STUDY GUIDE — INTERNATIONAL ECONOMICS (Ch. 1.1, 2.1, 3.1, 4.1)

CHAPTER 1.1 — Introduction to International Economics

• International economics studies trade of goods/services, money flows, and investments.

• Two branches:

– International Trade (micro): gains, patterns, and policies (tariffs, quotas, subsidies)

– International Finance (macro): balance of payments, exchange rates, capital markets

• Why it matters: global interdependence and rising share of trade in GDP.

• Gains from trade: specialization ↑ efficiency; resource■based export/import patterns.

• Trade patterns shaped by climate, resources, productivity, factor endowments.

• Government policy effects: tariffs/quotas help industries but harm consumers & reduce efficiency.

• Exchange rates influence competitiveness and trade balances.

• Key assumptions: full employment, perfect competition, immobile factors, zero transport cost, money as a veil.

CHAPTER 2.1 — Ricardian Model & Classical Trade Theory

• Reasons for trade: technology differences, resource differences, offshoring costs, geography.

• Absolute vs. Comparative Advantage: comparative advantage drives trade (lower opportunity cost).

• Ricardian setup: two countries, two goods, labor only, constant MPL → linear PPF.

• Autarky: production = consumption; relative price = opportunity cost.

• Trade equilibrium: export good with lower opportunity cost; world price between autarky prices.

• Gains from trade: specialization increases world output; consumption at higher indifference curve.

• Wages: $w = P \times MPL$; high productivity → higher wages; both countries still benefit.

• Export supply/import demand define equilibrium via price interactions.

CHAPTER 3.1 — Standard Trade Model (Increasing Opportunity Costs)

• Increasing opportunity cost: bowed■out PPF; MRT rises with output.

• Autarky equilibrium: PPF tangent to highest attainable indifference curve.

• Comparative advantage based on lower opportunity cost, not productivity.

• With trade: partial specialization; world price between autarky prices.

• Gains from specialization + gains from exchange.

• Offer curves: show willingness to trade; intersection determines equilibrium ToT.

• Terms of Trade (ToT): higher ToT means more purchasing power for exports.

• Offer curve shifts: outward = more willingness to trade; affects ToT & trade volume.

CHAPTER 4.1 — Specific-Factors Model & Income Distribution

• Purpose: explain how trade affects income distribution.

• Two sectors (manufacturing, agriculture) and three factors:

– Labor (mobile), Capital (specific to manufacturing), Land (specific to agriculture)

• When price of manufacturing rises: sector expands → labor demand ↑ → wages ↑ (less than price).

• Distributional effects: capital owners gain, landowners lose, workers ambiguous.

• Gains from trade: country benefits overall but unevenly distributed.

• Political implications: basis of protectionist support; justification for TAA.

• Wage determination: W = P × MPL; labor reallocates until wages equalize.

• Short run: specific factors cause uneven outcomes; long run: flexibility softens impacts.