

# International Trade: Assignment 1

Carlos Lezama, Marco Hinojosa,  
Luis Jiménez and Antonio Carbonell

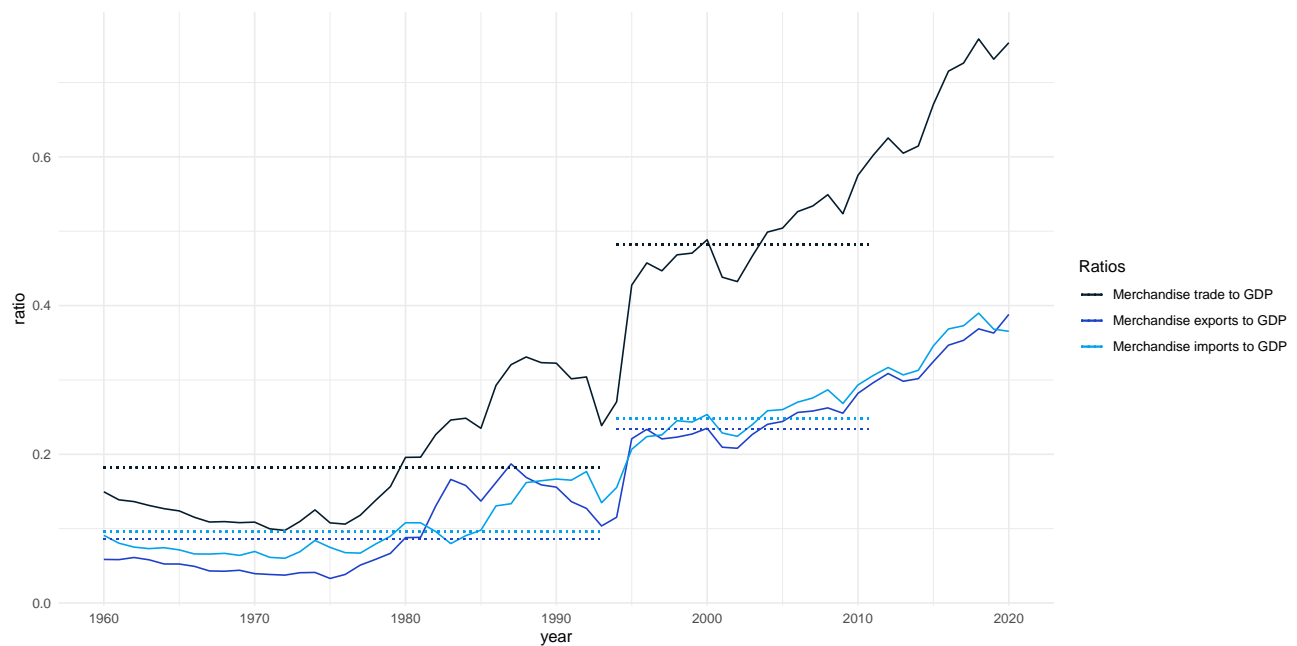
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## Patterns of trade<sup>1</sup>

<sup>1</sup> Data obtained from DataBank and WITS.

(a)

i. and ii.

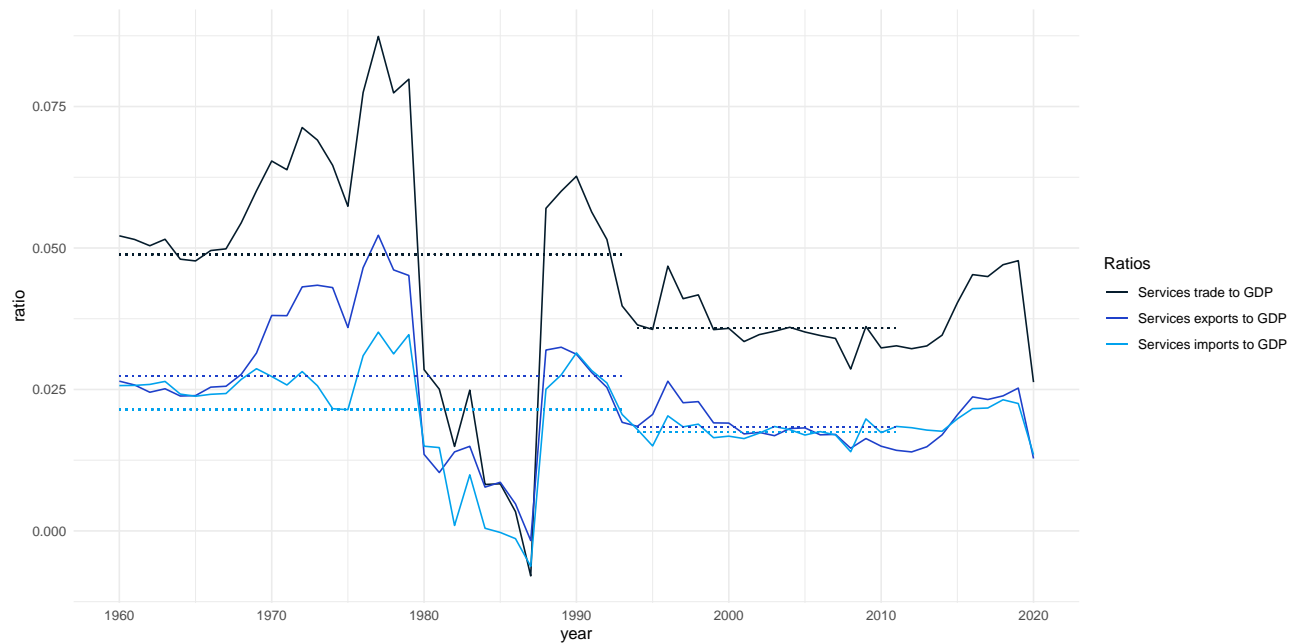


- Merchandise trade to GDP ratio average before NAFTA: 0.1822774
- Merchandise trade to GDP ratio average after NAFTA: 0.4822469
- Merchandise exports to GDP ratio average before NAFTA: 0.0862539
- Merchandise exports to GDP ratio average after NAFTA: 0.2341628
- Merchandise imports to GDP ratio average before NAFTA: 0.0960235
- Merchandise imports to GDP ratio average after NAFTA: 0.2480841

In all cases, the merchandise to GDP ratio increased such that trade activity increased for merchandise exports, imports and trade.

Furthermore, note that during the period from 1994 to 2011, the average increased more than 100% for all merchandise trade. This means that the importance of trade increased significantly when comparing both periods.

iii.



- Services trade to GDP ratio average before NAFTA: 0.0488722
- Services trade to GDP ratio average after NAFTA: 0.0358815
- Services exports to GDP ratio average before NAFTA: 0.0274048
- Services exports to GDP ratio average after NAFTA: 0.0183926
- Services imports to GDP ratio average before NAFTA: 0.0214674
- Services imports to GDP ratio average after NAFTA: 0.0174889

All exports, imports and trade in services relative to GDP ratios decreased after NAFTA, which means that services have a lesser impact on GDP. We cannot say that trade in services had decreased, but it is certain that it did not grow at the same pace as merchandise trade.

(b)

i.

Table 1: Top 10 exported commodities in 1993

Trade value in \$1000USD	Product
6485314	Petrol./bitum. oil,crude
4242559	Passenger cars etc
2779688	Electrical distrib equip
2013789	Motor veh parts/access
2008824	Electrical equipment nes
1774014	Television receivers
1719531	Telecomms equipment nes
1653492	Internal combust engines
1465697	Electric circuit equipmt
1226761	Vegetables,frsh/chld/frz

Table 2: Top 10 exported commodities in 2007

Trade value in \$1000USD	Product
37937177	Petrol./bitum. oil,crude
20277045	Television receivers
18684439	Passenger cars etc
12146615	Telecomms equipment nes
11853225	Motor veh parts/access
8994584	Goods/service vehicles
8960076	Computer equipment
7780483	Electrical distrib equip
7301003	Electrical equipment nes
6322745	Electric circuit equipmt

Each of the products included in the list increased its commercial value. Oil remained number one, even after NAFTA. The 2007 list shows a preference for auto parts and electrical products, while the 1993 list includes vegetables in 10th place.

ii.

Table 3: Top 10 imported commodities in 1993

Trade value in \$1000USD	Product
2249819	Valves/transistors/etc
1976657	Electric circuit equipmt
1931746	Electrical equipment nes
1881474	Telecomms equipment nes
1837823	Articles nes of plastics
1806154	Base metal manufac nes
1745784	Electrical distrib equip
1084777	Computer equipment
1061950	Heavy petrol/bitum oils
970129	Special indust machn nes

Table 4: Top 10 imported commodities in 2007

Trade value in \$1000USD	Product
15373515	Telecomms equipment nes
13886076	Heavy petrol/bitum oils
12302190	Motor veh parts/access
10141118	Electric circuit equipmt
9436330	Passenger cars etc
6569592	Valves/transistors/etc
6098386	Computer equipment
6096571	Optical instruments nes
5989200	Articles nes of plastics
5944279	Base metal manufac nes

Like exports, the trade value of the top 10 imported commodities increased after NAFTA. The first place changed from valves to telecommunications equipment, but the composition remained substantially the same.

Clearly, preferences did not change, but the composition of exports did after economic openness or a greater focus on US and Canadian consumer preferences.

iii.

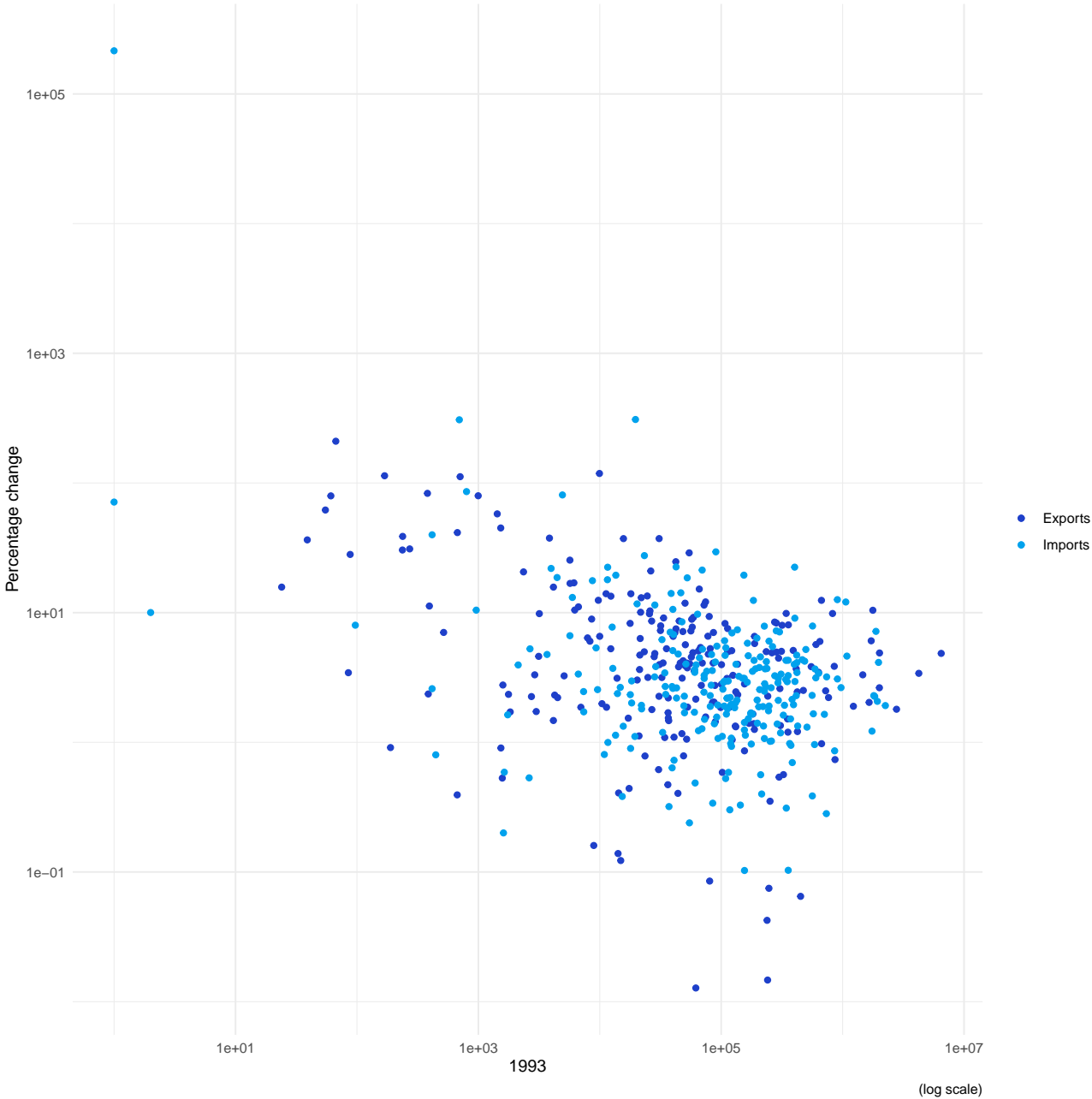
Table 5: Top 10 commodities that experienced greatest growth in exports

Product	Trade value in 1993	Trade value in 2007	Percentage change
Cheese and curd	67	14125.680	209.83104
Road motor vehicles nes	9942	1186586.096	118.35084
Tea and mate	169	19373.554	113.63641
Iron ore/concentrates	708	79841.827	111.77094
Flour/meal wheat/meslin	381	32065.129	83.16044
Pearls/precious stones	997	80428.061	79.67007
Rice	61	4910.652	79.50249
Butter and cheese	55	3457.157	61.85740
Prefabricated buildings	1431	84074.669	57.75239
Meat/offal presvd n.e.s	1529	70281.044	44.96537

Table 6: Top 10 commodities that experienced greatest growth in imports

Product	Trade value in 1993	Trade value in 2007	Percentage change
Precious metal ore/conc.	1	215157.058	215156.05800
Optical instruments nes	19685	6096571.468	308.70645
Iron ore/concentrates	697	214721.729	307.06561
Tobacco, manufactured	799	69334.933	85.77714
Coal non-agglomerated	4925	403015.007	80.83046
Silk	1	72.245	71.24500
Coin nongold non current	416	16992.294	39.84686
Natural gas	90370	2749684.017	29.42696
Nf base metal waste nes	23304	664650.037	27.52086
Knit/crochet fabrics	42507	1000009.364	22.52576

iv. and v.

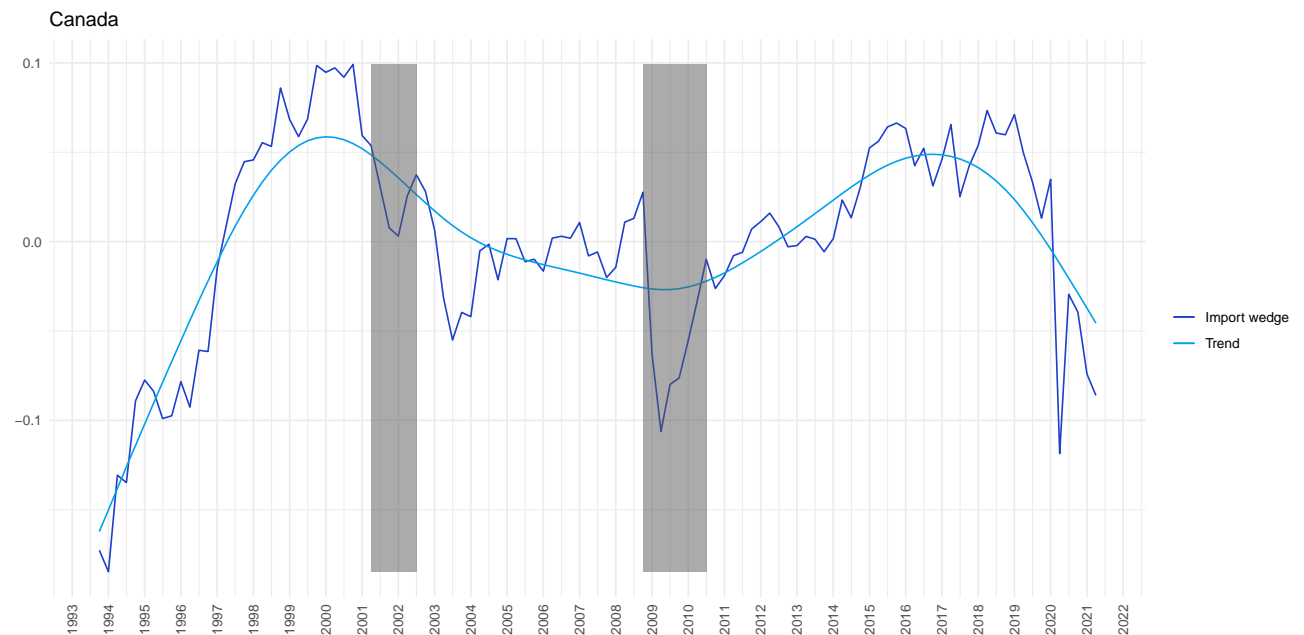
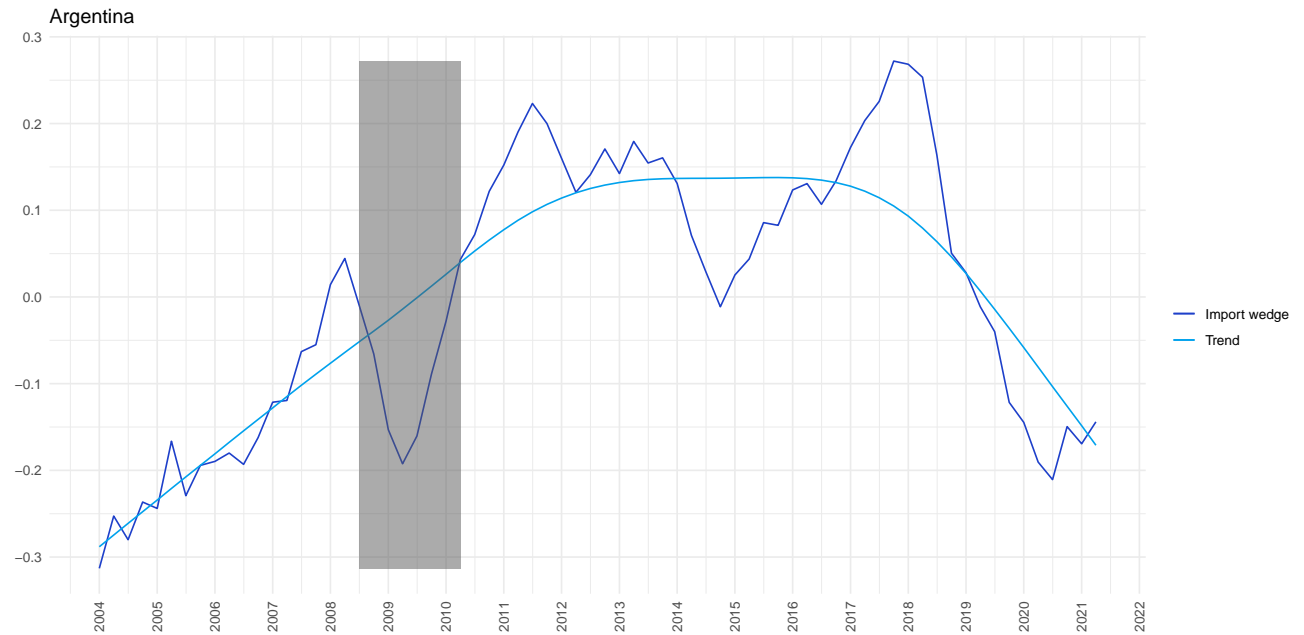


	Pearson's $r$	Spearman's $\rho$	Kendall's $\tau$
Exports	-0.0847531	-0.176944	-0.127743
Imports	-0.0403417	-0.1013539	-0.068744

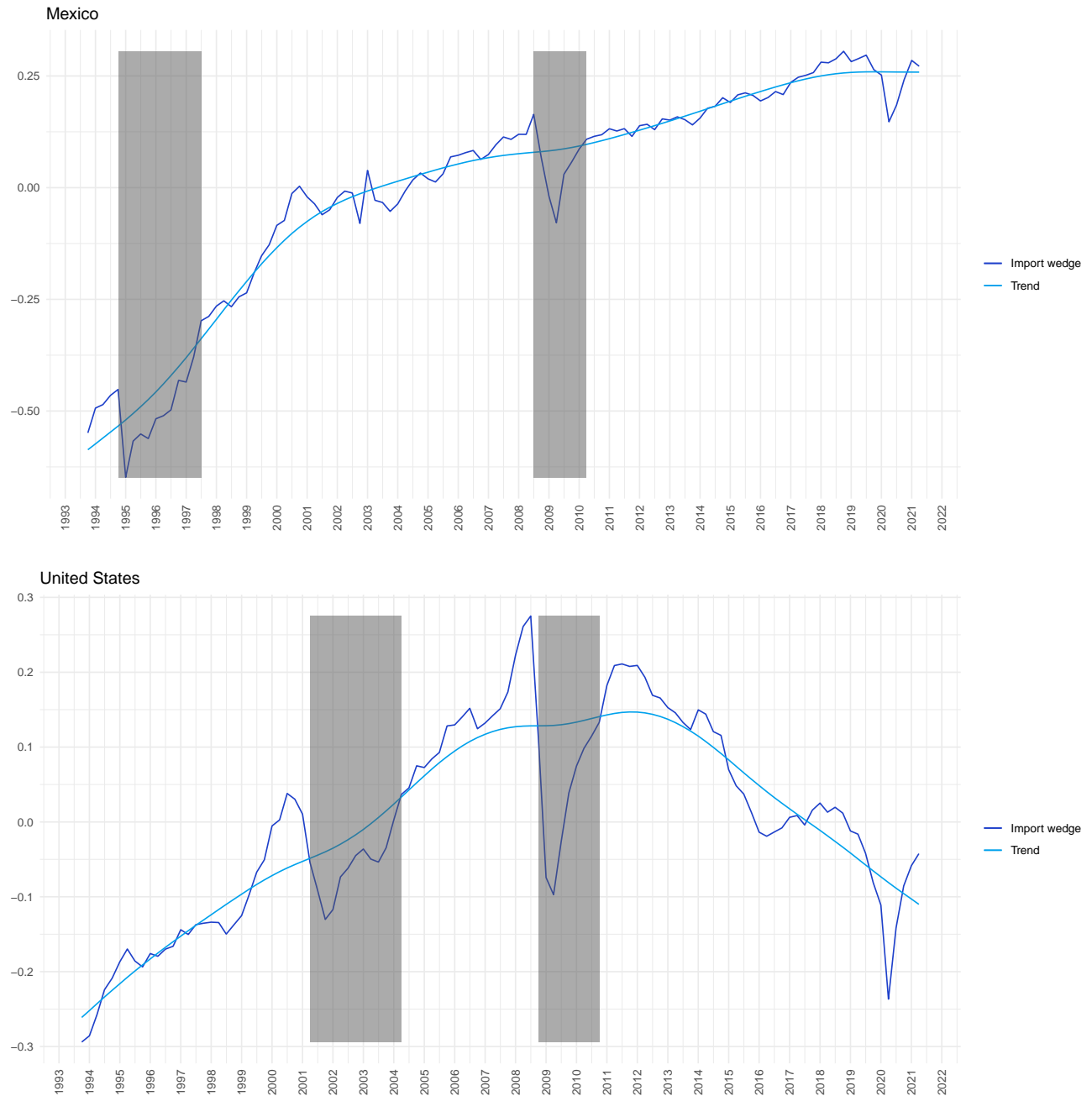
There is almost *no linear relation* between data obtained from 1993 and their percentage change to 2007 as shown with Pearson's  $r$  correlations. On the other hand, we can observe weakly **negative** monotonic and concordant relations with Spearman's  $\rho$  and Kendall's  $\tau$  coefficients.

# *Export and import wedges<sup>2</sup>*

<sup>2</sup> Data obtained from the OECD







We computed the imports model prediction by the least squares method. Given

$$x_{t,m}^{\text{obs}} - y_t = \alpha_m + \sigma(p_t - p_{t,m}),$$

we can estimate

$$\begin{pmatrix} \hat{\alpha}_m \\ \hat{\sigma} \end{pmatrix} = (X^T X)^{-1} X^T Y$$

where  $X = [\mathbf{1}, p - p_m]_{t \times 2}$  and  $Y = [x_m^{\text{obs}} - y]_{t \times 1}$ .

Thus, with our predictions  $x_{t,m}^{\text{pred}} = X \cdot (\hat{\alpha}_m, \hat{\sigma})^T + y_t$ , import wedges were defined as follows:

$$\tau_t = x_{t,m}^{\text{obs}} - x_{t,m}^{\text{pred}}.$$

Plus, we used the following variables:

$\log(\cdot)$	Data
$p$	GDP deflator
$y$	Volume of GDP
$p_m$	Imports deflator
$x_m$	Volume of imports

Remember that both the data and the estimate of  $\alpha_m$ ,  $\hat{\alpha}_m$ , are scaled logarithmically. Furthermore, the volumes of GDP and imports were measured at constant prices.

Mexican and Argentinian economies show a similar behavior around the financial crisis of 2008, since both present import wedges below the expected trend. On the other hand, it is interesting to analyze how Mexico's wedge in 1995 is below the trend while Argentina's wedge in 2018 is above its own. These two economies reacted differently towards their devaluations. It is also important to mention that the fall of the 1995 import wedge of Mexico is a fall from an increasing trend, while Argentina increases in its wedge, it is a higher import wedge from a decreasing trend.

See the **theoretical part** on the next page.

a) 2 countries  $h, f$ . 2 goods  $x, y$ .  $i = h, f$

$$x_i = z_{xi} K_{ix}^\alpha L_{ix}^{1-\alpha}$$

$$y_i = z_{yi} K_{iy}^\beta L_{iy}^{1-\beta}$$

with  $\beta > 0, \alpha > 0$

i) Firms Maximization problem. Let prices be  $p_x, p_y$  and  $r_i, w_i$  prices of land and  $L$  respectively  
firm  $x$

$$\max_{L, K} p_x z_{xi} K_{ix}^\alpha L_{ix}^{1-\alpha} - w_i L_{ix} - r_i K_{ix}$$

foC

$$[L_{ix}] (1-\alpha) p_x z_{xi} K_{ix}^\alpha L_{ix}^{-\alpha} = w_i$$

$$[K_{ix}] \alpha p_x z_{xi} K_{ix}^{\alpha-1} L_{ix}^{1-\alpha} = r_i$$

firm  $y$

$$\max_{L, K} p_y z_{yi} K_{iy}^\beta L_{iy}^{1-\beta} - w_i L_{iy} - r_i K_{iy}$$

foC

$$[L_{iy}] (1-\beta) p_y z_{yi} K_{iy}^\beta L_{iy}^{-\beta} = w_i$$

$$[K_{iy}] \beta p_y z_{yi} K_{iy}^{\beta-1} L_{iy}^{1-\beta} = r_i$$

ii)

$$\frac{\alpha}{1-\alpha} K_{ix}^{-1} L_{ix}^1 = \frac{r_i}{w_i}$$

$$\Leftrightarrow \frac{\alpha}{1-\alpha} \frac{L_{ix}}{K_{ix}} = \frac{r_i}{w_i}$$

$$\Leftrightarrow \frac{\alpha}{1-\alpha} \frac{w_i}{r_i} = \frac{K_{ix}}{L_{ix}}$$

Similarly we get

$$\frac{\beta}{1-\beta} \frac{w_i}{r_i} = \frac{K_{iy}}{L_{iy}}$$

iii) We know that in equilibrium firms make 0 profits therefore

$$p_x z_{xi} k_{ix}^\alpha l_{ix}^{1-\alpha} - w_i l_{ix} - r_i k_{ix} = 0$$

$$\rightarrow p_x = \frac{w_i l_{ix} + r_i k_{ix}}{z_{xi} k_{ix}^\alpha l_{ix}^{1-\alpha}}$$

On the numerator we have

$$\begin{aligned} & (w_i l_{ix} + r_i k_{ix}) \frac{l_i}{z_i} \\ & w_i l_{ix} + r_i \frac{k_{ix}}{l_{ix}} l_i \\ & w_i l_{ix} + r_i \left( \frac{\alpha}{1-\alpha} \frac{w_i}{r_i} \right) l_i \\ & w_i l_{ix} + \frac{\alpha}{1-\alpha} w_i l_i \\ & w_i l_{ix} \left( 1 + \frac{\alpha}{1-\alpha} \right) \\ & \frac{w_i l_{ix}}{1-\alpha} \end{aligned}$$

also we know that

$$\begin{aligned} x_i &= z_{xi} k_{ix}^\alpha l_{ix}^{1-\alpha} \cdot \frac{l_{ix}^\alpha}{z_{xi}^\alpha} \\ x_i &= z_{xi} \left( \frac{k_{ix}}{l_{ix}} \right)^\alpha l_{ix} \\ x_i &= z_{xi} \left( \frac{\alpha}{1-\alpha} \frac{w_i}{r_i} \right)^\alpha l_{ix} \end{aligned}$$

$$p_x = \frac{w_i l_{ix}}{1-\alpha} \frac{1}{z_{xi} \left( \frac{\alpha}{1-\alpha} \frac{w_i}{r_i} \right)^\alpha l_{ix}}$$

$$p_x = \frac{w_i l_{ix}}{(1-\alpha) z_{xi} \left( \frac{\alpha}{1-\alpha} \frac{w_i}{r_i} \right)^\alpha l_{ix}}$$

$$p_x = \frac{w_i}{(1-\alpha) z_{xi} \left( \frac{\alpha}{1-\alpha} \frac{w_i}{r_i} \right)^\alpha}$$

Similarly

$$p_y = \frac{w_i}{(1-\beta) z_{yi} \left( \frac{\beta}{1-\beta} \frac{w_i}{r_i} \right)^\beta}$$

Then

$$\frac{p_{xi}}{p_{yi}} = \frac{\frac{w_i}{(1-\alpha) z_{xi} \left( \frac{\alpha}{1-\alpha} \frac{w_i}{r_i} \right)^\alpha}}{\frac{w_i}{(1-\beta) z_{yi} \left( \frac{\beta}{1-\beta} \frac{w_i}{r_i} \right)^\beta}}$$

$$\frac{p_{xi}}{p_{yi}} = \frac{(1-\beta) z_{yi} \left( \frac{\beta}{1-\beta} \frac{w_i}{r_i} \right)^\beta}{(1-\alpha) z_{xi} \left( \frac{\alpha}{1-\alpha} \frac{w_i}{r_i} \right)^\alpha}$$


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iv) What forces explain comparative advantages?

It depends on mainly 2 things, first which good uses one factor intensively (this is  $\alpha, \beta$  levels, and which factor is more abundant (K/L, endowment).

v) By FPE theorem by Samuelson, yes as long as they share the same  $Z$  and FPE doesn't occur.

*References*

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OECD. Organisation for economic co-operation and development statistics. URL <https://stats.oecd.org/>.

WITS. World integrated trade solution. URL <https://wits.worldbank.org/WITS/>.