

Ch. 28 Macroeconomics and International Trade

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28.1 Why and How We Trade

Absolute Advantage and Comparative Advantage

- Absolute advantage: a producer has an absolute advantage in producing a good or service if the producer can produce more units per hour than other producers can.
- Comparative advantage: a producer has a comparative advantage in producing a good when the producer has a lower **opportunity cost** per unit produced compared to other producers.

	Steve Jobs	Chuck Chores
Sales	2,000 sales/year	1,000 sales/year
Design	1,000 design/year	1 design/year

28.1 Why and How We Trade

Absolute Advantage and Comparative Advantage

- Opportunity cost should be used to guide producers' task choices.
- It applies to individuals' career choices.
- The key insight is that market prices will adjust so that individuals choose occupations consistent with their comparative advantages.

With \$50 Value Added from Sales and \$50 from Design

	Steve Jobs	Chuck Chores
Sales	\$100,000/year	\$50,000/year
Design	\$50,000/year	\$50/year

28.1 Why and How We Trade

Absolute Advantage and Comparative Advantage

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- It applies to individuals' career choices.
- The key insight is that market prices will adjust so that individuals choose occupations consistent with their comparative advantages.

With \$50 Value Added from Sales and \$100k from Design

	Steve Jobs	Chuck Chores
Sales	\$100,000/year	\$50,000/year
Design	\$5,000k/year	\$100k/year

28.1 Why and How We Trade

Absolute Advantage and Comparative Advantage

- Opportunity cost should be used to guide producers' task choices.
- It applies to individuals' career choices.
- The key insight is that market prices will adjust so that individuals choose occupations consistent with their comparative advantages.

With \$50 Value Added from Sales and \$5k from Design

	Steve Jobs	Chuck Chores
Sales	\$100,000/year	\$50,000/year
Design	\$5,000k/year	\$5,000/year

28.1 Why and How We Trade

Comparative Advantage and International Trade

- Portugal can produce both wine and cloth using fewer labor hours than England uses.
- Portugal has nothing to gain from trading with England. Would you agree?

Required Labor Hours to Produce

	Portugal	England
Wine	80	120
Cloth	90	100

28.1 Why and How We Trade

Comparative Advantage and International Trade

Choose all correct statements.

- A. The U.S. has a comparative advantage in producing beef.
- B. Taiwan can never participate international trade.
- C. Japan can never participate international trade.
- D. If Taiwan exports beef, then the term of trade is more favorable to the U.S. than Japan.

Required Units of Labor to Produce

	Taiwan	The U.S.	Japan
Beef	3	1	2
Rice	5	4	2

28.1 Why and How We Trade

Efficiency and Winners and Losers from Trade

- International trade contributes to value added in the United States as well as to low prices for U.S. consumers.
- Though international trade achieves a more efficient allocation of resources and creates potential gain for society as a whole, trade will produce some winners and some losers.
- Economists favor free international trade and use the gains from trade to compensate the losing households.
- In practice, however, such compensation rarely takes places.

28.2 The Current Account and the Financial Account

Balance of Payments

- The international accounting system is built on the concept of **residency**.
 - 台勞小明到澳洲打工賺得5,000澳幣對澳洲的國際收支帳有何影響?
- $\text{Current account} = \text{Net exports} + \text{Net factor payments from abroad} + \text{Net transfers from abroad}$.
- 用三大類別記憶:
 - Net exports項 - 與商品/服務的進出口有關
 - Net factor payments項 - 與要素所得(**wages**, rents, interests, profits)有關
 - Net transfers項 - 與國際間的贈與有關 (foreign aid, reparations, grants, gifts.)

28.2 The Current Account and the Financial Account

Balance of Payments

- Financial account = Increase in domestic assets held by foreigners – Increase in foreign assets held domestically.
- Current account + Financial account = 0.
- $Y = C + I + G + NX$.
- $S = Y - C - G$.
- $S - I = NX = NCO$ = Net capital outflows.

Trade Deficit	Balanced Trade	Trade Surplus
$NX < 0$	$NX = 0$	$NX > 0$
$Y < C + I + G$	$Y = C + I + G$	$Y > C + I + G$
$S < I$	$S = I$	$S > I$
$NCO < 0$	$NCO = 0$	$NCO > 0$

28.3 International Trade, Technology Transfer, and Economic Growth

Foreign Direct Investment

- Foreign Direct Investment: investments by foreign individuals and companies in domestic firms and businesses.
- Multinational companies.
- Technology transfer.