Econ 165 | Stanford University
Winter 2001/02 | Gerald Willmann

Hand-out week 3

This week:

1. Classical Trade Theory (cont'd)

   1.2. Heckscher–Ohlin: 4 main results, empirical evidence.

   1.3. the specific factors model: distributional effects of trade.

2. New Trade: empirical motivation, increasing returns to scale, monopolistic competition, intra-industry trade.

Readings: Krugman&Obstfeld, chpts 3 + 6, and Krugman's chapter in the Handbook of International Economics, Vol 3, North-Holland.

Practice problems:

1. K&O problem 3.3

2. Someone asks you about the distributional effects of trade. How/where/when do Stolper–Samuelson and the specific factors model come into play?

3. Find the trade data at `www.oecd.org` (there is a link on the class website) and pick one industrialized country. What percentage of its trade takes place with other industrialized countries and how much with the developing world?

4. What is the shape of the PPF when there are increasing returns to scale in both sectors? Show that trade takes place and is beneficial even if both countries have exactly the same PPF.

5. Explain the difference between inter-industry and intra-industry trade. Which of the two is explained by old trade theories and which by new trade? Are these competing theories?