

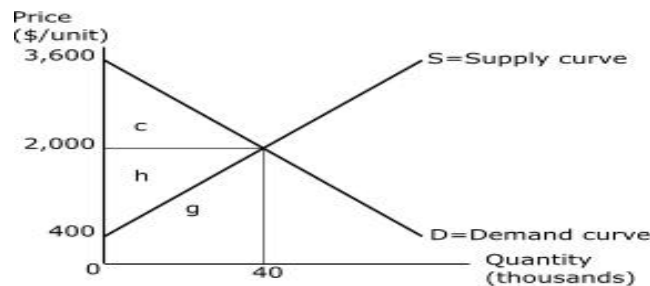
Four basic questions and theories of trade

- ◆ Why countries trade? More precisely what determines which products a country exports and which products it imports?
- ◆ How does trade affect the economic well-being of each country? In what sense can we say that a country gains or loses from trade?
- ◆ How does trade affect production and consumption in each country?
- ◆ How does trade affect the distribution of economic well-being or income among various groups within the country? Can we identify specific groups that gain from trade and other groups that lose because of trade?

Economic Tools from microeconomics: A review

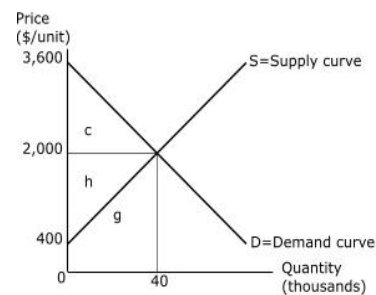
Main reasons in all theories of International trade:

- ◆ Demand and Supply curves
 - ◆ What determines how much of a product is demanded? (utility maximization, so depends on taste, price, and price of other goods, and income that determines budget. Demand function is then



Concepts

- ◆ Price elasticity of demand (a measure of price responsiveness, unit free)
- ◆ Consumer surplus
- ◆ Producer Surplus
- ◆ A national market with no trade



Two national markets and opening of trade

