

[CH. 6] OTHER TRADE THEORY

INTRA-INDUSTRY TRADE (IIT)

- EXPORTS + IMPORTS OF A SIMILAR PRODUCT

$$\text{IIT SHARE INDEX} = 1 - \frac{\text{SUM OF } |X - M|}{\text{SUM OF } X + M}$$

$$= 1 - \frac{|X - M|}{X + M}$$

BETWEEN 0 + 1
H-O IS RIGHT
NO INTRA-INDUSTRY TRADE

1 / H-O WRONG
LOTS OF INTRA-INDUSTRY TRADE

WHY IIT?

① PRODUCT DIFFERENTIATION +
DIFFERENT PREFERENCES
(MONOPOLISTIC COMPETITION)

- BEER, CARS

② FEW SUPPLIERS (OLIGOPOLY)

- BOEING + AIRBUS

- SONY ✓ MICROSOFT ✓ NINTENDO

③ TRANSPORTATION COSTS

- CONCRETE, PACKING MATERIALS

④ EXTERNAL ECONOMIES OF
SCALE - NETWORK TO KEEP PRICES ↓
OR QUALITY ↑

- HOLLYWOOD + BOLLYWOOD

- PHARMACEUTICALS

⑤ SEASONAL CONCERNS - FRUITS + NUTS

[H. 6] GRAVITY MODEL

- COUNTRIES THAT ARE TRADE PARTNERS
- PREDICT 90% OF TRADE FLOWS

$$\text{TRADE}_{ij} = A(\text{GDP}_i + \text{GDP}_j) \\ (\text{EX}_{ij} + \text{EX}_{ji})$$

$$- B(\text{DISTANCE}_{ij}) \\ - C(\text{TRADE BARRIER}_{ij})$$

+ COMMON LANGUAGE
+ HISTORICAL POLITICAL
LINKS

+ FREE TRADE AGREEMENT
+ COMMON CURRENCY
- CORRUPTION