

# 1.1 — Why Trade Matters

ECON 324 • International Trade • Spring 2023

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 [ryansafner/tradeS23](https://github.com/ryansafner/tradeS23)

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# Outline



[Why Trade Matters](#)

[About This Course](#)





# Why Trade Matters

# The Importance of International Trade



- In 2008, the world produced about \$50 trillion (at current prices)
- \$16 trillion (about 30%) was sold across national borders



Krugman, Paul, Maurice Obstfeld, and Mark Melitz, 2011, *International Economics: Theory & Policy*, 9th ed., p.10

# The Importance of International Trade

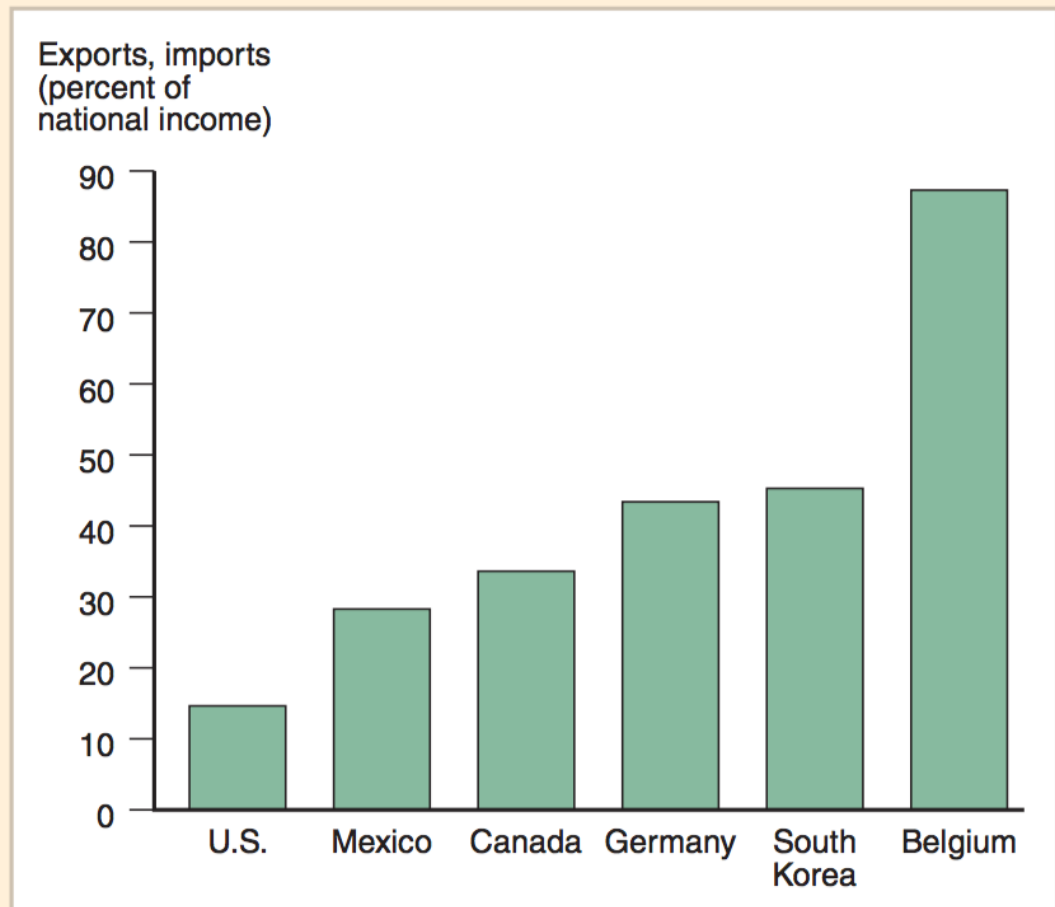


**Figure 1-2**

**Average of Exports and Imports  
as Percentages of National  
Income in 2007**

International trade is even more important to most other countries than it is to the United States.

**Source:** Organization for Economic Cooperation and Development.



# What Gets Traded Internationally

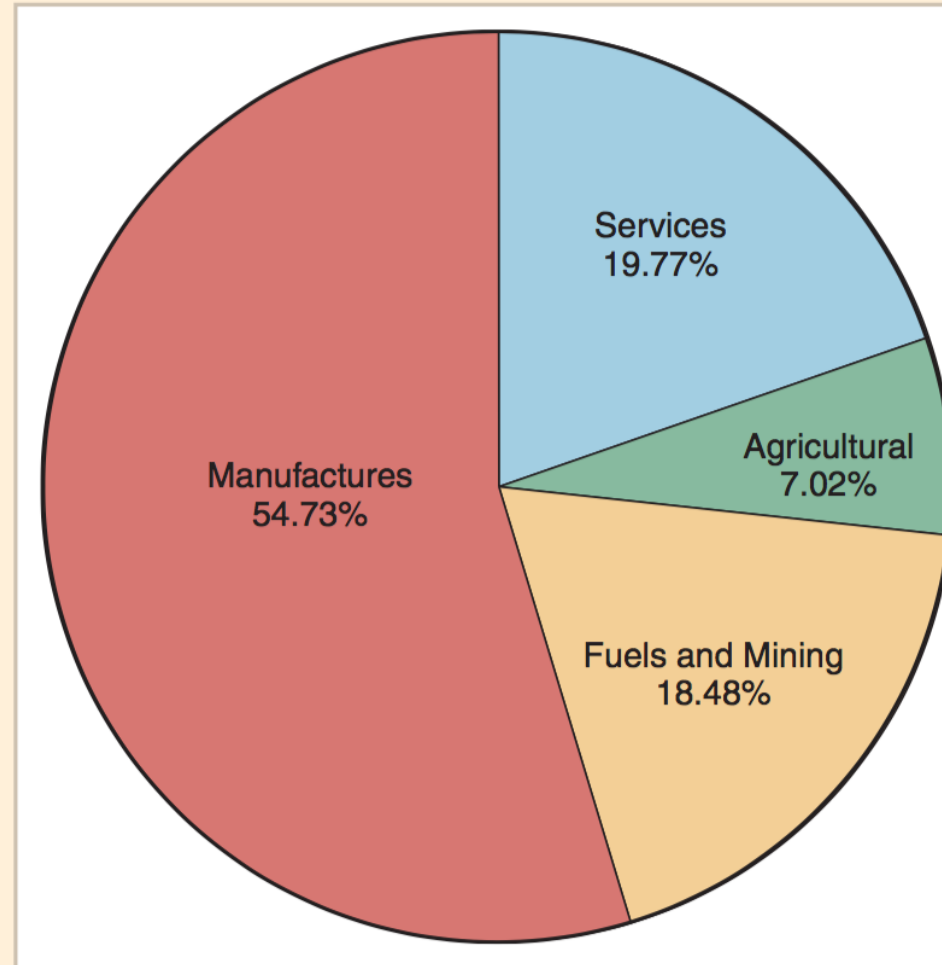


**Figure 2-5**

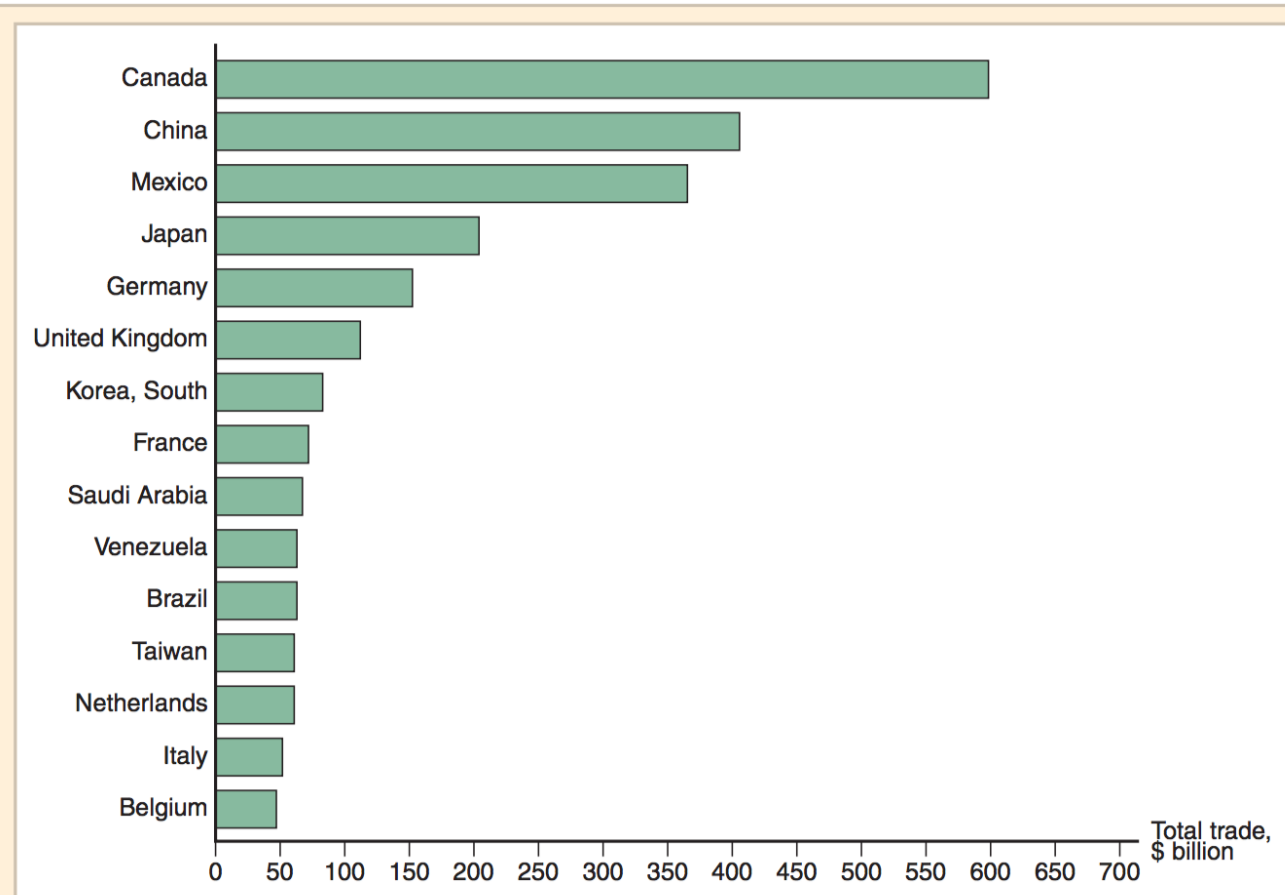
## The Composition of World Trade, 2008

Most world trade is in manufactured goods, but minerals—mainly oil—remain important.

Source: World Trade Organization.



# Who *We* Trade With



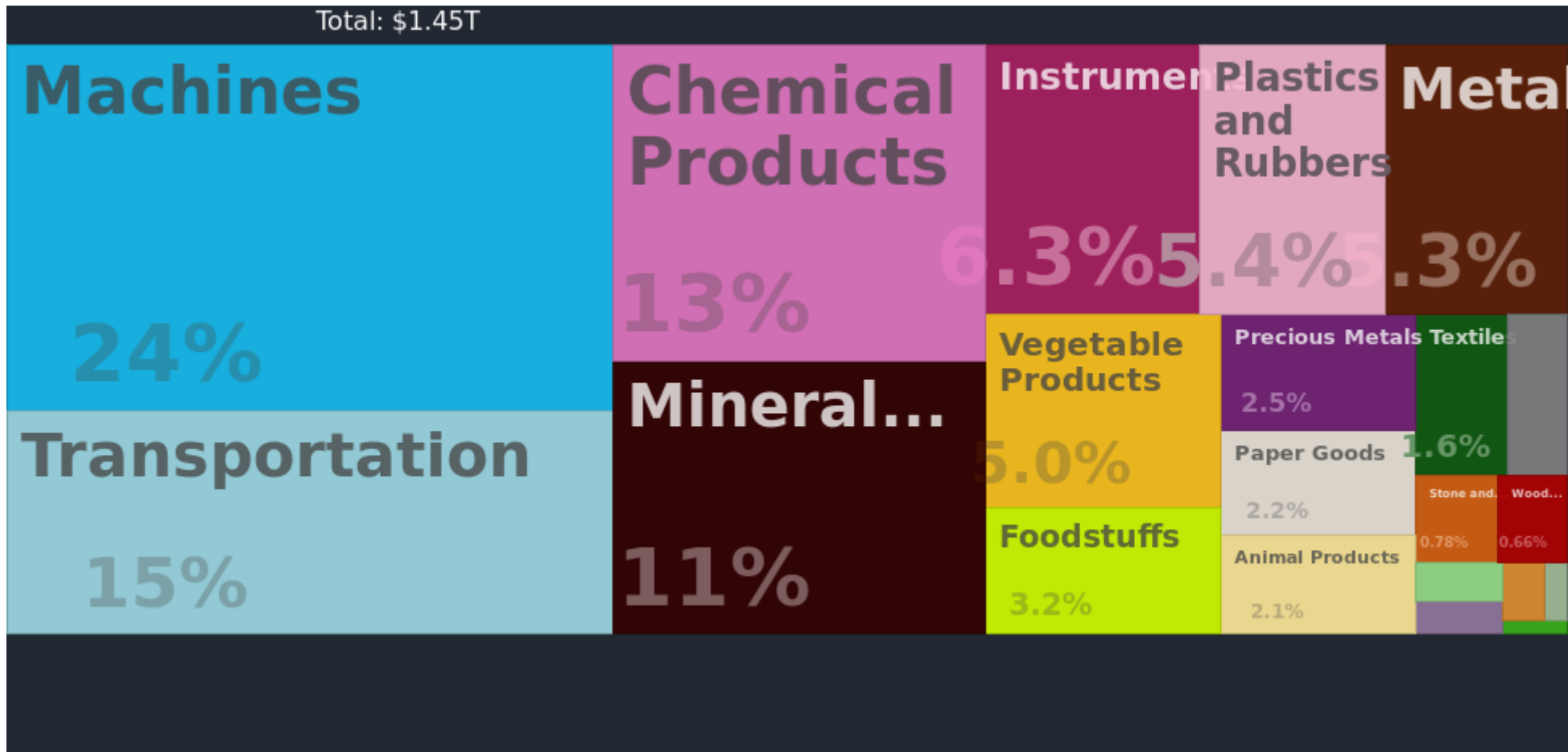
**Figure 2-1**

## Total U.S. Trade with Major Partners, 2008

U.S. trade—measured as the sum of imports and exports—is mostly with 15 major partners.

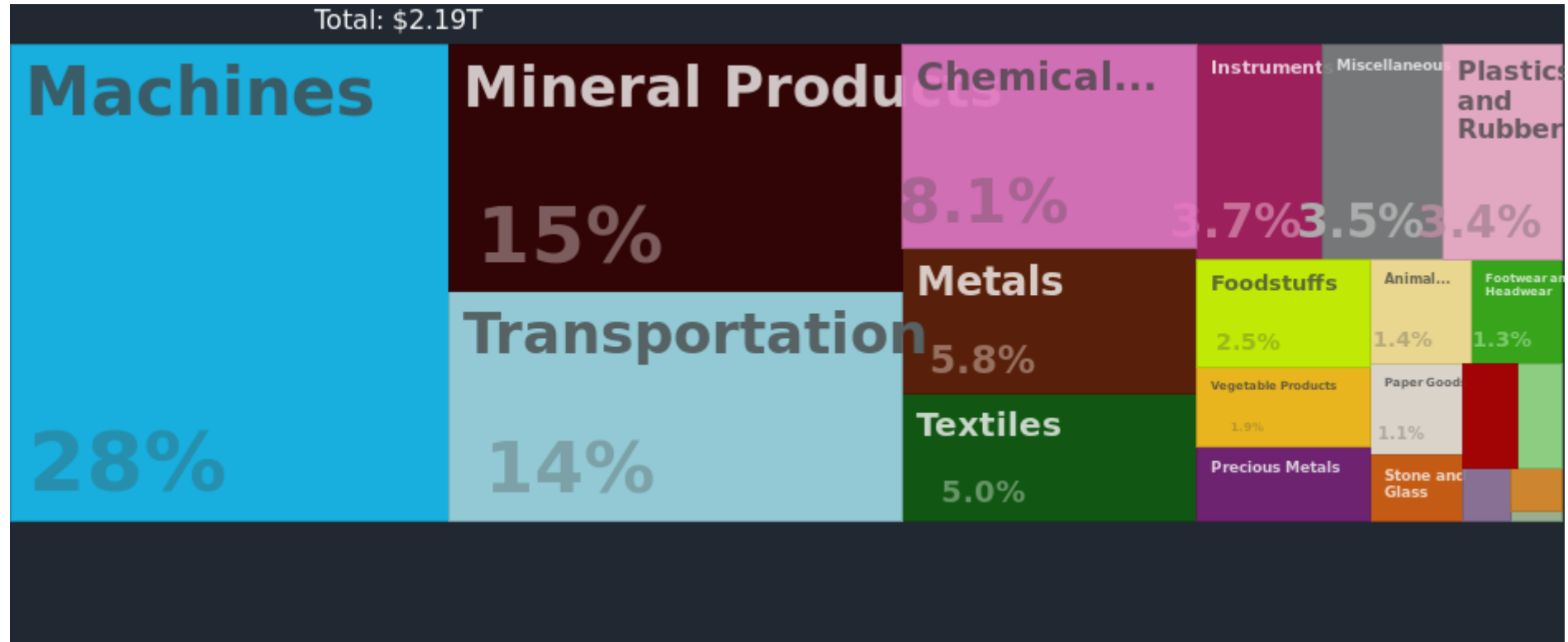
Source: U.S. Department of Commerce.

# What We *Export*





# What We *Import*



U.S. Imports: [MIT Observatory of Economic Complexity](#)

# Who We Trade With (Exports) Has Changed

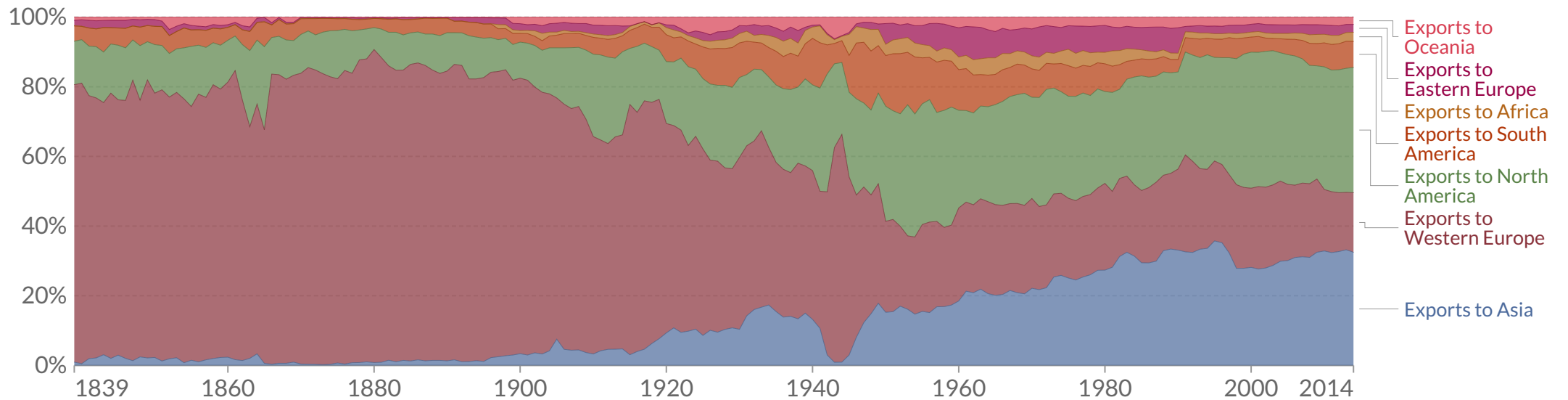


## Merchandise exports by continent of destination, United States, 1839 to 2014

Our World  
in Data

Figures correspond to the value of merchandise exports by continental destination as a share of GDP. All partner countries are classified into continent groupings according to OWID's classification.

[↻ Change entity](#)  Relative



Source: Fouquin and Hugot (CEPII 2016)

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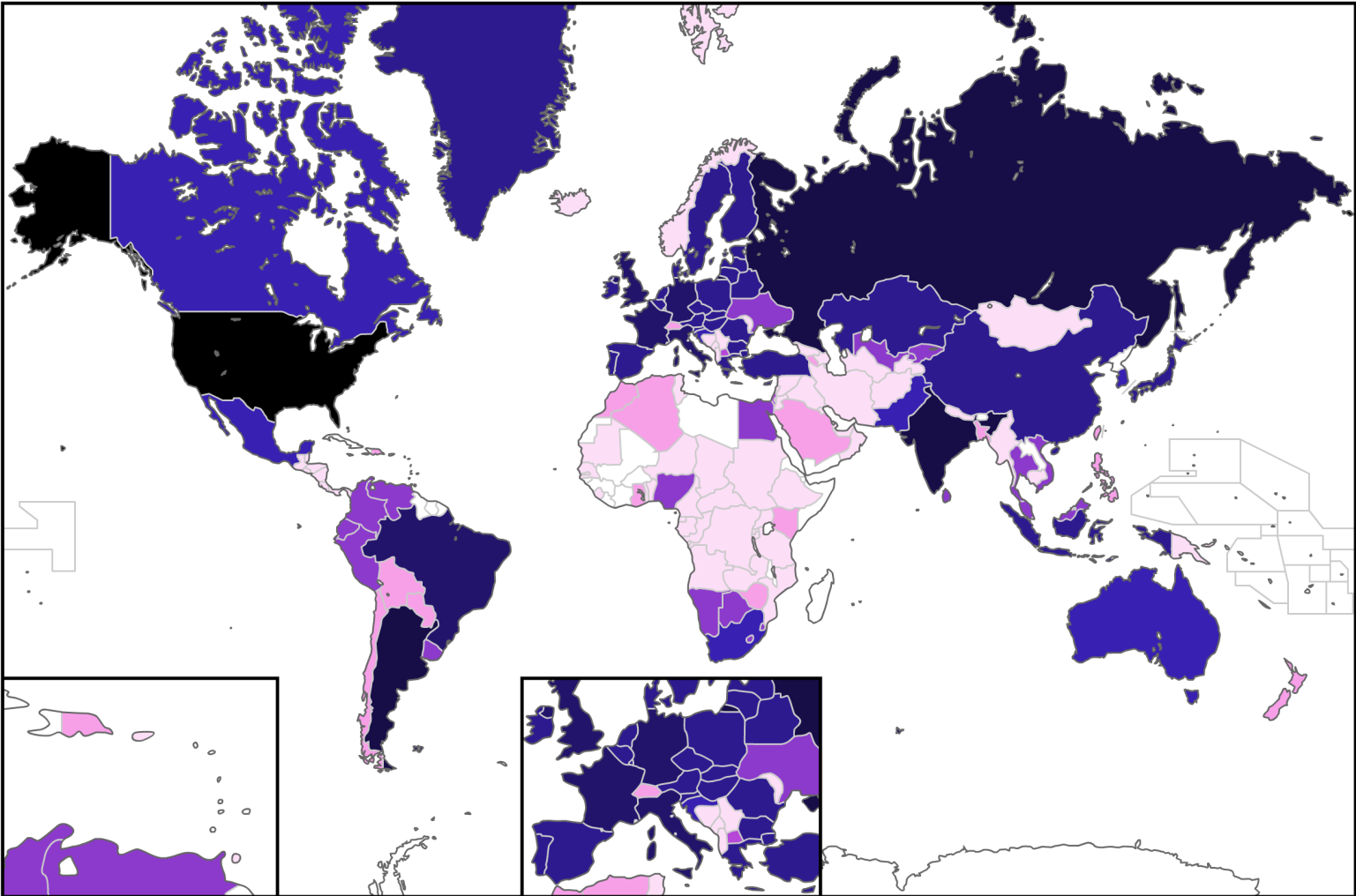


# A Major Change in Trading Climate



## Protectionist measures taken since 2008

Source: Global Trade Alert , CEPR initiative

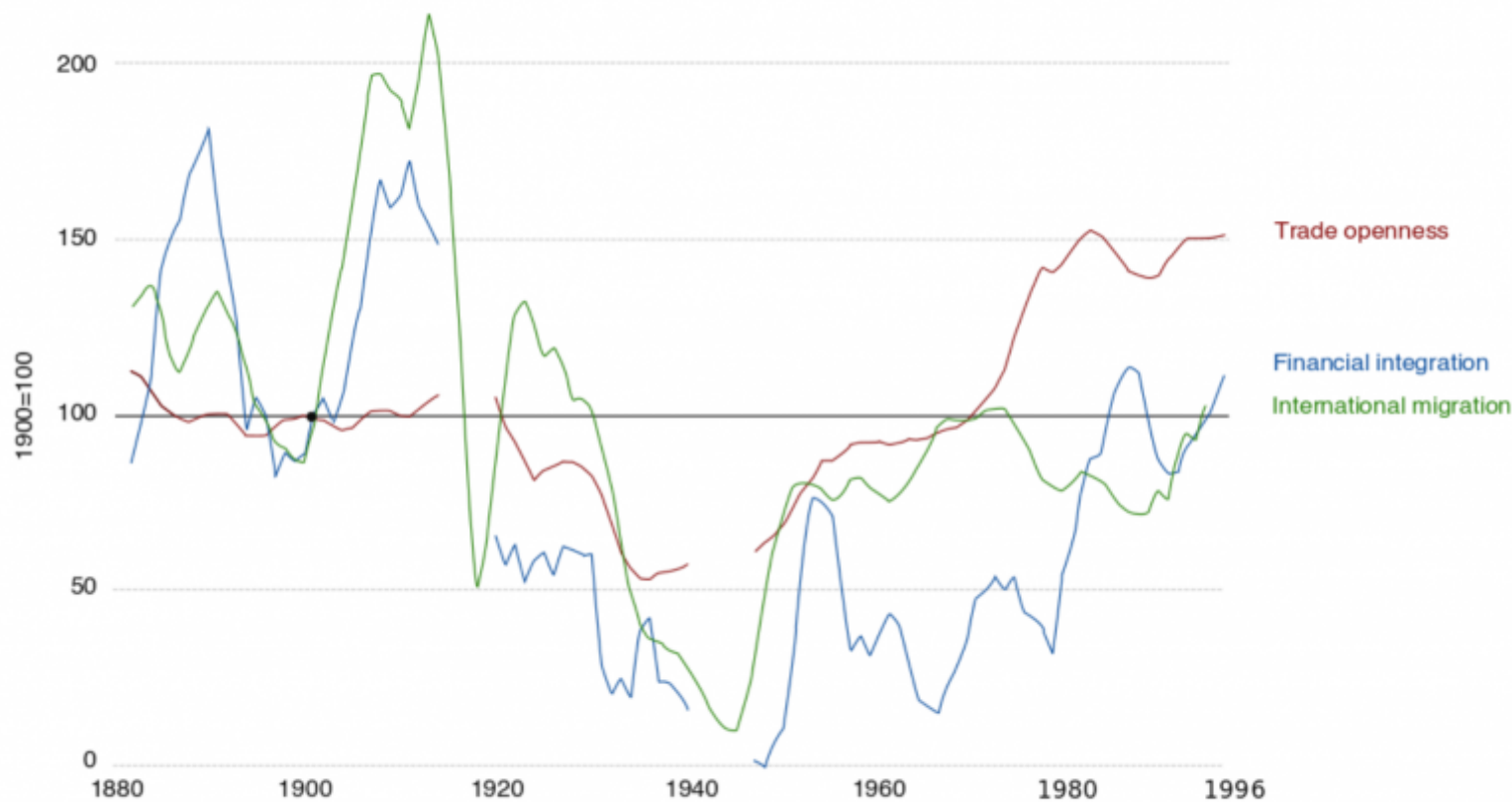


# But That's Happened Before (Often Because of War)



## Migration, financial integration and trade openness, World, 1880-1996

This chart shows the evolution of three indicators measuring integration in commodity, labor, and capital markets over the long run. All indicators are indexed, so that 1900 = 100.



Note: Commodity market integration is measured by computing the ratio of goods exports to GDP. Labor market integration is measured by dividing the migratory turnover by population. Financial integration is measured using Feldstein-Horioka estimators of current account disconnectedness.

Source: Broadberry and O'Rourke (2010), *The Cambridge Economic History of Modern Europe: Volume 2, 1870 to the Present*. Cambridge University Press

This is a visualization from OurWorldinData.org, where you find data and research on how the world is changing. Licensed under CC-BY-SA by the authors Esteban Ortiz-Ospina and Diana Beltekian

# The Value of International Trade in the Global Economy

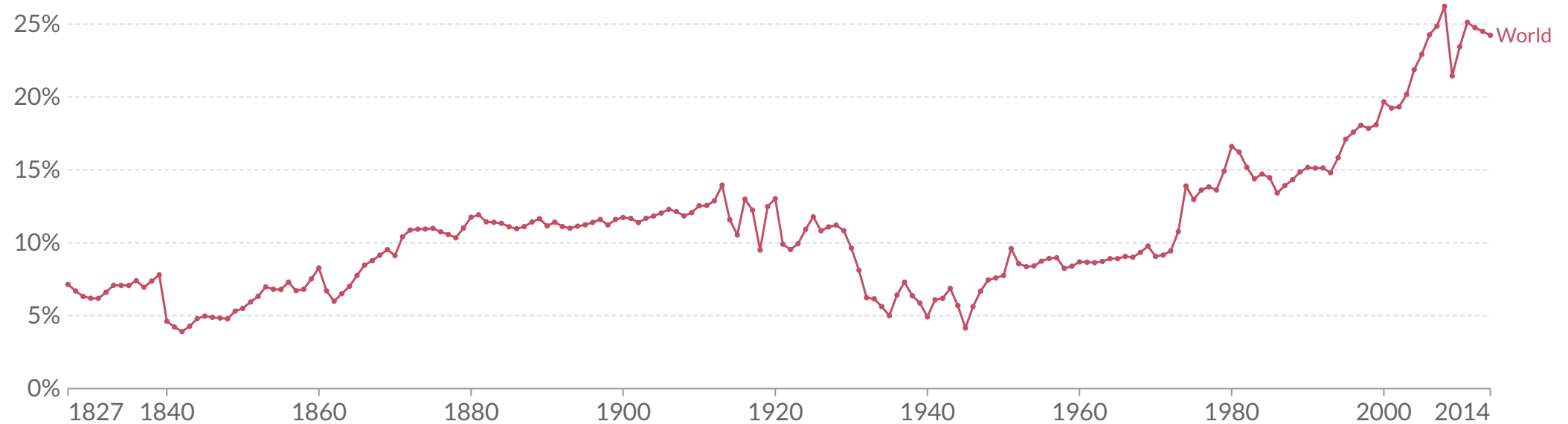


## Value of exported goods as share of GDP, 1827 to 2014

Estimates correspond to merchandise export-to-GDP ratios.

Our World  
in Data

[+ Add country](#)



Source: Fouquin and Hugot (CEPII 2016)

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MAP

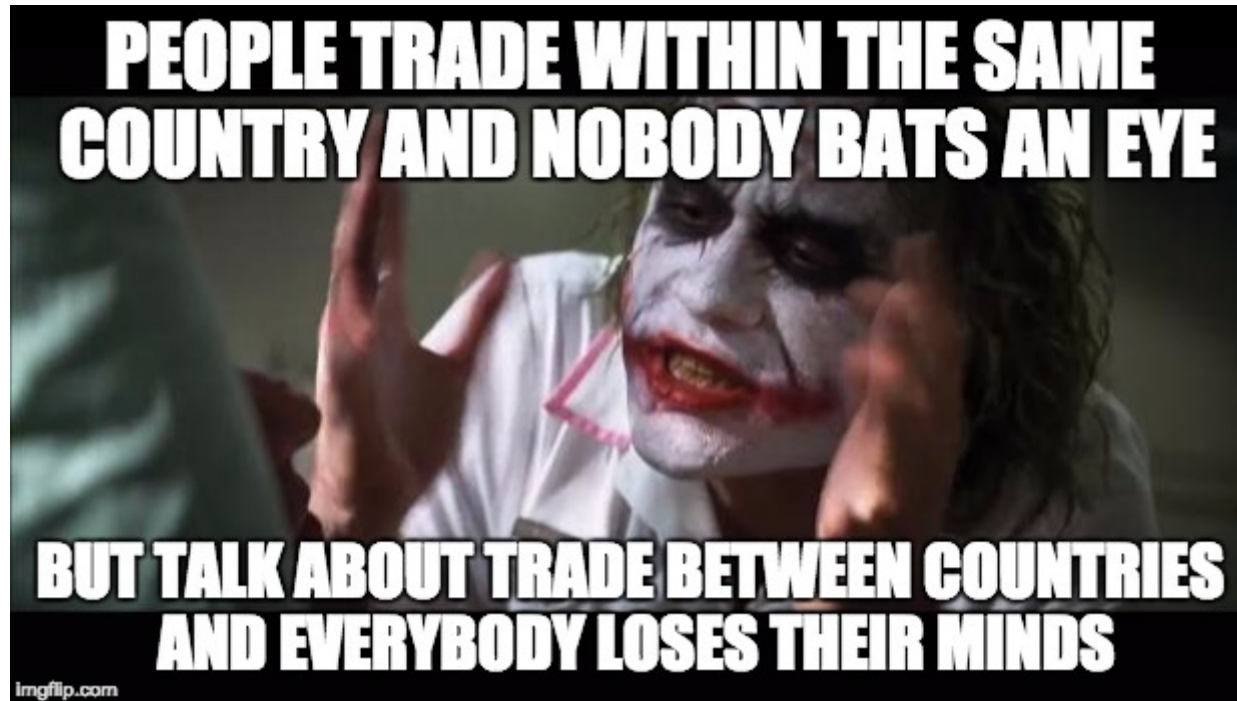
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# Common Biases Against Trade





# Why Care About Trade?

# The "Great Fact"



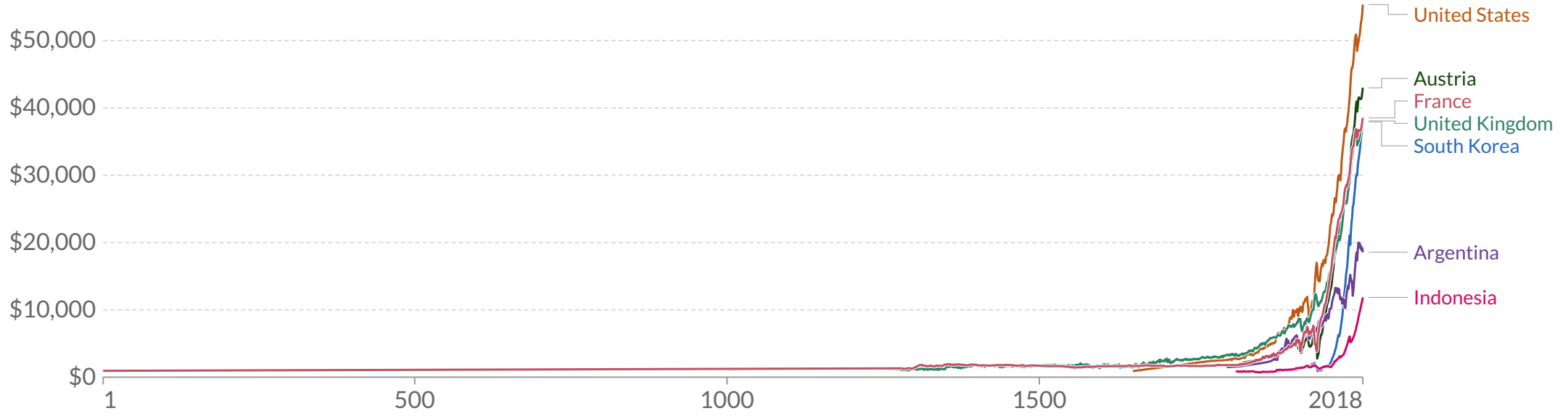
## GDP per capita, 1 to 2018

Our World in Data

GDP per capita adjusted for price changes over time (inflation) and price differences between countries – it is measured in international-\$ in 2011 prices.

**LINEAR** LOG

**+** Add country  Relative change



Source: Maddison Project Database 2020 (Bolt and van Zanden, 2020)

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TABLE

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# The "Great Fact"



## GDP per capita, 1820 to 2018

This data is adjusted for differences in the cost of living between countries, and for inflation. It is measured in constant 2011 international- $\$$ .

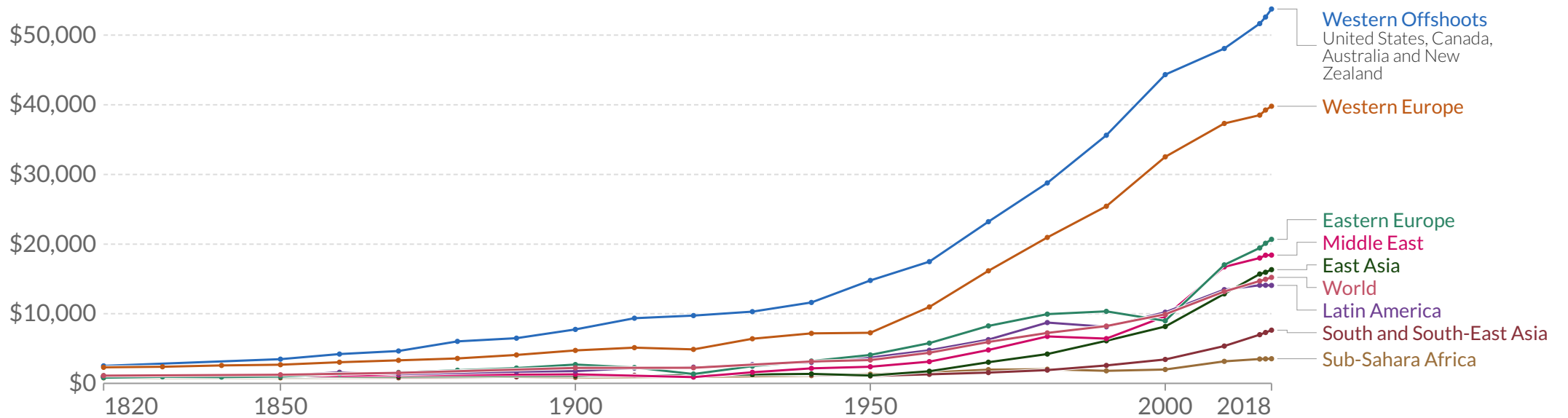
Our World  
in Data

LINEAR

LOG

+ Add country

Relative change



Source: Maddison Project Database 2020 (Bolt and van Zanden, 2020)

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# Self-Sufficiency...and Poverty



# Where We ALL Began



Dierdre N. McCloskey

1942-

Two centuries ago the world's economy stood at the present level of Chad or Bangladesh. In those good old days of 1800...the average human consumed in modern-day prices...roughly \$3 a day, give or take a dollar or two...The only people much better off than the \$3 average were lords or bishops or some few of the merchants. It had been this way for all of history, and for that matter all of pre-history. With her \$3, the typical denizen of the earth could eat a few pounds of potatoes, a little milk, very occasionally a scrap of meat. A wool shawl. A year or two of elementary education, if exceptionally lucky. At birth she had a 50-50 chance of dying before she was 30 years old. Perhaps she was a cheerful sort, and was "happy" with illiteracy, disease, superstition, periodic starvation, and lack of prospects. After all, she had her family and faith and community, which interfered with every choice she made. But anyway she was desperately poor, and narrowly limited in human scope. (pp. 11-12)

# Complete Interdependence...and Prosperity



vh

# We've Come SO Far



Dierdre N. McCloskey

[Today] the world supports more than six-and-a-half times more people...the average person today earns and consumes almost ten times more goods and services than in 1800. Real income per person in the world has recently been doubling every generation, and is accelerating. Starvation worldwide therefore is at an all-time low, and falling. Literacy and life expectancy are at all-time highs, and rising. Liberty is spreading. Slavery is retreating, as is a patriarchy enslaving of women. In the richer countries, such as Norway, the average person earns fully 45 times more than in 1800, a startling \$137 a day. The environment - a concern of a well-to-do bourgeoisie - is in such rich places improving. (pp. 11-12)

1942-

McCloskey, Dierdre N., 2010, *The Bourgeois Dignity: Why Economics Can't Explain the Modern World*, Chicago IL: University of Chicago

# Interdependence



“In civilized society [man] stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons...man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only,” (Book I, Chapter 2.2)

Smith, Adam, 1776, [\*An Enquiry into the Nature and Causes of the Wealth of Nations\*](#)

Adam Smith

1723-1790

# Our Confined Generosity



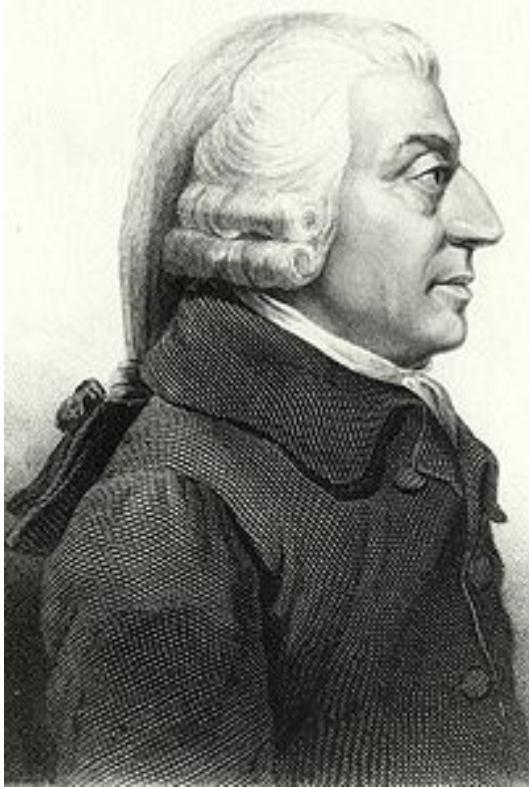
David Hume

1711-1776

“Men being naturally selfish, or endowed only with a confined generosity, they are not easily induced to perform any action for the interest of strangers, except with a view to some reciprocal advantage, which they had no hope of obtaining but by such a performance,”  
(Book III, Part II, *[Math Processing Error]*V)

Hume, David, 1740, *A Treatise on Human Nature*

# Specialization and Exchange



Adam Smith

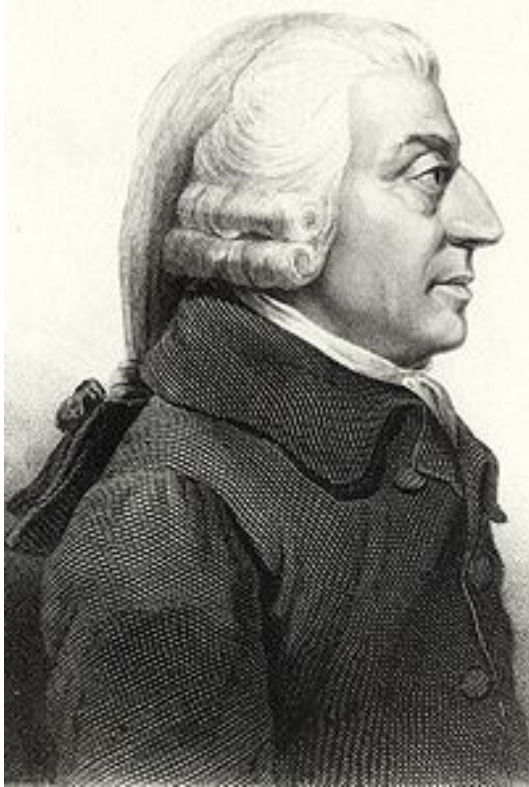
1723-1790

“Whoever offers to another a bargain of any kind, proposes to do this. **Give me that which I want, and you shall have this which you want...**and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. **It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.**” (Book I, Chapter 2.2)

Smith, Adam, 1776, *An Enquiry into the Nature and Causes of the Wealth of Nations*



# Specialization and Exchange



“[Though] he intends only his own gain, and he is in this, as in many other cases, **led by an invisible hand to promote an end which was no part of his intention...By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it,**” (Book IV, Chapter 2.9)

Smith, Adam, 1776, *An Enquiry into the Nature and Causes of the Wealth of Nations*

Adam Smith

1723-1790

# How to Get Rich or Die Tryin



For 1,000s of years, **the elite** could only become wealthy by **tribute & plunder**



# How to Get Rich or Die Tryin



But in the last 300 years, **average people** can become wealthy by **specialization & trade**



# Trade is The Path to Prosperity

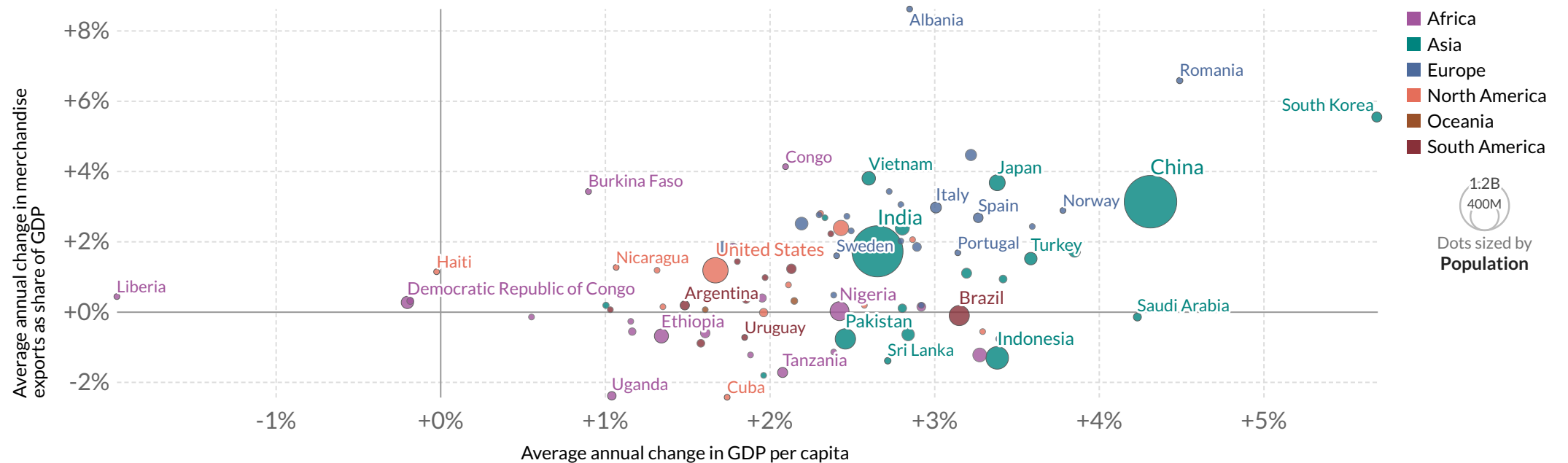


Our World  
in Data

## Growth of GDP and trade, 1945 to 2014

Average annual change in real GDP per capita vs Average annual change in exports as share of GDP

Select countries



Source: Fouquin and Hugot (CEPII 2016); Maddison Project Database 2020 (Bolt and van Zanden, 2020)

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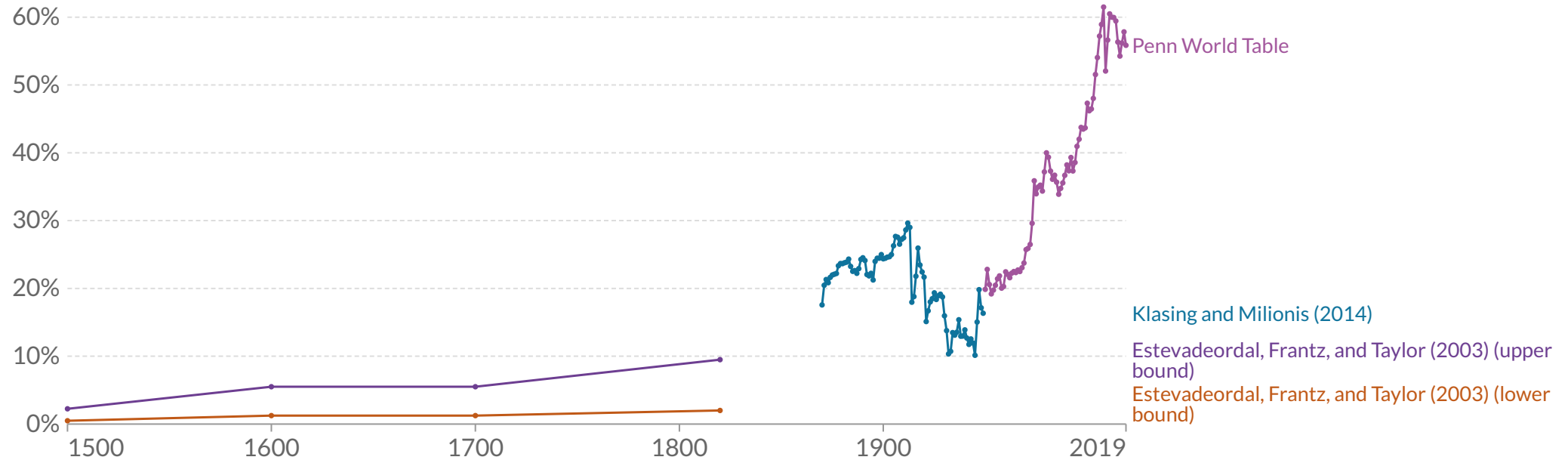
# “Globalization”



## Globalization over 5 centuries

Shown is the "trade openness index". This index is defined as the sum of world exports and imports, divided by world GDP. Each series corresponds to a different source.

Our World  
in Data



Source: Estevadeordal, Frantz, and Taylor (2003), Klasing and Milionis (2014), Penn World Table 10.0

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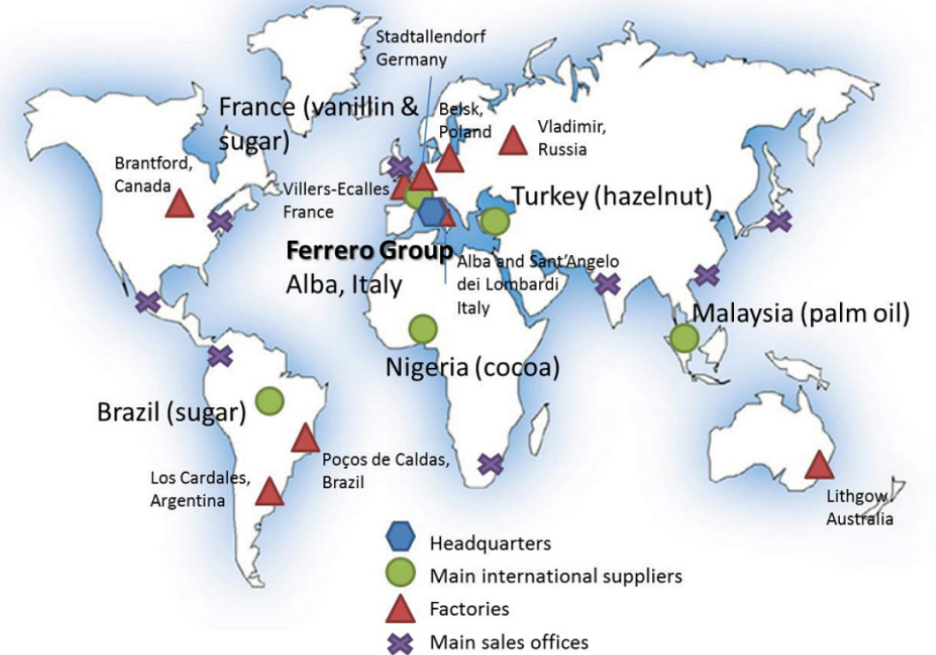
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# Global Supply Chains

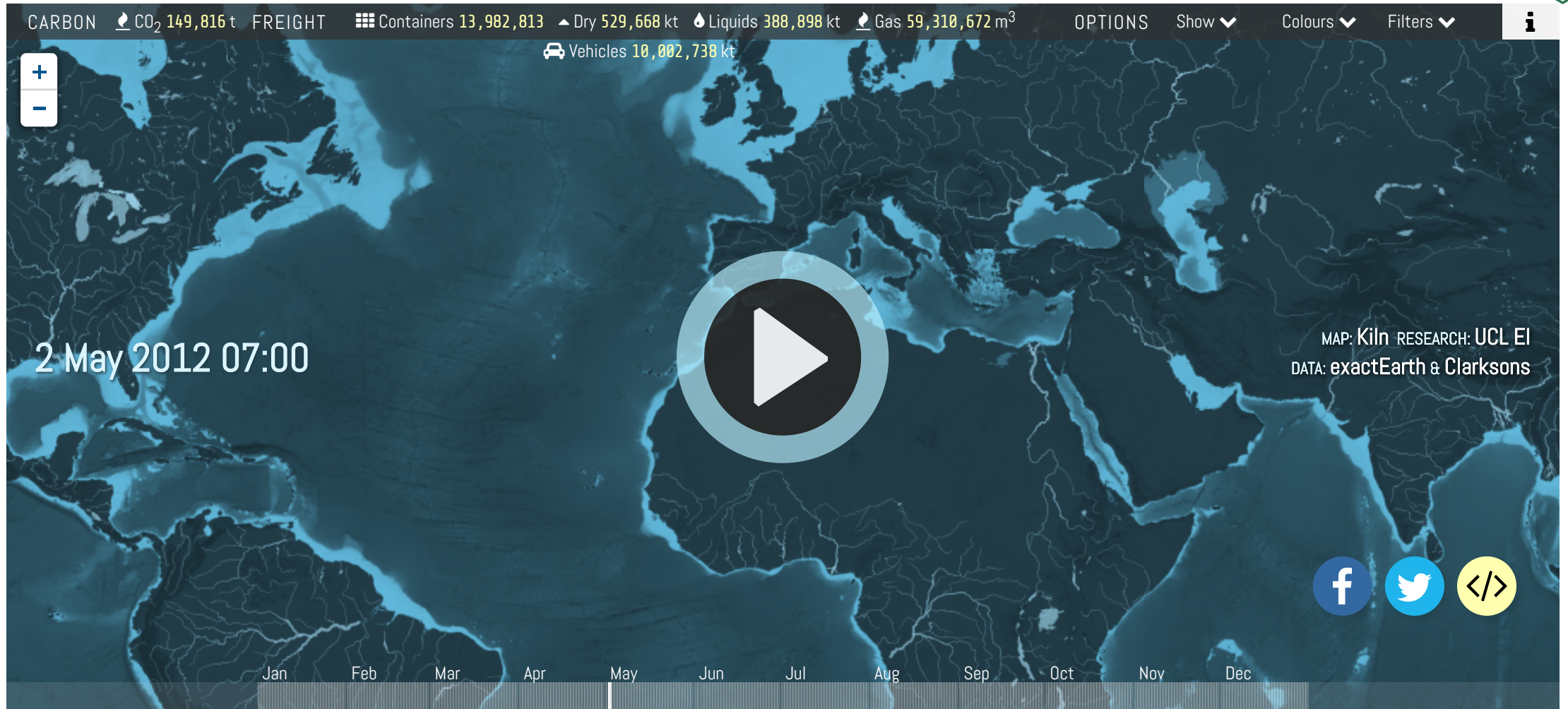


Figure 6. The Nutella® global value chain



Source: Ferrero, Sourcemap and various on-line sources.

# Trade Today







# About This Course

# Logistics: Hybrid Course



- **hybrid**: more **synchronous** material than **asynchronous** material
- I will always be teaching **remotely**
  - A classroom is available to you
  - I may make occasional visits to campus if you *need* something in person (TBD)
- Office hours: Tu/Th 3:30-5:00 PM on Zoom
  - Zoom link in Blackboard's **LIVE CLASS SESSIONS** link
  - Slack channels
- Teaching Assistant(s): TBD
  - grade HWs & hold (likely virtual) office hours

# Logistics: Hybrid Course



- We will have **synchronous** sessions Tu/Th 2:00-3:15 PM on **Zoom**
- Lecture videos will be posted on **Blackboard** via Panopto for students unable to join synchronously
  - If you were present, you do not need to watch the video (again)!
  - You are not *required* to attend synchronously, but it will help you
- All graded assignments are **asynchronous**
  - (Probably) submitted on Blackboard by 11:59 PM Sundays
  - (Probably) timed exams on Blackboard

# Learning Goals



By the end of this course, you will:

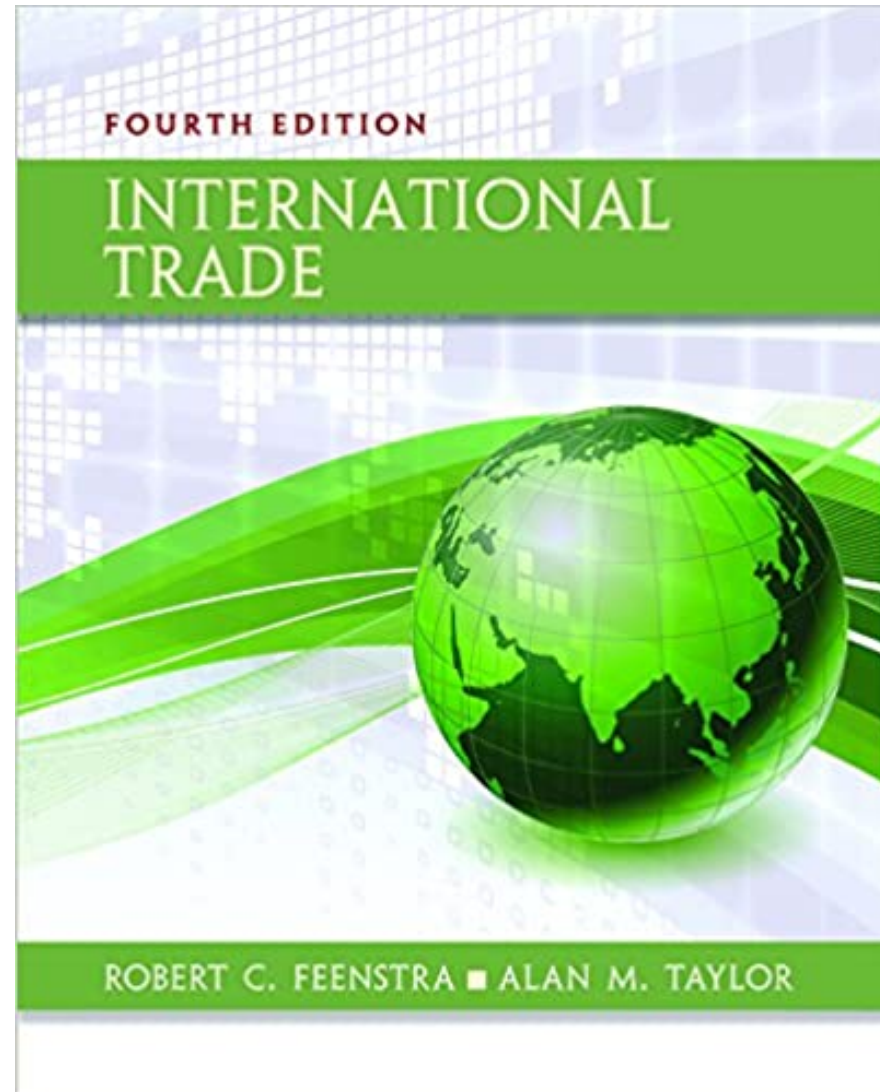
1. articulate basic models of *why* and *what* countries trade
2. understand the political economy that determine a country's trade policies
3. intelligently comment on trade-related current events
4. present an analysis of a country's trade policy

# Assignments



<b>Frequency</b>	<b>Assignment</b>	<b>Weight</b>
-	Participation	20%
n	Homeworks	20% (using average HW grade)
1	Country Profile	10%
1	Midterm Exam	25%
1	Final Exam	25%

# Your Textbook (Optional but Recommended)



# Course Website

A screenshot of a web browser displaying the course website. The browser's address bar shows the URL "tradeF20.classes.ryansafner.com". The page title is "ECON 324: INTERNATIONAL TRADE". Below the title are navigation links: "SYLLABUS", "SCHEDULE", "ASSIGNMENTS", "REFERENCE", and "SLACK". The main heading is "SCHEDULE". Below this, there is a paragraph: "This page contains all of the following resources for each class meeting:". This is followed by a list of resources with icons: "Readings" (book icon), "Assignments" (document icon), "Slides" (presentation icon), and "Practice" (gears icon). There are also two numbered footnotes. Below the list, there is a note: "Relevant materials (if applicable, icons will become links) will be posted before class meets." and a "Last Update" timestamp: "21:49:06 Mon Aug 17 2020.". At the bottom, there is a table with columns: "I. MODELS OF TRADE", "READING", "CLASS", "SLIDES", "PRACTICE", and "ASSIGNMENT". The table lists six items under "I. MODELS OF TRADE", each with corresponding icons in the other columns.

**ECON 324: INTERNATIONAL TRADE**

SYLLABUS SCHEDULE ASSIGNMENTS REFERENCE SLACK

### SCHEDULE

This page contains all of the following resources for each class meeting:

- Readings** include textbook chapters and occasional journal articles
- Assignments** are due by the beginning of class unless otherwise stated
- Class** materials contain more details, math appendices, and other helpful resources<sup>1</sup>
- Slides** are "Karingan" presentations in html that can be opened in any browser<sup>2</sup>
- Practice** problems we work on together in class to prepare for homeworks and exams

Relevant materials (if applicable, icons will become links) will be posted before class meets.

**Last Update:** 21:49:06 Mon Aug 17 2020.

I. MODELS OF TRADE	READING	CLASS	SLIDES	PRACTICE	ASSIGNMENT
1.1 Introduction and the Smithean View of Trade					
1.2 Ricardian View of Trade I: Comparative Advantage					
1.3 Ricardian View of Trade II: One-Factor Model					
<b>Problem Set 1 Due</b>					
1.4 The Neoclassical Model					
1.5 The Neoclassical Model II					
1.6 The Heckscher-Ohlin Model I					

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# Roadmap for the Semester

