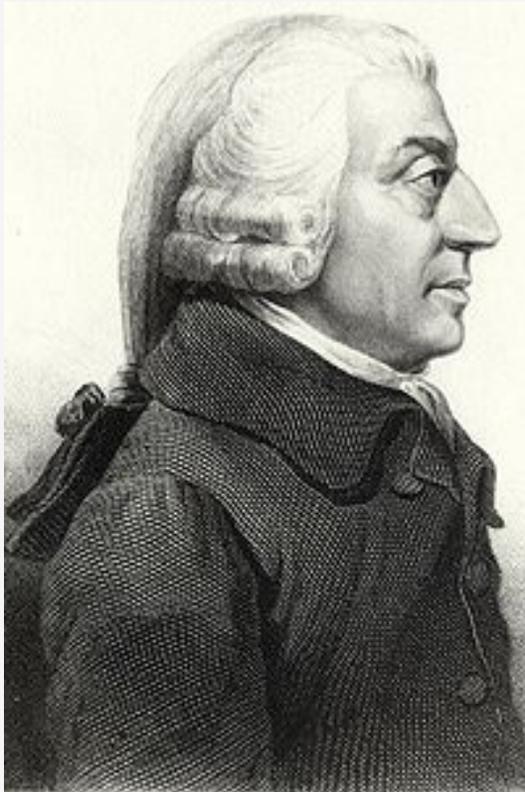
David Hume

1711-1776

“Men being naturally selfish, or endowed only with a confined generosity, they are not easily induced to perform any action for the interest of strangers, except with a view to some reciprocal advantage, which they had no hope of obtaining but by such a performance,”
(Book III, Part II, § V)

Hume, David, 1740, *A Treatise on Human Nature*

Specialization and Exchange



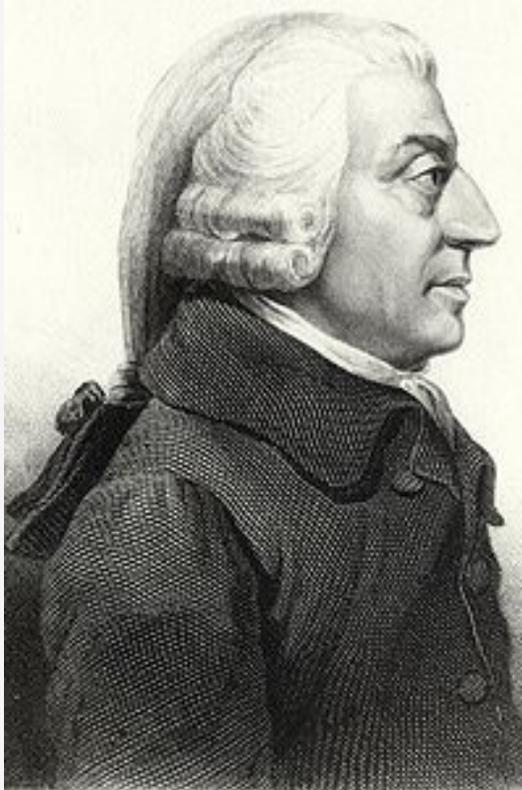
Adam Smith

1723-1790

“Whoever offers to another a bargain of any kind, proposes to do this. **Give me that which I want, and you shall have this which you want...**and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. **It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.**” (Book I, Chapter 2.2)

Smith, Adam, 1776, *An Enquiry into the Nature and Causes of the Wealth of Nations*

Specialization and Exchange



“[Though] he intends only his own gain, and he is in this, as in many other cases, **led by an invisible hand to promote an end which was no part of his intention...By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it,**” (Book IV, Chapter 2.9)

Smith, Adam, 1776, *An Enquiry into the Nature and Causes of the Wealth of Nations*

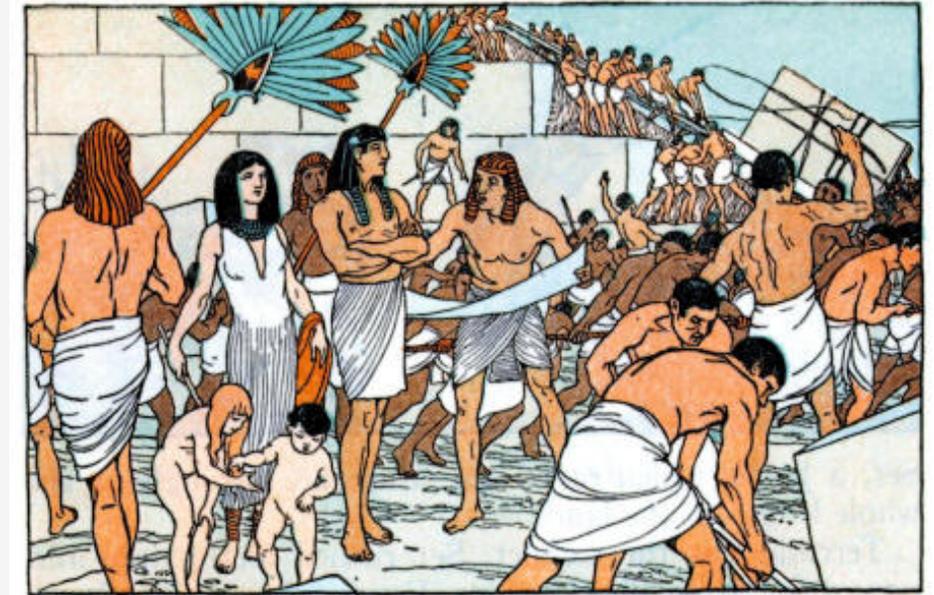
Adam Smith

1723-1790

How to Get Rich or Die Tryin



For 1,000s of years, **the elite** could only become wealthy by **tribute & plunder**



How to Get Rich or Die Tryin



But in the last 300 years, **average people** can become wealthy by **specialization & trade**



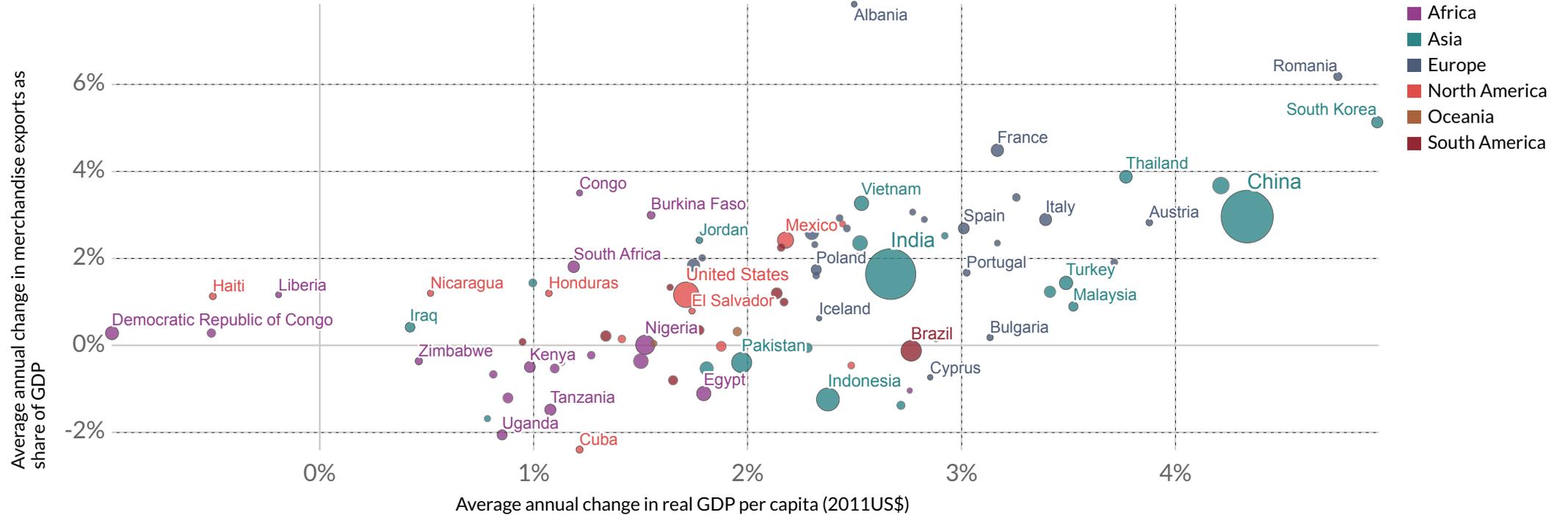
Trade is The Path to Prosperity



Growth of GDP and trade, 1945 to 2014

Average annual change in real GDP per capita vs Average annual change in exports as share of GDP.

Our World
in Data



Source: Fouquin and Hugot (CEPII 2016), Maddison Project Database (2018), Population (Gapminder, HYDE(2016) & UN (2019))

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[Select countries](#) Hide countries < 1 million people

CHART

TABLE

SOURCES

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Interdependence, “Globalization,” and Trade



- Human society is the result of cooperation & interdependence
- Cooperation through exchange is more prevalent than competition
- Trade within and between societies has been the lifeblood of civilizations
 - goods, services, people, capital, ideas, ideologies, religions, technologies, peace
- “Globalization” is not a new idea



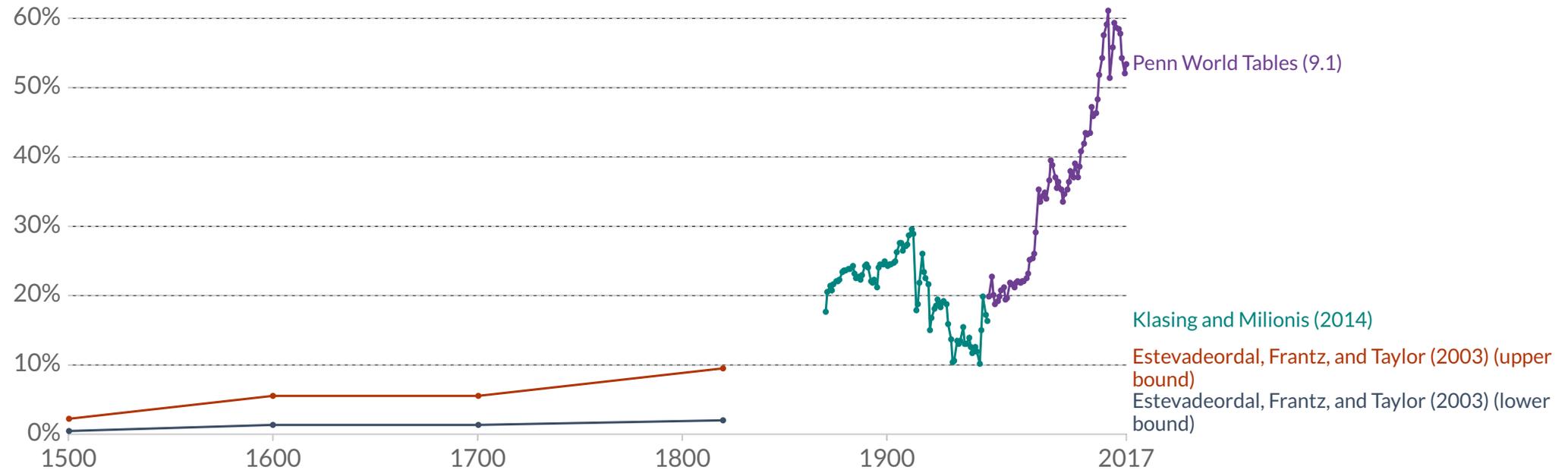
“Globalization”



Our World
in Data

Globalization over 5 centuries

Shown is the "trade openness index". This index is defined as the sum of world exports and imports, divided by world GDP. Each series corresponds to a different source.



Source: Estevadeordal, Frantz, and Taylor (2003), Klasing and Milionis (2014), Feenstra et al. (2015) Penn World Tables 9.1

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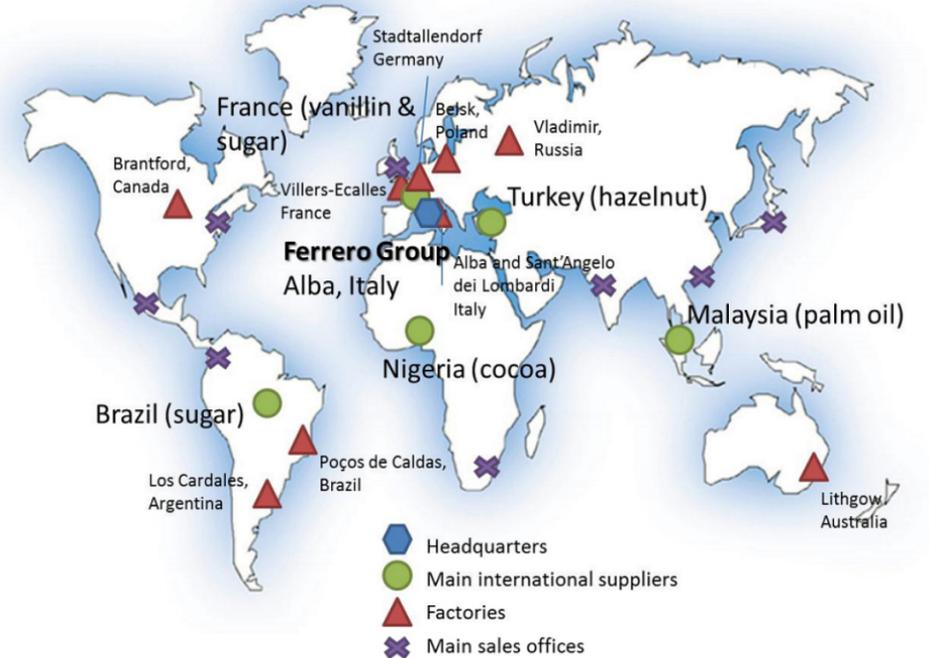
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Global Supply Chains

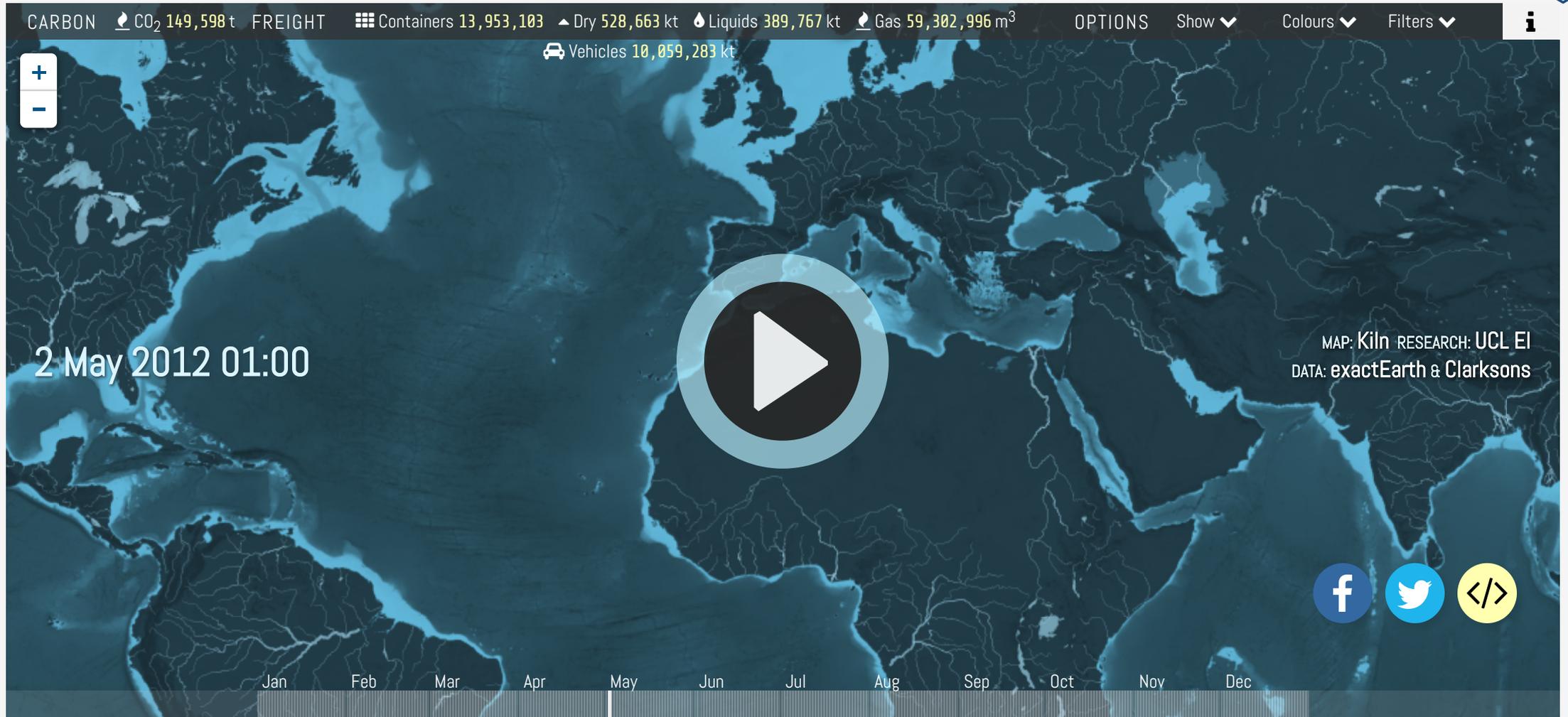


Figure 6. The Nutella® global value chain



Source: Ferrero, Sourcemap and various on-line sources.

Trade Today





About This Course

Logistics: Hybrid Course



- **hybrid**: more **synchronous** material than **asynchronous** material
- I will always be teaching **remotely**
 - A classroom is available to you
 - I may make occasional visits to campus if you *need* something in person (TBD)
- Office hours: Tu/Th 3:30-5:00 PM on Zoom
 - Zoom link in Blackboard's **LIVE CLASS SESSIONS** link
 - ☐ Slack channels
- Teaching Assistant(s): TBD
 - grade HWs & hold (likely virtual) office hours

Logistics: Hybrid Course



- We will have **synchronous** sessions Tu/Th 2:00-3:15 PM on **Zoom**
- Lecture videos will be posted on **Blackboard** via Panopto for students unable to join synchronously
 - If you were present, you do not need to watch the video (again)!
 - You are not *required* to attend synchronously, but it will help you
- All graded assignments are **asynchronous**
 - (Probably) submitted on Blackboard by 11:59 PM Sundays
 - (Probably) timed exams on Blackboard

Learning Goals



By the end of this course, you will:

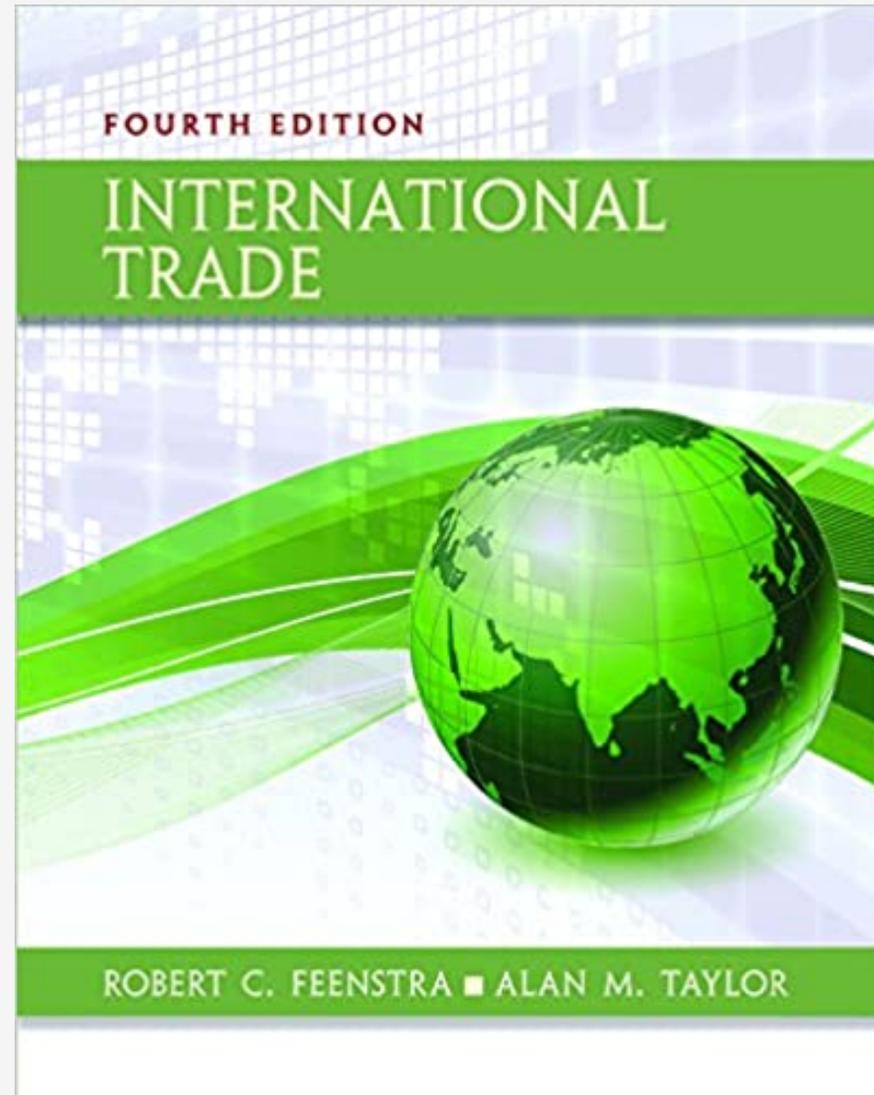
1. articulate basic models of *why* and *what* countries trade
2. understand the political economy that determine a country's trade policies
3. intelligently comment on trade-related current events
4. present an analysis of a country's trade policy

Assignments



Frequency	Assignment	Weight
-	Participation	20%
n	Homeworks	20% (using average HW grade)
1	Country Profile	10%
1	Midterm Exam	25%
1	Final Exam	25%

Your Textbook (Optional but Recommended)



Course Website

A screenshot of a web browser displaying the course website. The browser's address bar shows "tradeF20.classes.ryansafner.com". The page title is "ECON 324: INTERNATIONAL TRADE". Below the title are navigation links: SYLLABUS, SCHEDULE, ASSIGNMENTS, REFERENCE, and SLACK. The main heading is "SCHEDULE". Below this, there is a paragraph stating "This page contains all of the following resources for each class meeting:" followed by a list of resources with icons: Readings (book icon), Assignments (document icon), Slides (presentation icon), and Practice (gears icon). There are also two numbered footnotes. Below the list, it says "Relevant materials (if applicable, icons will become links) will be posted before class meets." and "Last Update: 21:49:06 Mon Aug 17 2020." At the bottom, there is a table with columns: I. MODELS OF TRADE, READING, CLASS, SLIDES, PRACTICE, and ASSIGNMENT. The table lists six items under "I. MODELS OF TRADE" with corresponding icons in the other columns.

ECON 324: INTERNATIONAL TRADE

SYLLABUS SCHEDULE ASSIGNMENTS REFERENCE SLACK

SCHEDULE

This page contains all of the following resources for each class meeting:

- Readings** include textbook chapters and occasional journal articles
- Assignments** are due by the beginning of class unless otherwise stated
- Class** materials contain more details, math appendices, and other helpful resources¹
- Slides** are "Karingan" presentations in html that can be opened in any browser²
- Practice** problems we work on together in class to prepare for homeworks and exams

Relevant materials (if applicable, icons will become links) will be posted before class meets.

Last Update: 21:49:06 Mon Aug 17 2020.

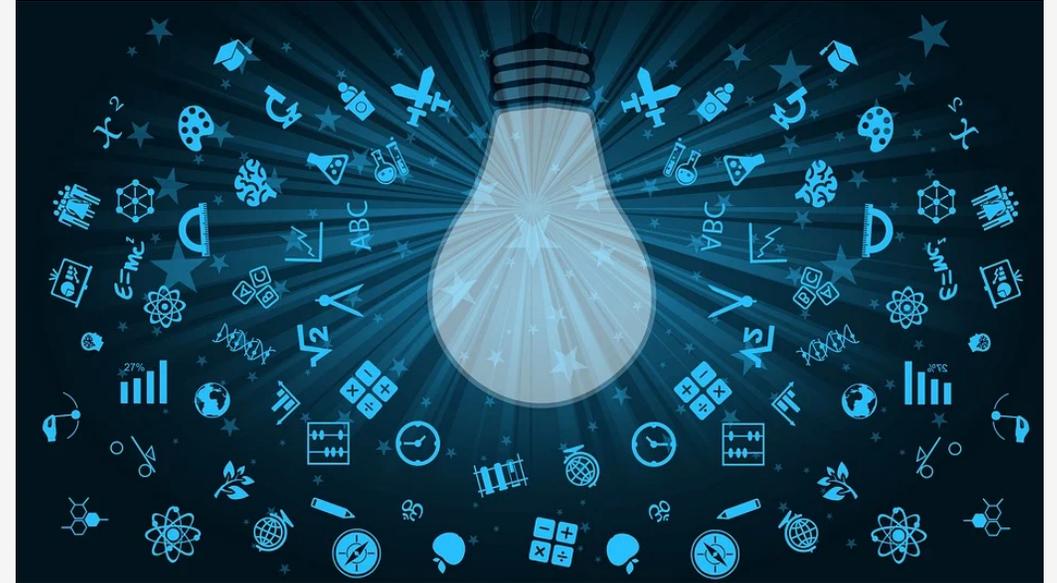
I. MODELS OF TRADE	READING	CLASS	SLIDES	PRACTICE	ASSIGNMENT
1.1 Introduction and the Smithean View of Trade					
1.2 Ricardian View of Trade I: Comparative Advantage					
1.3 Ricardian View of Trade II: One-Factor Model					
Problem Set 1 Due					
1.4 The Neoclassical Model					
1.5 The Neoclassical Model II					
1.6 The Heckscher-Ohlin Model I					

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Tips for Success, Or: How to College



- Take notes. On paper. Really.
- Read the readings.
- Ask questions, come to office hours.
Don't struggle in silence, you are not alone!
- You are learning how to learn
- See the [reference page](#) for more



Roadmap for the Semester

