Trade & Int'l Factor Mobility | CAU Kiel
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Hand-out week 1

This week: 0. Organisation, Introduction, Motivation

1. Trade and/or Factor Mobility
   - 1.1. Classical Trade Models
     Ricardo, Heckscher-Ohlin, Classification of Models, Relationship to Factor Mobility
   - 1.2. Factor Price Equalization
     Theory, Empirics, Implications for Factor Mobility
   - 1.3. Integrated Economy Approach

Readings: Krugman & Obstfeld chpts 2+4.

Paul Samuelson, "Int'l FPE Once Again", Economic Journal, June 1949, pp. 181-97.

Glenn Rayp, "An Empirical Test of the Dixit-Norman Approach to FPE, Using Co-integration Techniques", Weltwirtschaftliches Archiv, 134:3, 1998, pp. 484-512. Just look at the results here.

Paul Krugman, "The integrated-economy approach to int'l trade" from his chapter in the Handbook of International Economics, Vol. 3, edited by Grossman and Rogoff, pages 1245-48.

Practice Problems:

1. Let country H be endowed with 1200 units of labor. The unit labor requirement in their automobile industry is 3 and in toy production it is 2. Country F is endowed with 800 units of labor. Unit requirements are 5 for automobiles and 11 for toys. Let relative demand take the form Qa/Qt = Pt/Pa, where Q denotes quantities and P the price of automobiles (a) and toys (t) respectively.
   a) Which country has the comparative advantage in which of the two goods?
   b) Calculate the free trade equilibrium relative price of automobiles in terms of toys.
   c) Calculate the pattern of exports and imports.
   d) Show that each country gains from trade.
   e) Calculate the ratio between the wage in country H and F. What would be the direction of migration if it were possible?
   f) Repeat e) for the two regimes of complete specialization.

2. The Heckscher-Ohlin model (sometimes HOS - S for Samuelson) was long the workhorse of trade theory. List its assumptions. What is its central message/theorem? Derive it graphically. Pick at least three examples of traded goods that you can think of and try to use the HO model to explain them. Another implication of the model is the magnification effect in quantities as well as prices. Whose names are associated with these results? Show both results mathematically.

3. A fourth result usually listed in the context of the HO model is factor price equalization. List the crucial assumptions needed to obtain this result. Do you expect your salary after graduation to be the same no matter where you take up a job? How do you explain this discrepancy?

4. Where do the Heckscher-Ohlin and Ricardo models differ? How does each explain trade? What are each model's predictions for factor mobility if such mobility were possible? Feel free to comment on these predictions.

Note: This and all future hand-outs can be found on the class webpage at
http://www.wiso.uni-kiel.de/econ/vorlesungen/facmobil