

International Economics: Lecture 15

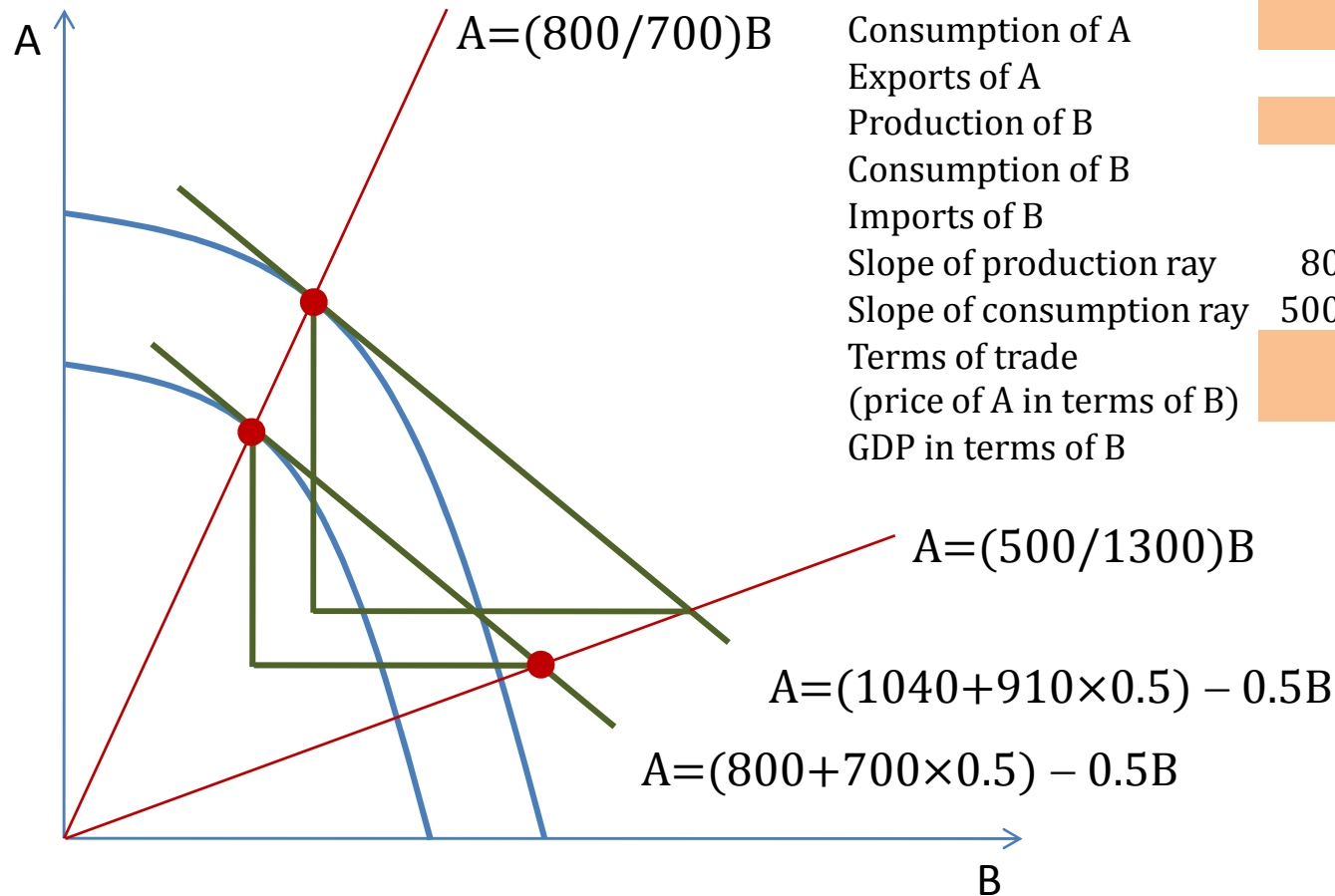
Effects of Economic Growth on Trade

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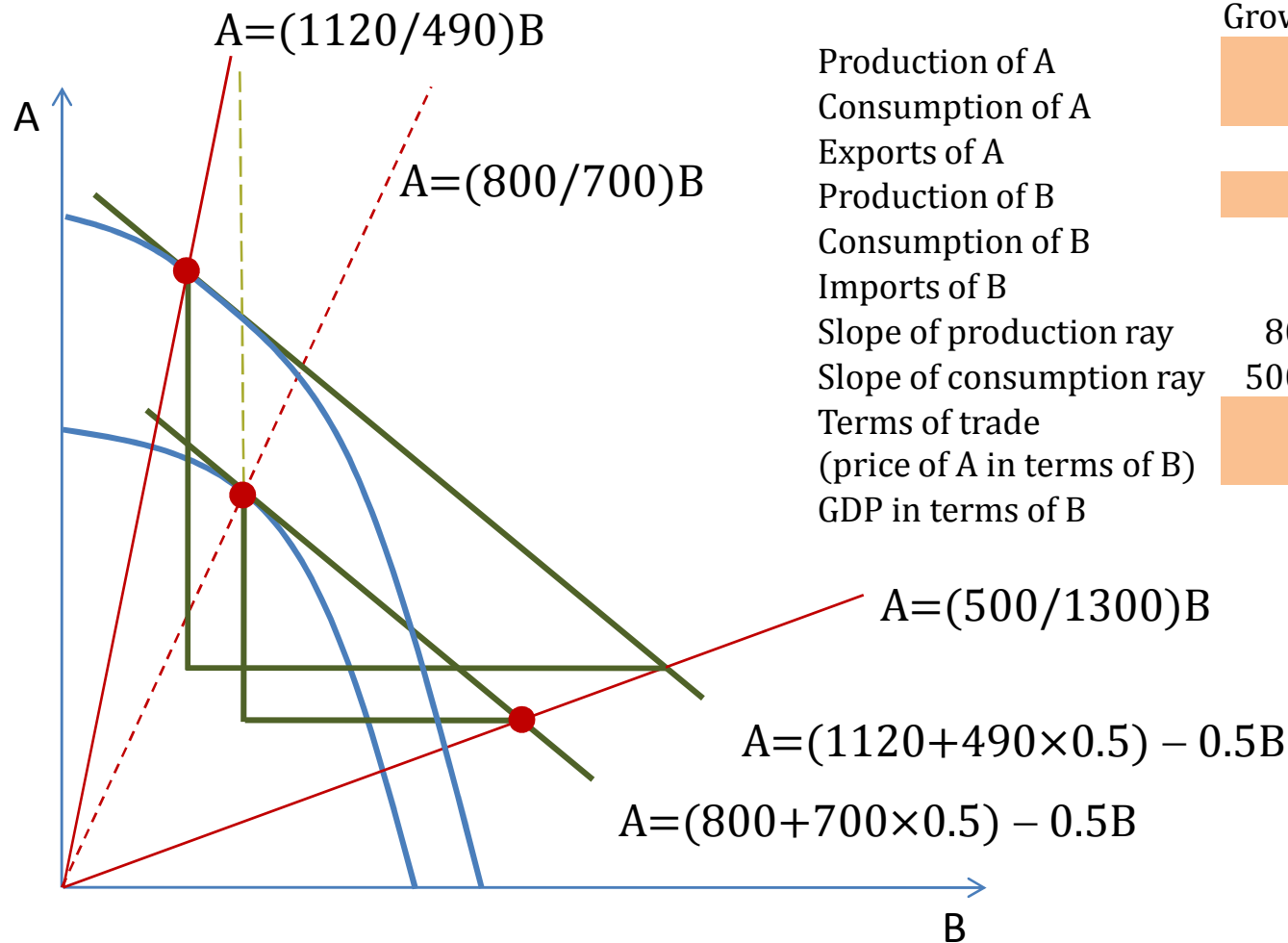
Whenever you are not comfortable with any model, theory, statement, and would like further clarifications, then please be so kind to ask about it.

Neutral Economic Growth



	Before Growth	After Growth	% Growth
Production of A	800	1040	30
Consumption of A	500	650	30
Exports of A	300	390	30
Production of B	700	910	30
Consumption of B	1300	1690	30
Imports of B	600	780	30
Slope of production ray	800/700	800/700	0
Slope of consumption ray	500/1300	500/1300	0
Terms of trade (price of A in terms of B)	2	2	0
GDP in terms of B	2300	2990	30

Protrade Economic Growth



	Before Growth	After Growth	% Growth
Production of A	800	1120	40
Consumption of A	500	593.48	18.7
Exports of A	300	526.51	75.51
Production of B	700	490	-30
Consumption of B	1300	1543.04	18.7
Imports of B	600	1053.04	75.51
Slope of production ray	800/700	1120/490	100
Slope of consumption ray	500/1300	500/1300	0
Terms of trade (price of A in terms of B)	2	2	0
GDP in terms of B	2300	2730	18.7

Protrade Economic Growth

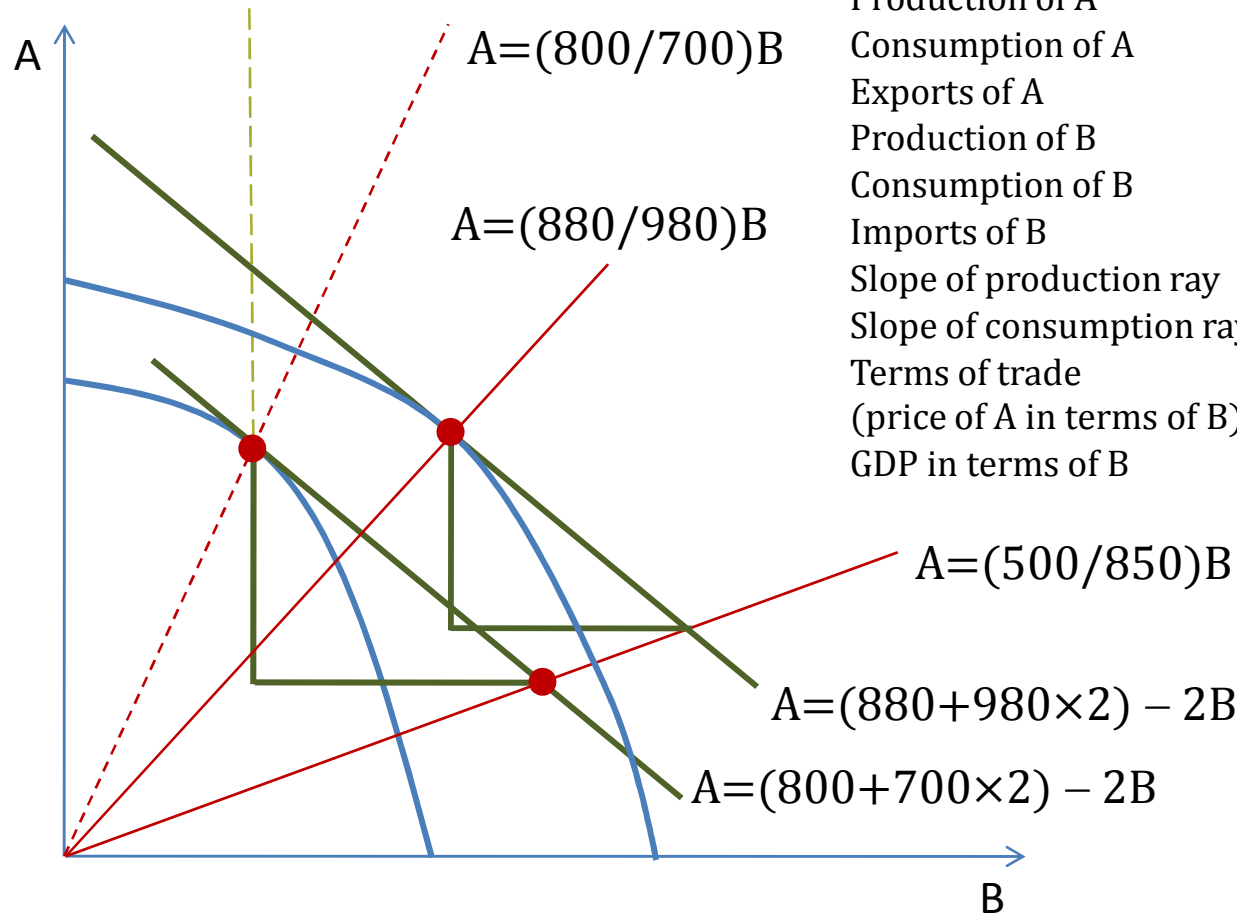
When the supply of the factor used intensively in the production of the exported good increases relatively more than the other factor,

then the output of the exported good grows relatively more, than the output of the imported good,

and international trade rises relatively more than GDP.

in other words, if factors supplies growth skewed towards the abundant factor, then the growth is protrade.

Antitrade Economic Growth



	Before Growth	After Growth	% Growth
Production of A	800	880	10
Consumption of A	500	645.45	29.1
Exports of A	300	234.54	-21.8
Production of B	700	980	40
Consumption of B	850	1097.27	29.1
Imports of B	150	117.27	-21.8
Slope of production ray	800/700	880/980	-21.43
Slope of consumption ray	500/850	500/850	0
Terms of trade (price of A in terms of B)	0.5	0.5	0
GDP in terms of B	1100	1420	29.1

Antitrade Economic Growth

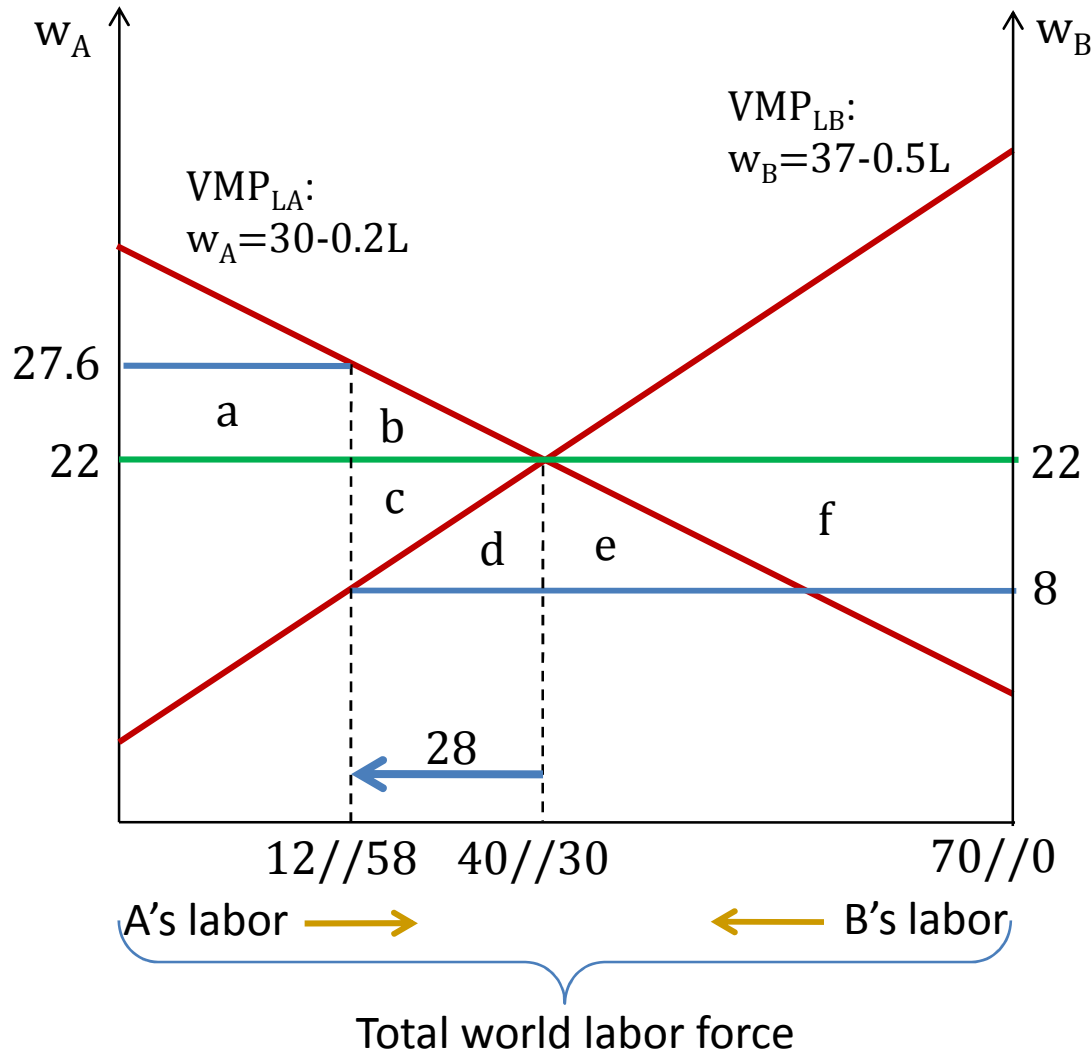
When the supply of the factor used intensively in the production of the imported good increases relatively more than the other factor,

then the output of the imported good grows relatively more, than the output of the exported good,

and international trade rises relatively less than GDP.

in other words, if factors supplies growth skewed towards the scarce factor, then the growth is antitrade.

International Labor Mobility



Total labor: $L = L_A + L_B = 70$

- before move: $L_A = 12$; $L_B = 58$;

- after move: $L_A = 40$; $L_B = 30$;

Wage

- before: $w_A = 27.6$; $w_B = 8$

- after: $w_A = w_B = 22$

In A

- native labor loses: $a = 67.2$

- capital gains: $a + b = 145.6$

In B

- remaining labor gains: $e + f = 420$

- capital losses: $d + e + f = 616$

• Moving labor

wage increases: $c + d = 392$

• World output

increases: $b + c = 274.4$

Thank you and take care,

but remember

Children must be taught
how to think, not what to
think.

Margaret Meads