

(H. 10) TRADE AS POLICY

2nd BEST THEORY

- NOT ALL DIRECT 1st BEST SOLUTIONS ARE POSSIBLE OR PRACTICAL
- 2nd BEST SOLUTION IS ONLY OPTION

EXAMPLES.

ATTENDANCE IN ECON 310
TRADE EMBARGOES

SPECIFICITY RULE

- IF EXTERNALITY EXISTS, GOV'T POLICY SHOULD INTERVENE AS CLOSELY TO SPECIFIC PROBLEM AS IS POSSIBLE

NATIONAL DEFENSE

- COUNTRY SHOULD HAVE ACCESS TO MILITARY GOODS IN TIME OF WAR
- APPLY SPECIFICITY RULE: PROTECT GOODS THAT CAN'T BE ADEQUATELY STOCKPILED

STOCKPILE

OIL
CLOTHES
KNIVES

NO STOCKPILE

MUNITIONS
JETS
~~HUMMERS~~

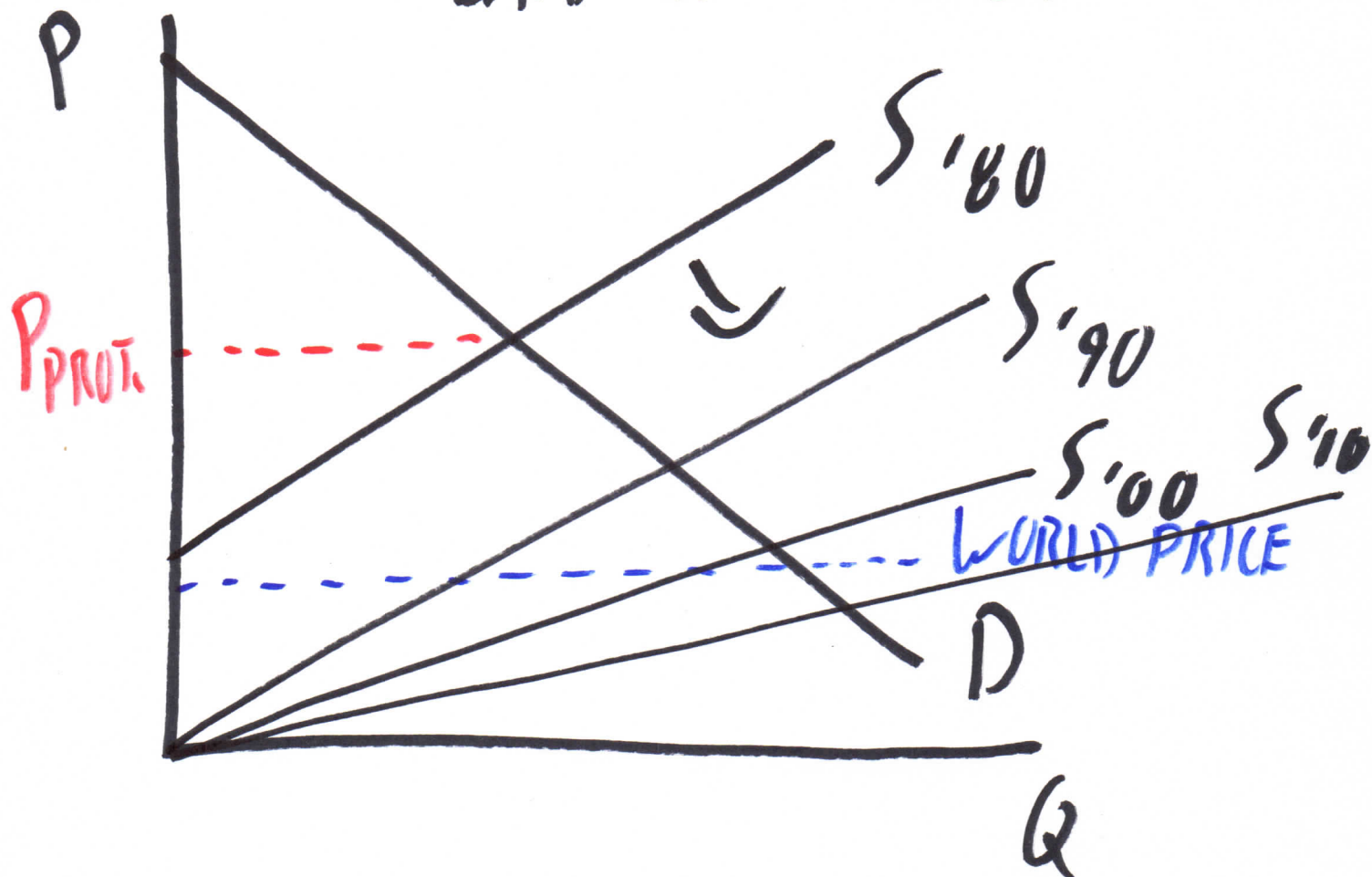
- SUBSIDY FOR DOMESTIC PRODUCTION

CH. 10

INFANT INDUSTRY

- SOME DOMESTIC INDUSTRIES NEED TIME TO DEVELOP (TECHNOLOGY, ECONOMIES OF SCALE, etc...)

LARS IN S. KOREA



- HOW TO PICK A WINNING INDUSTRY?

LARGE COUNTRY COSTS OF TRADE PROTECTION (U.S.)

	<u>EACH JOB PROTECT.</u>
21 INDUSTRIES	\$54,000
WOMEN'S FOOTWEAR	\$3,000
RUBBER FOOTWEAR	\$7,000
GLASSWARE	\$5,000
MARITIME SHIPPING	\$126,000
MACHINE TOOLS	\$247,000
SULAR	\$257,000

CH. 11 DUMPING

- SELLING EXPORTS AT A PRICE
BELOW MARKET VALUE

WHAT'S BELOW MARKET VALUE?

① WHEN ~~$P_{IMP} < P_{EXP}$~~

$$P_{IMP} < P_{EXP}$$

ECONOMIC
VS
LEGAL

② WHEN $P_{IMP} < AC, MC?$

TYPES

① PREDATORY - TO DRIVE COMPETITION
OUT OF THE MARKET ☹️

② CYCLICAL - SELLING OFF INVENTORY
IN A RECESSION ($D \downarrow \rightarrow P \downarrow$) 😊

③ SEASONAL - SELL BEFORE PRODUCT
DECAYS OR GOES OUT OF STYLE ☺️
LARGE FIXED COSTS?

④ PERSISTENT - PRICE DISCRIMINATION
BETWEEN COUNTRIES ☺