

(H. 4)

HOW ARE TRADE PATTERNS DETERMINED? (WHAT GOONS?)

- ① PRODUCTION DIFFERS, TECHNOLOGY
DIFFERS, ENDOWMENTS DIFFER
PRICE DIFFERS (QUANTITY OR QUALITY)*
- ② PREFERENCES DIFFER
- ③ BOTH ① + ②

HECKSCHER-OHLIN (H-O)

- COUNTRIES EXPORT GOODS THAT INTENSIVELY REQUIRE THE FACTOR(S) THAT THE COUNTRY HAS IN RELATIVE ABUNDANCE
- IMPORT GOODS THAT INTENSIVELY REQUIRE THE FACTOR(S) THAT THE COUNTRY HAS IN RELATIVE SCARCITY
- CORRECT ABOUT 75% OF THE TIME
(PREDICTS EXPORTED GOODS/IMPORTED GOODS
3 OUT OF 4 TIMES)

H-O

2 GOODS: FOOD + CLOTHING
2 FACTORS: LAND + LABOR

$$\frac{\text{TOTAL US LAND}}{\text{TOTAL US LABOR}} \rightarrow \frac{\text{TOTAL HK LAND}}{\text{TOTAL HK LABOR}}$$

(PROPORTION OF FACTOR ENDOWMENTS)

US EXPORTS FOOD TO HK

HK EXPORTS CLOTHING TO US

Special Section : Theories of Trade - Witte

- Heckscher-Ohlin Theory of Trade

(COUNTRIES EXPORT GOODS THAT INTENSIVELY REQUIRE THE FACTORS THEY HAVE IN ABUNDANCE)

FACTORS OF PRODUCTION

LAND

- (1) MIN. RESOURCES
- (2) ARABLE LAND
- (3) FISHERY GROUND

KAPITAL

- (1) LIGHT MACHINERY
- (2) HEAVY MACHINERY
- (3) HIGH TECH KAPITAL

LABOR

UNSKILLED

- (1) PRODUCTION + TRANSPORTATION

SKILLED

- (2) CLERICAL
- (3) LIGHT SERVICE

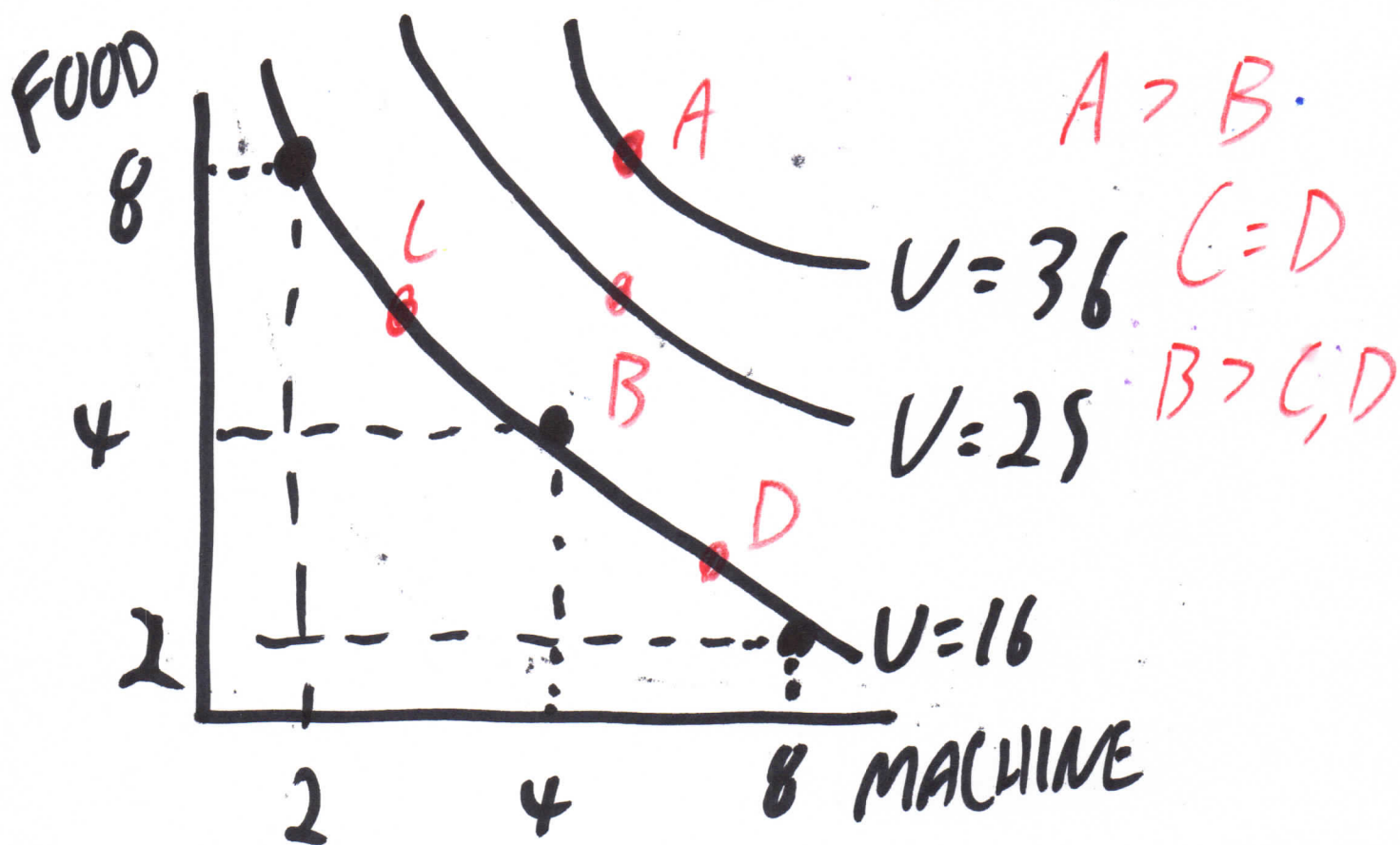


- (6) FINANCIAL + MATERIAL
- (4) ENGINEERS + TECHNICAL
- (5) MEDICAL + PROFESSIONAL

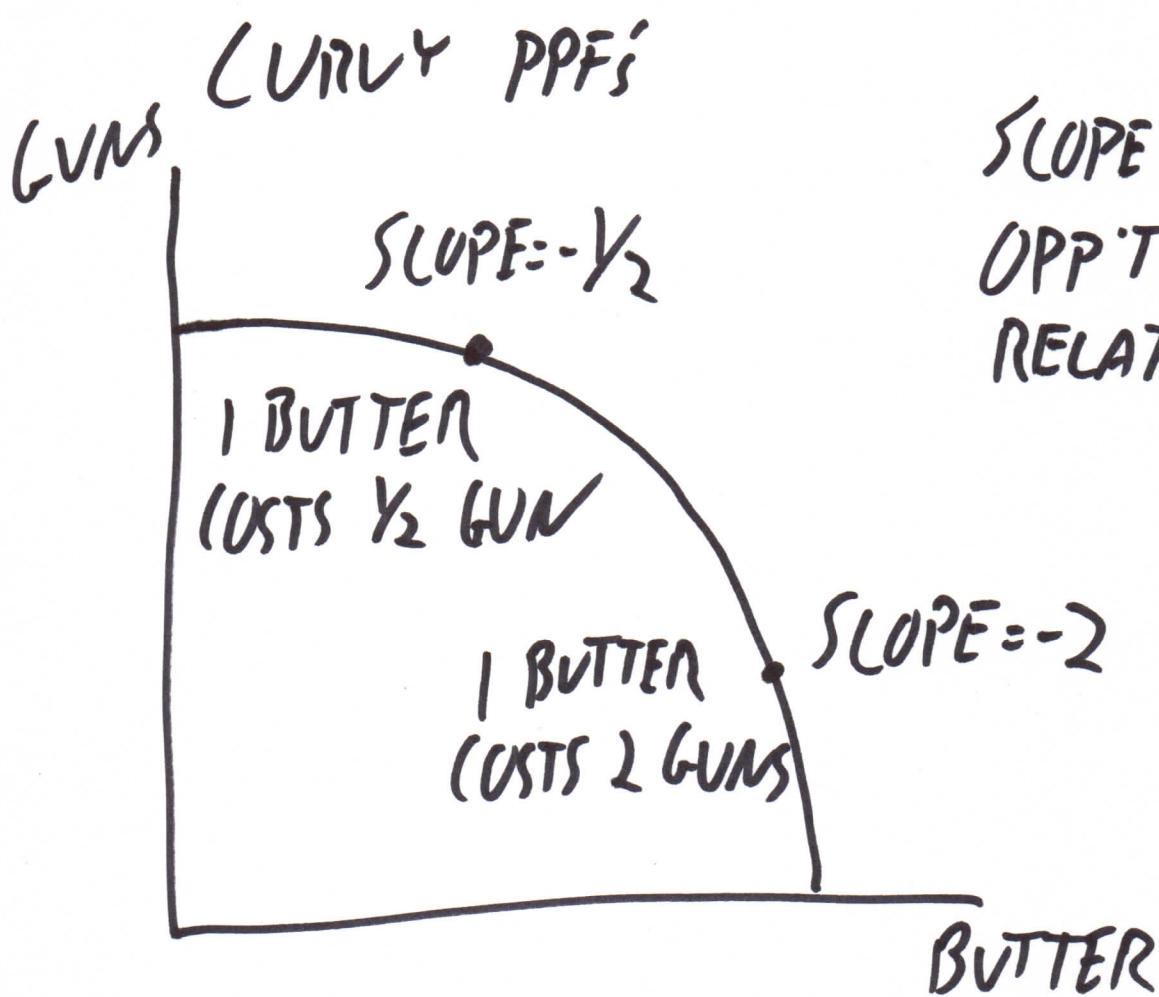
(4) INDIFFERENCE CURVES

- RANKING OF PREFERENCES
- BASED ON UTILITY (HAPPINESS)

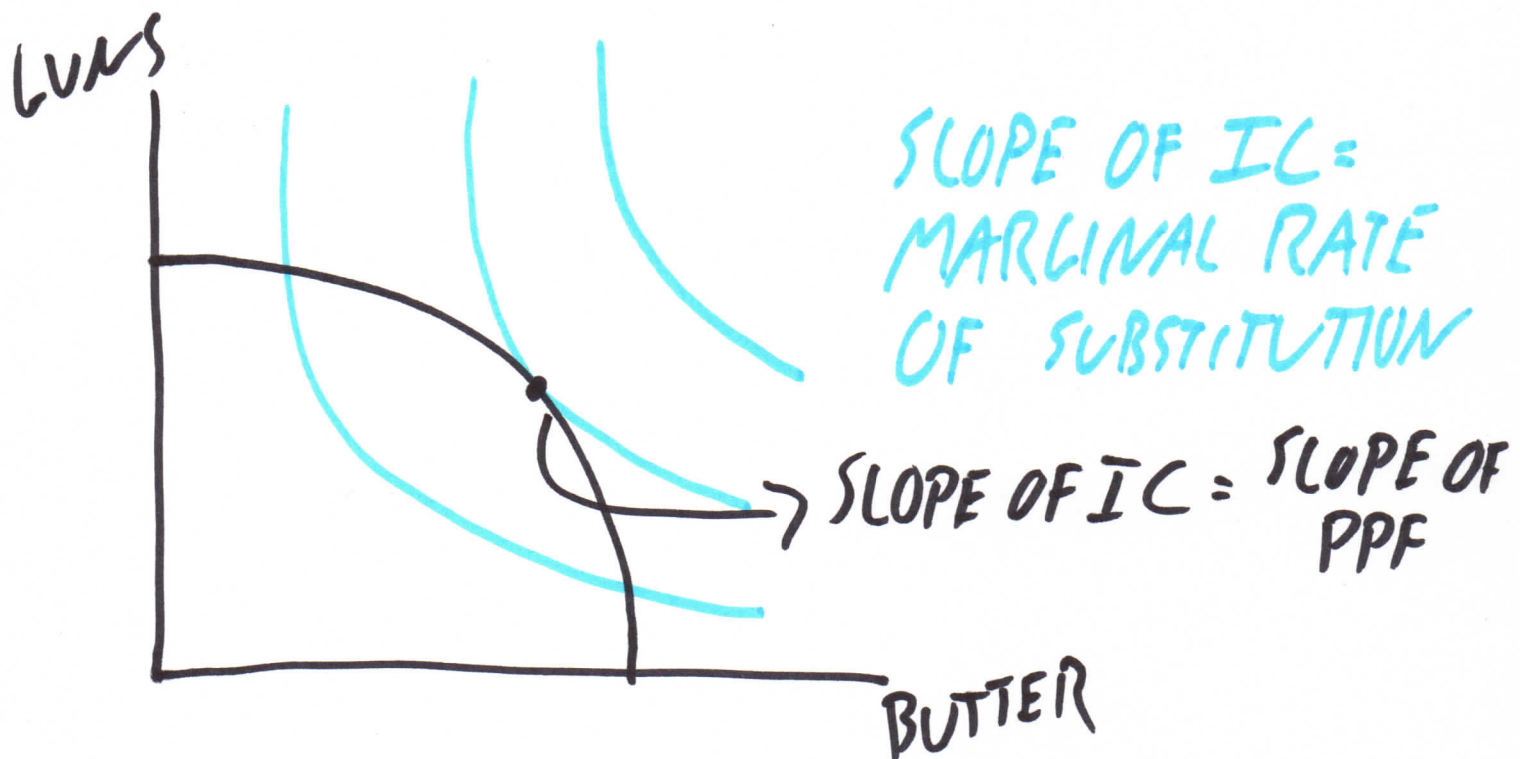
EXAMPLE: $U = F \times M$



1 PERSON (COUNTRY) NEVER
HAS CROSSING INDIFF. CURVES



SLOPE OF PPF =
OPP'T COSTS OR
RELATIVE PRICES



① EQUILIBRIUM IN AUTARKY

$U_0 = \text{CONSUMES} + \text{PRODUCES}$

↳ SLOPE = -2

1 CLOTH COSTS 2 WHEAT

$R_0 = \text{CONSUMES} + \text{PRODUCES}$

↳ SLOPE = - $\frac{2}{3}$

1 CLOTH COSTS $\frac{2}{3}$ WHEAT

② EQUILIBRIUM IN TRADE

① DETERMINE TERMS-OF-TRADE (PRICES)
with SUPPLY + DEMAND

$Q_{\text{IMPORTS}} = Q_{\text{EXPORTS}}$ * IMPORTANT

② SUPPLY CURVES WILL TELL US
PRODUCTION (U_1, R_1)

③ LET CONSUMPTION (U_2, R_2)
USE TERMS-OF-TRADE, CPFs

③ GAINS FROM TRADE?

$$I_2 > I_{10}$$

CONSUMPTION POSSIBILITIES

FRONTIER IS EXPANDED

MORE EFFICIENT PRODUCTION?

AUTARKY = 80 WHEAT, 120 CLOTH

TRADE = 95 WHEAT, 120 CLOTH