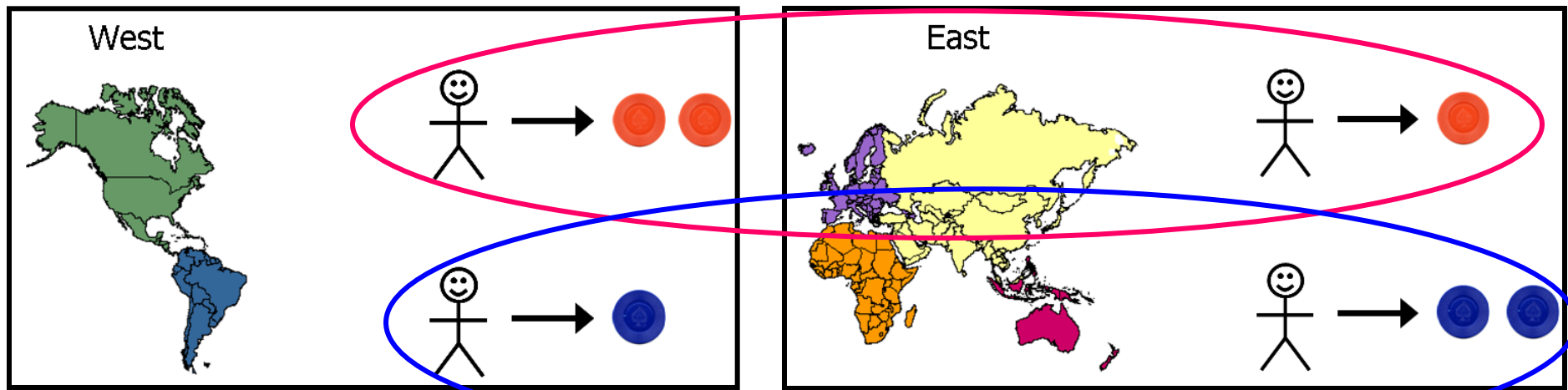


# **Trade**

**March 2015**

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**Absolute Advantage:**  
**Red**

**Absolute Advantage:**  
**Blue**

Absolute advantage

→ West: 1 **RED** costs 1/2 worker.

→ East: 1 **RED** costs 1 worker.

Absolute advantage

→ West: 1 **BLUE** costs 1 worker.

→ East: 1 **BLUE** costs 1/2 worker.

# Are we thinking about the problem correctly?

When you produce more **RED** stuff, what do you give up?

When you produce more **BLUE** stuff, what do you give up?

Absolute advantage → give up workers to produce stuff

Relative advantage → give up red to produce blue

→ The cost of **BLUE** stuff isn't a worker.

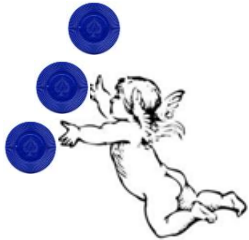
→ The cost of **BLUE** stuff is **RED** stuff!

For West: 1 BLUE costs 1 RED  
1 RED costs 1 BLUE



**Relative Advantage:**  
**Red**

For East: 1 BLUE costs  $\frac{1}{3}$  RED  
1 RED costs 3 BLUE



**Relative Advantage:**  
**Blue**

# The Power of Relative Advantage

No matter how large, small, rich, or poor, by definition, every country has a relative advantage in something.

## Conclusions:

1. Trade is a positive sum relationship.
2. Exchanging goods is what matters. Money is a tool that facilitates the exchanging.
3. Every country has a relative advantage in something.
4. Trade = specialization + exchange.

Does it work this way in the real world?

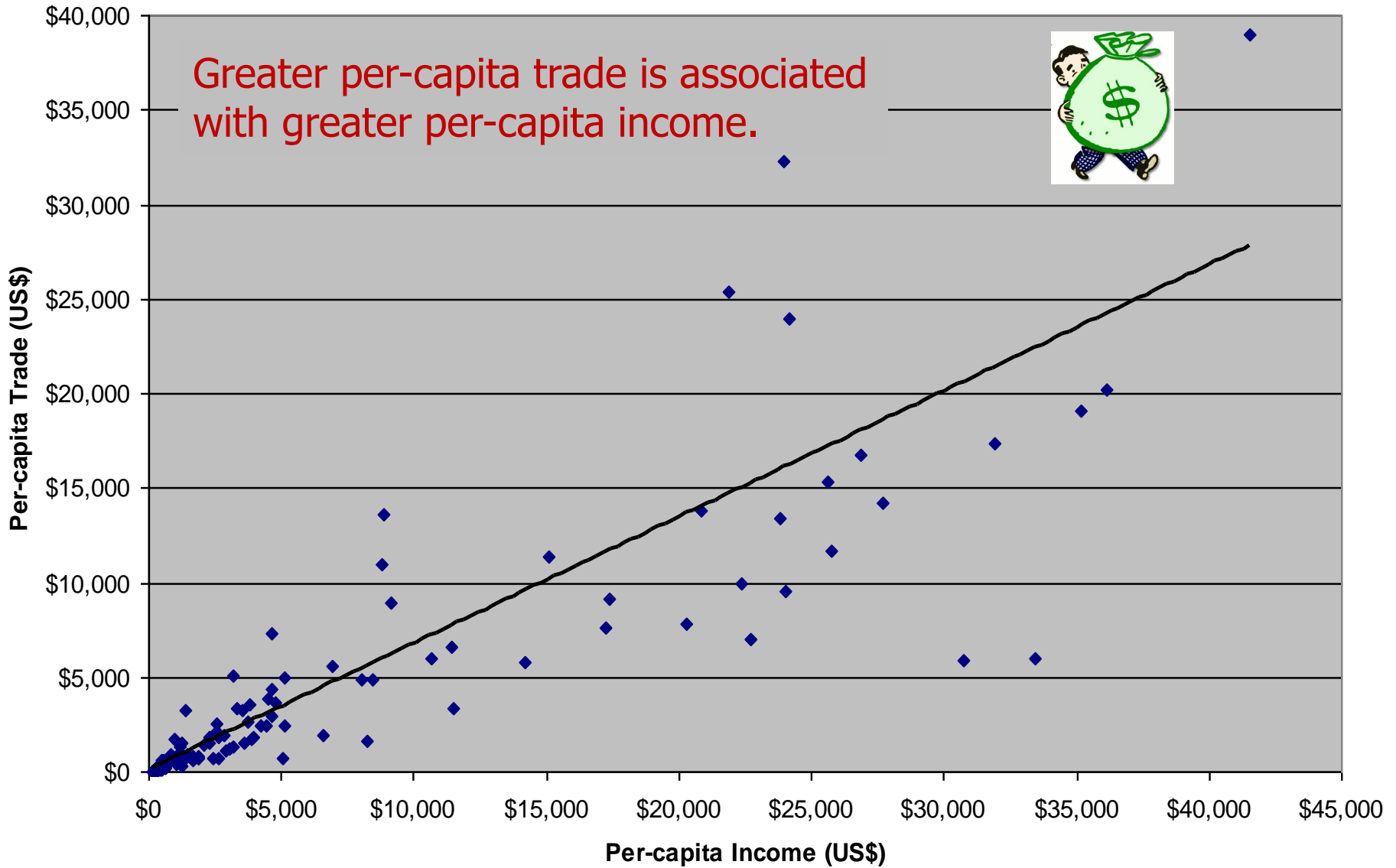


# Income





Greater per-capita trade is associated with greater per-capita income.



Data source: International Monetary Fund

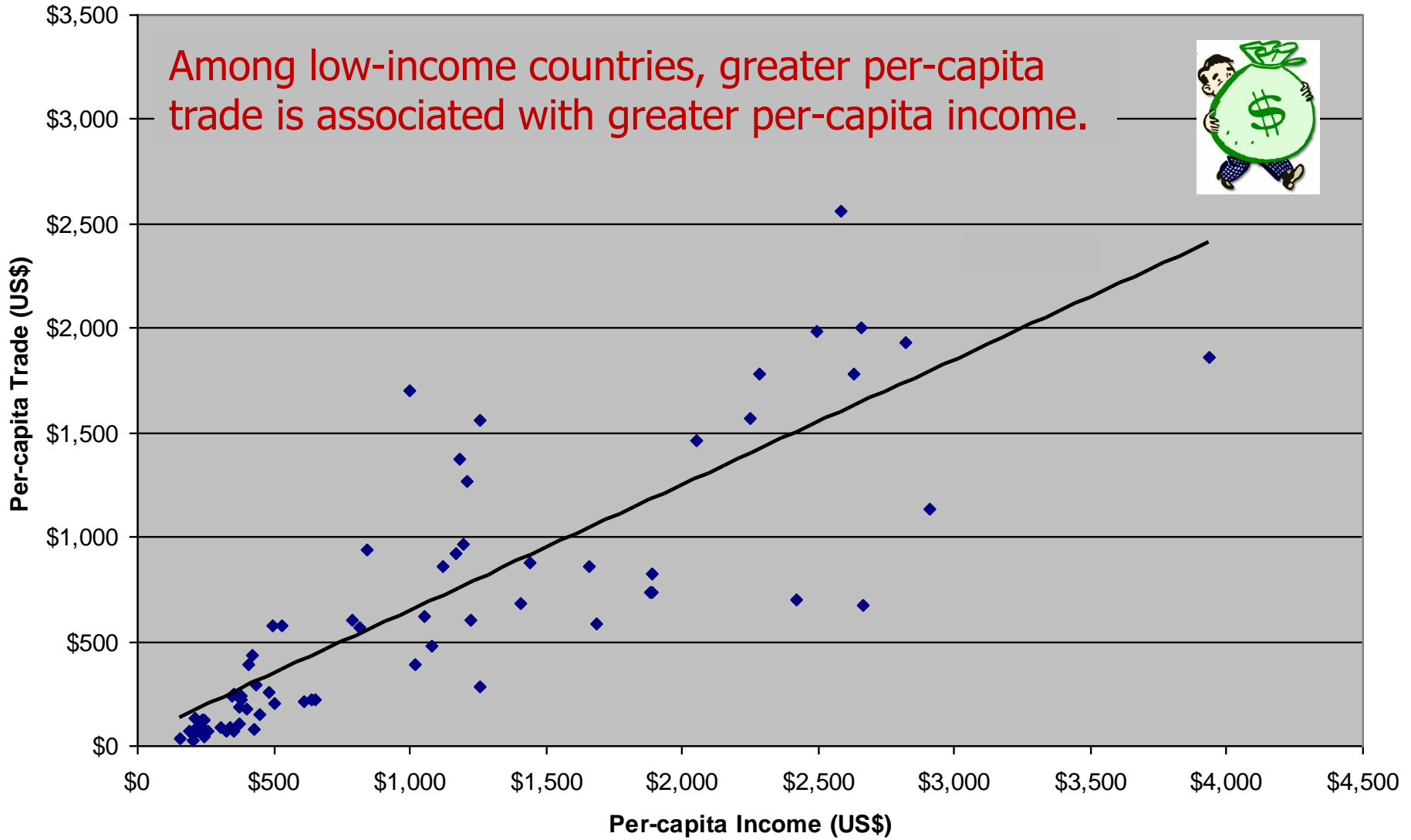
# Counterargument

Rich countries can afford to trade.

Look at the poor countries.



Among low-income countries, greater per-capita trade is associated with greater per-capita income.



Data source: International Monetary Fund

# Counterargument

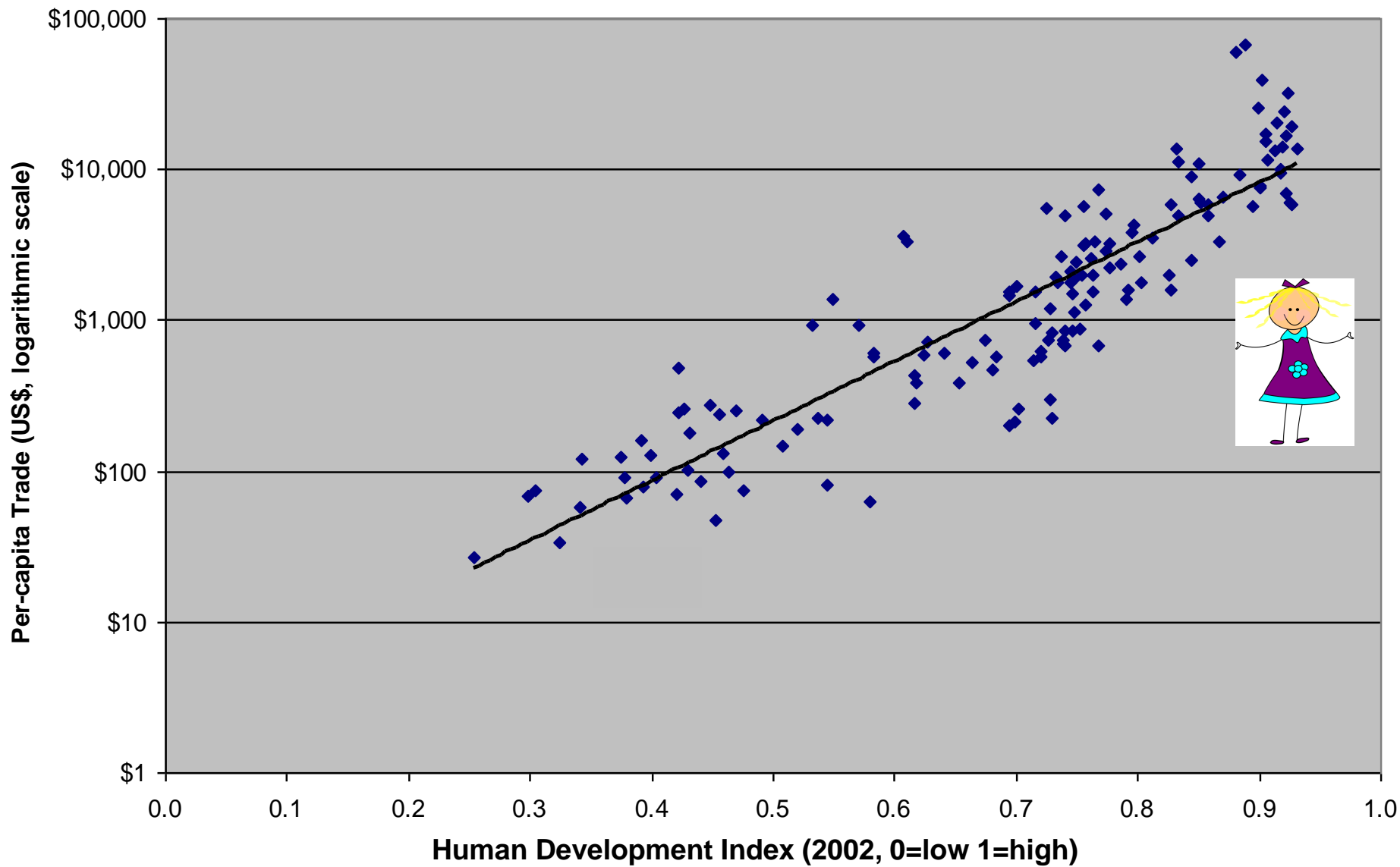
There's more to life than income.



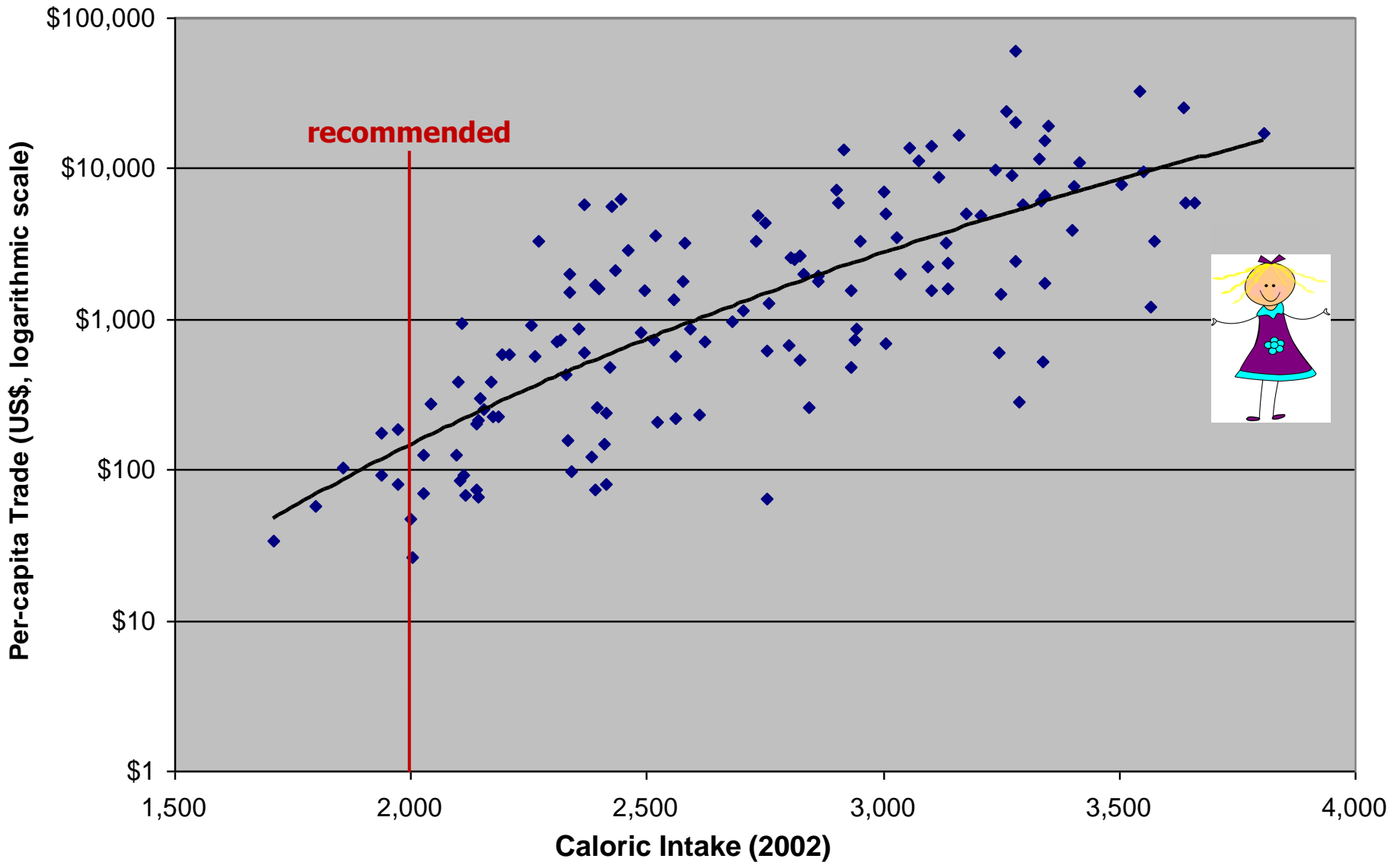
# What about quality of life?

Human Development Index





*Data source: International Financial Statistics, IMF; World Development Indicators, World Bank*

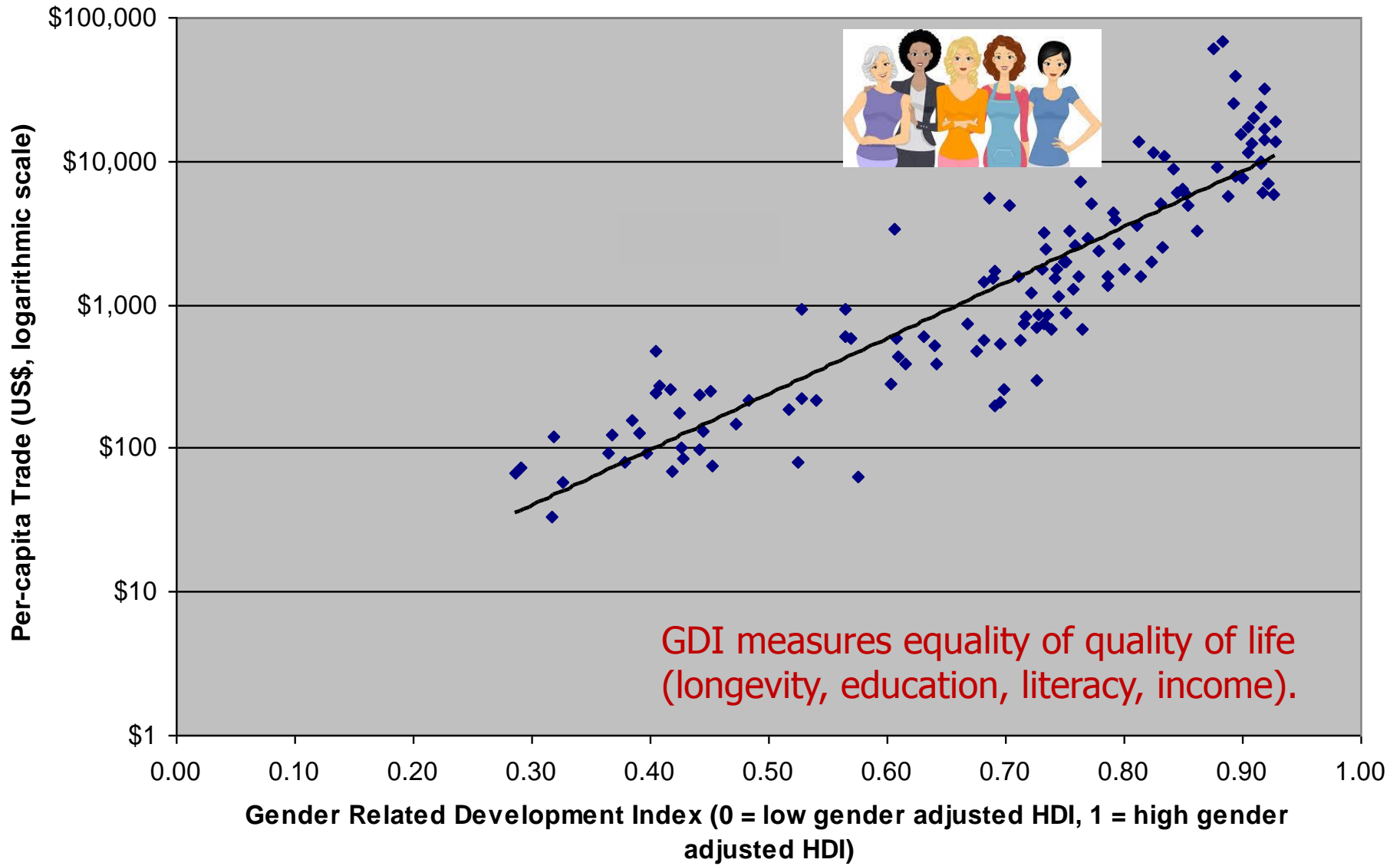


*Data source: International Financial Statistics, IMF; World Development Indicators, World Bank*

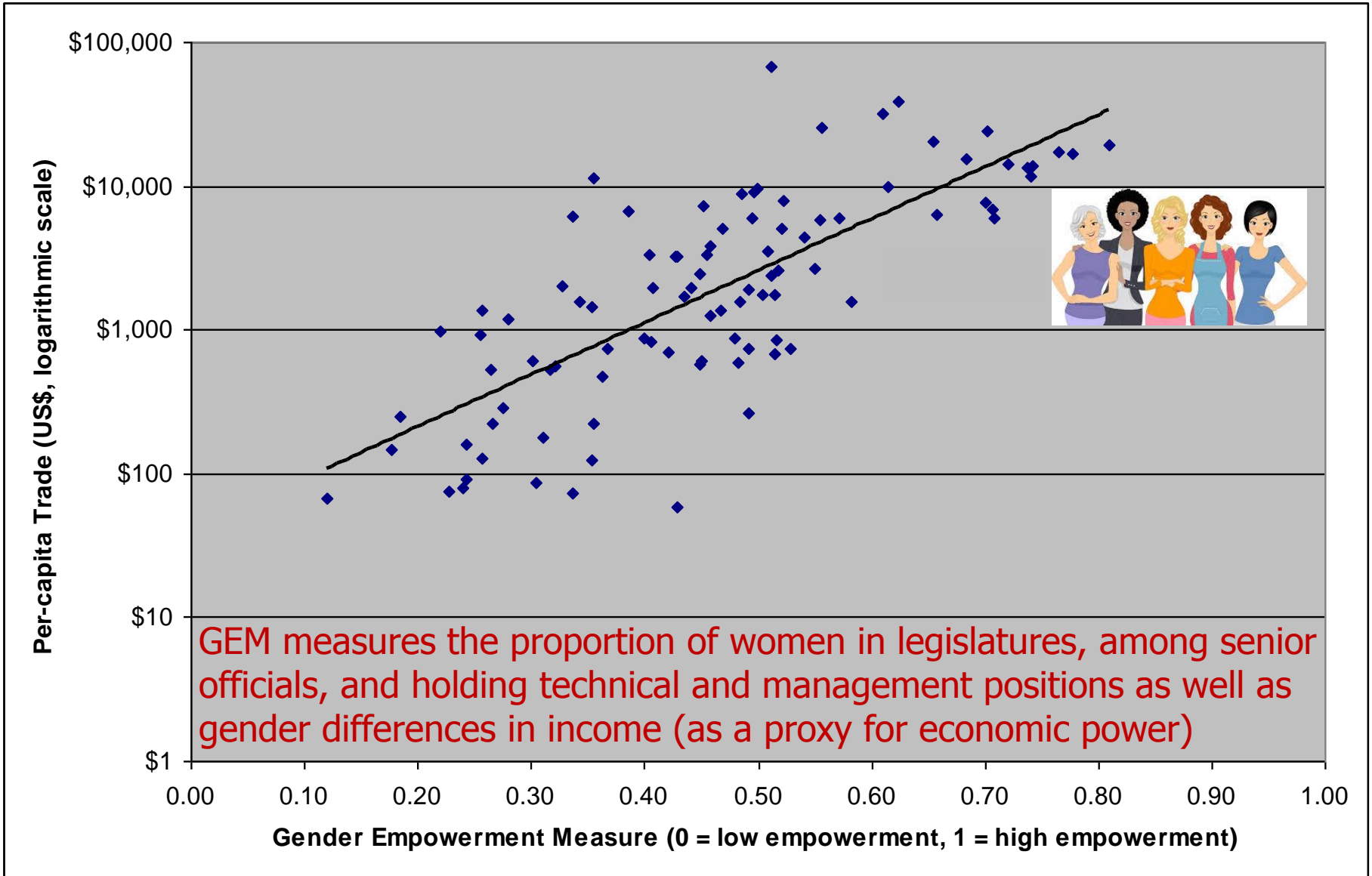
# What about the less powerful?



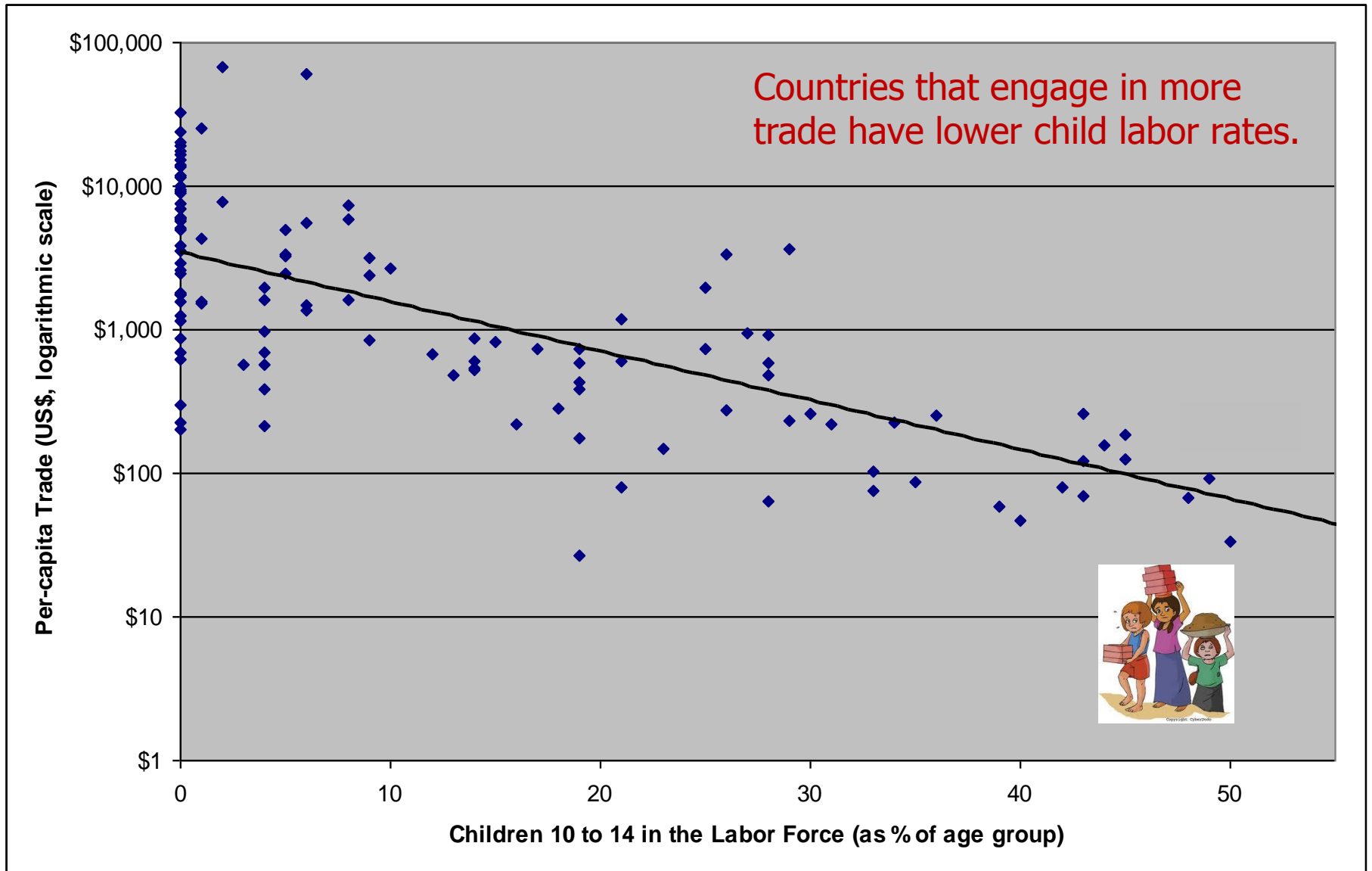




Data source: International Financial Statistics, International Monetary Fund, and World Development Indicators, World Bank.



*Data source: International Financial Statistics, International Monetary Fund, and World Development Indicators, World Bank.*



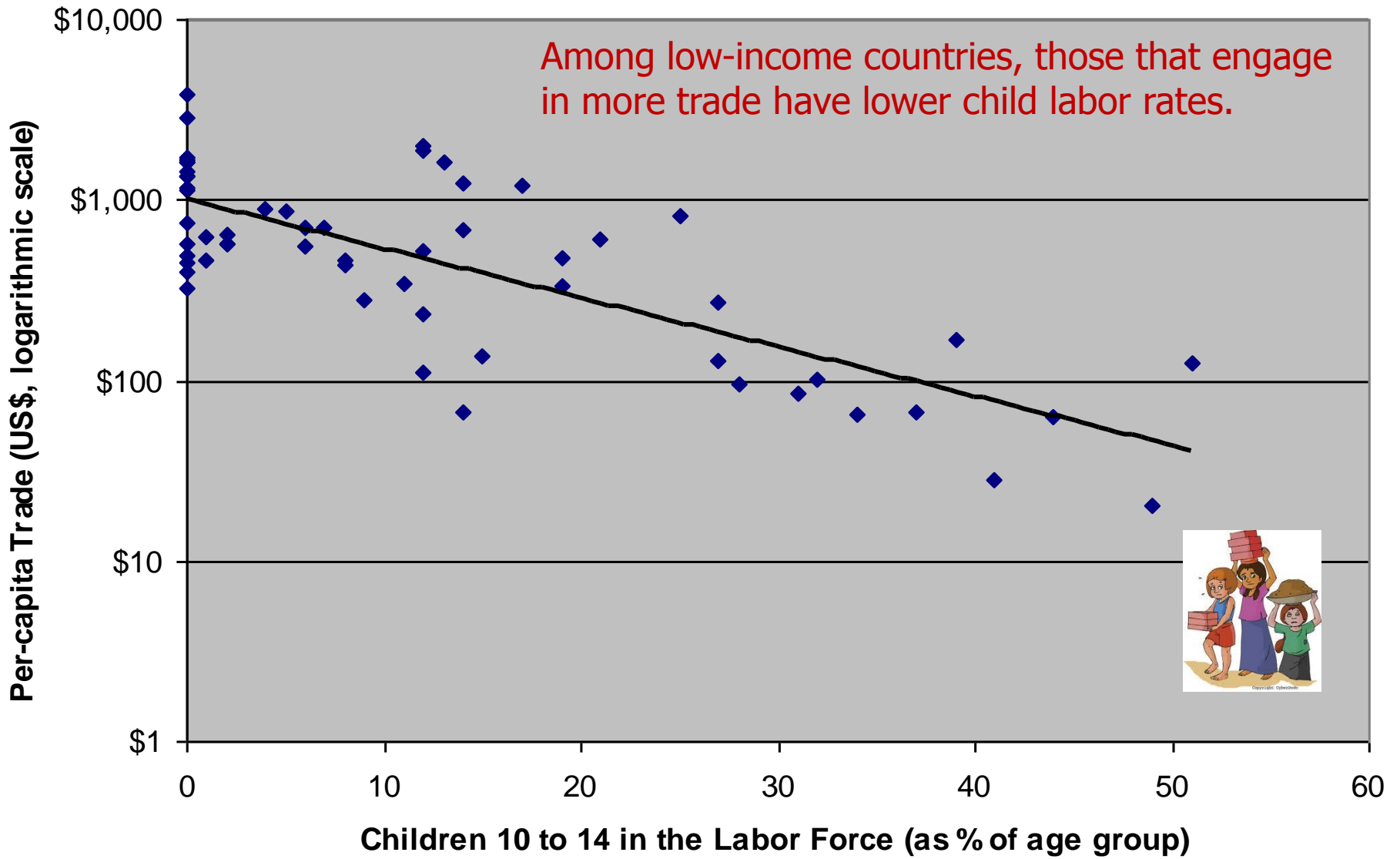
Data source: International Financial Statistics, International Monetary Fund, and World Development Indicators, World Bank.

# Counterargument

Rich countries tend to be more free and can afford for their children not to work.

Look at the poor countries.





Data source: International Financial Statistics, International Monetary Fund, and World Development Indicators, World Bank.

Doesn't trade destroy jobs?





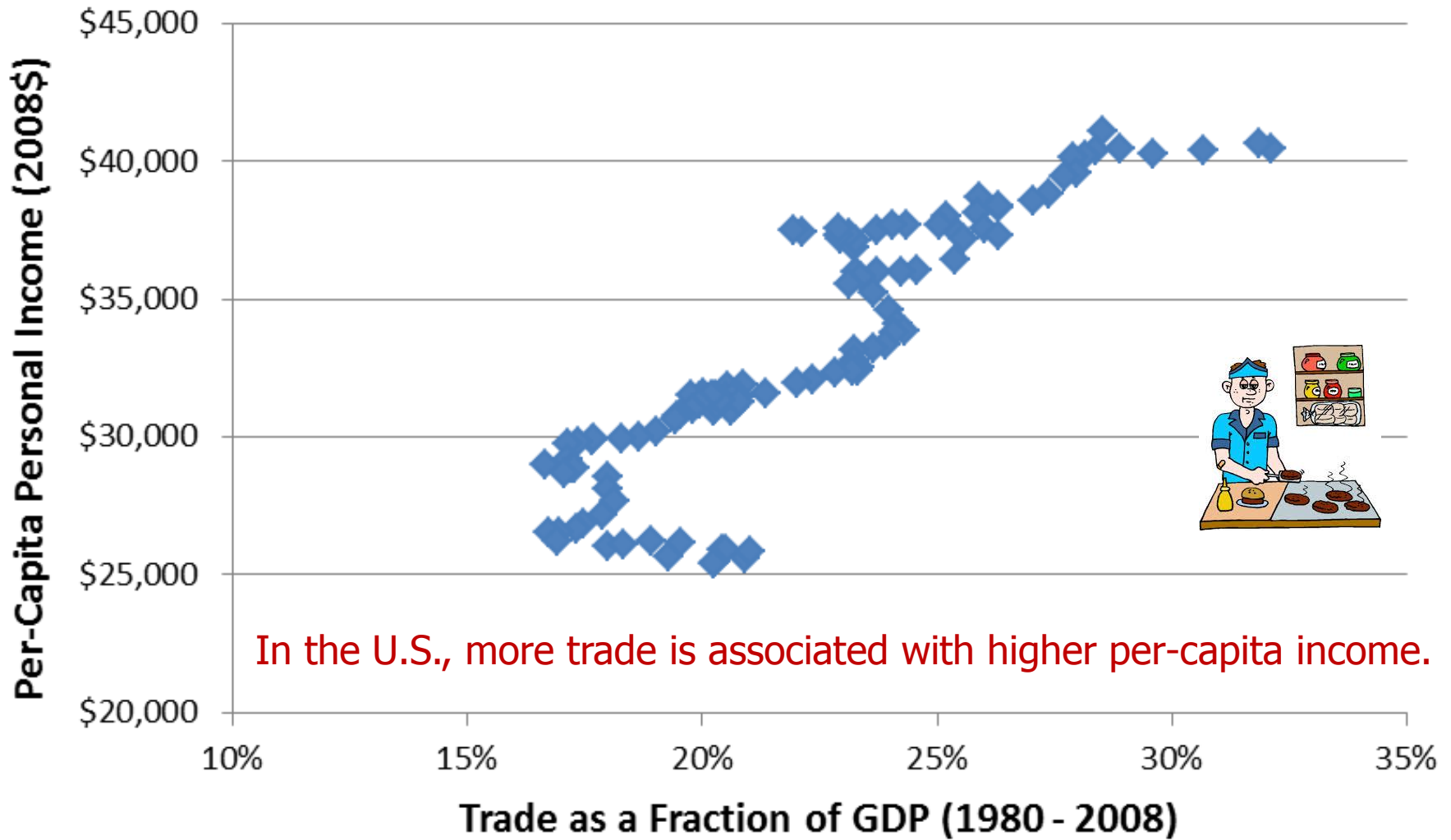
*Data source: Bureau of Labor Statistics, and Bureau of Economic Analysis*

# Counterargument

Trade creates low-paying jobs but destroys high-paying jobs.







*Data source: Bureau of Labor Statistics, and Bureau of Economic Analysis*

Name two metrics that distinguish the first world from the third world.

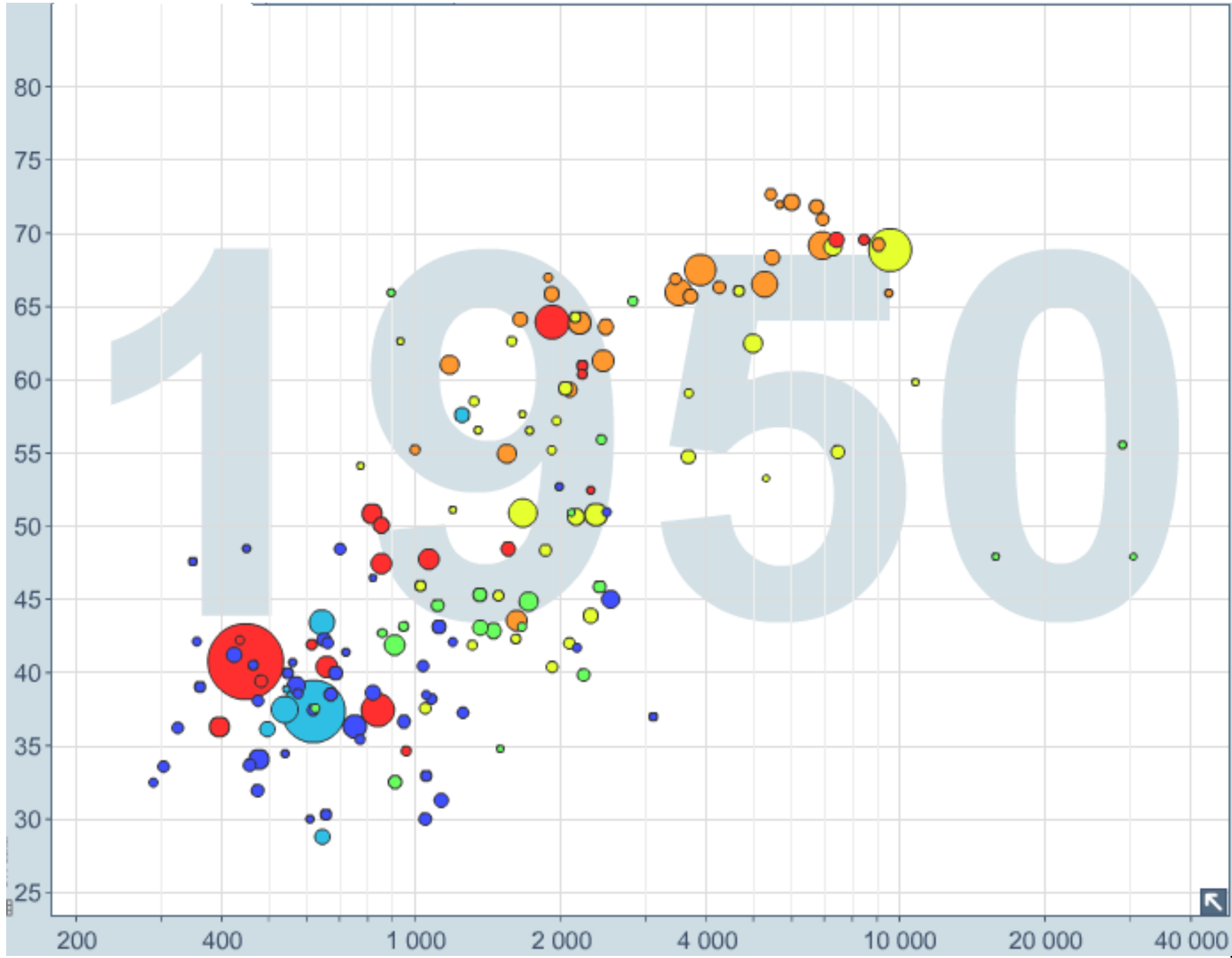
If you throw a water balloon at  
a guy, will he get wet?











# **Trade**

**March 2015**

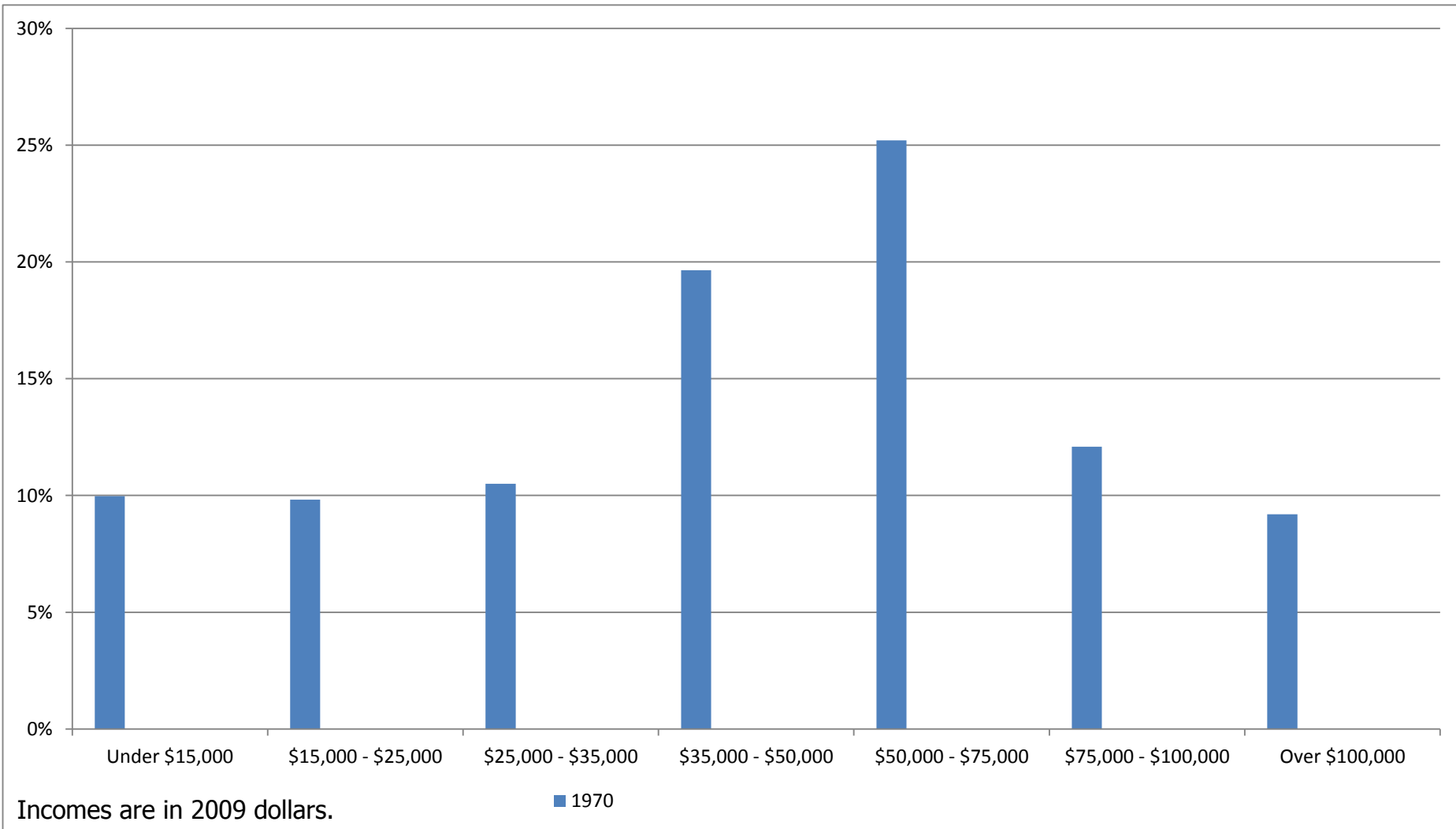
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We have to do something!

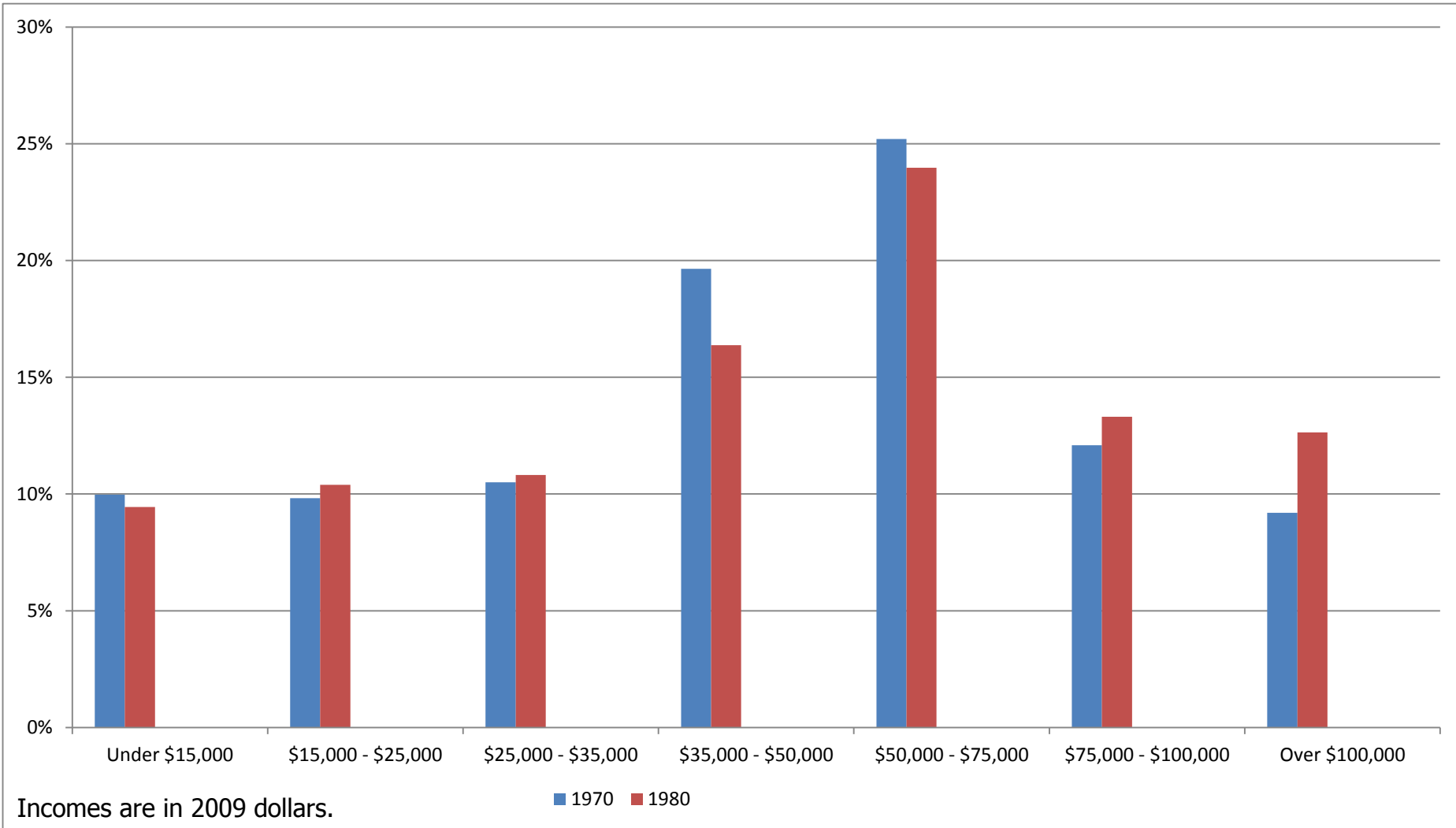
The rich are getting richer while the poor get poorer!

# U.S. Households According to Income



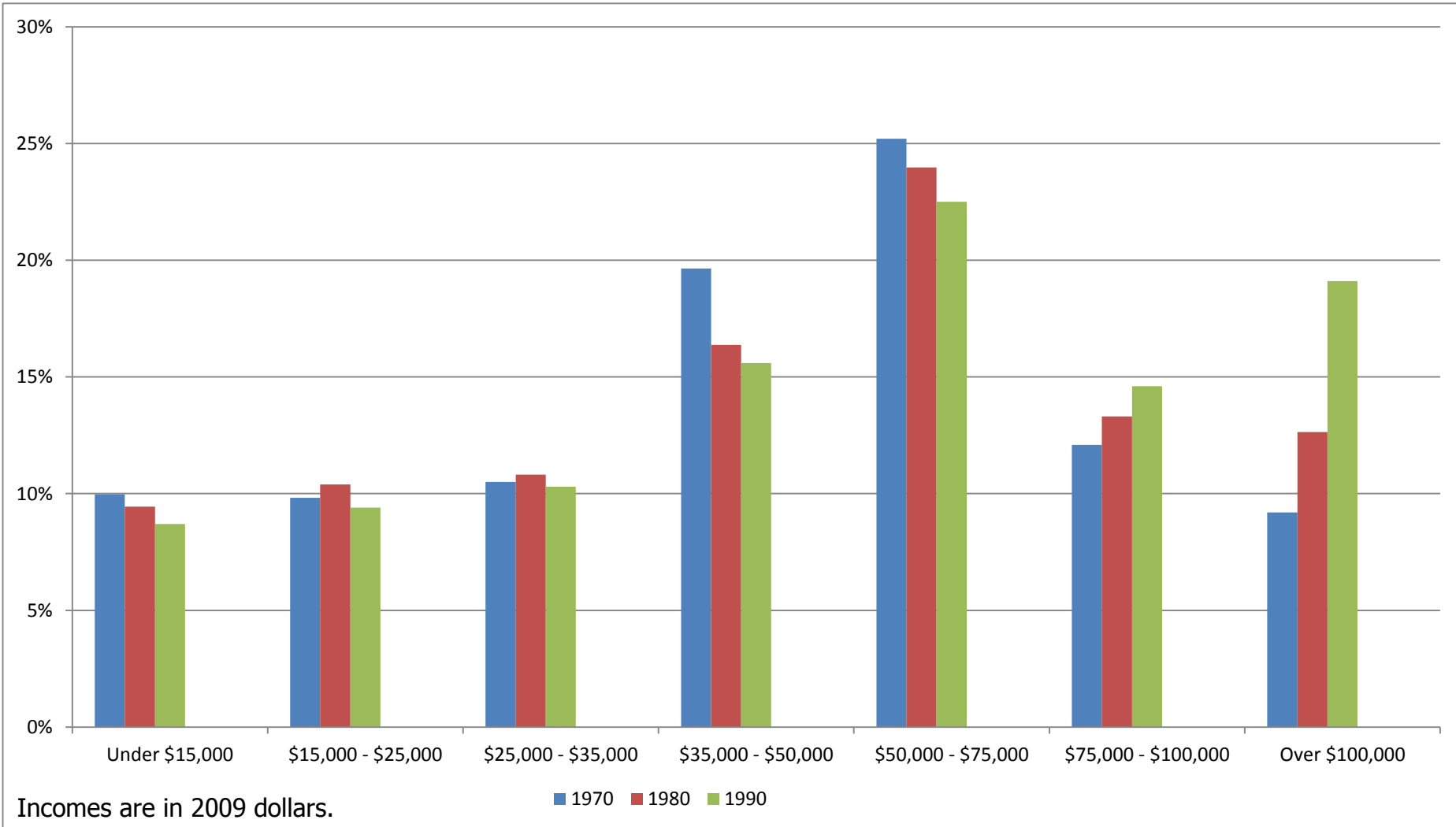
Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 1995-2012.

# U.S. Households According to Income



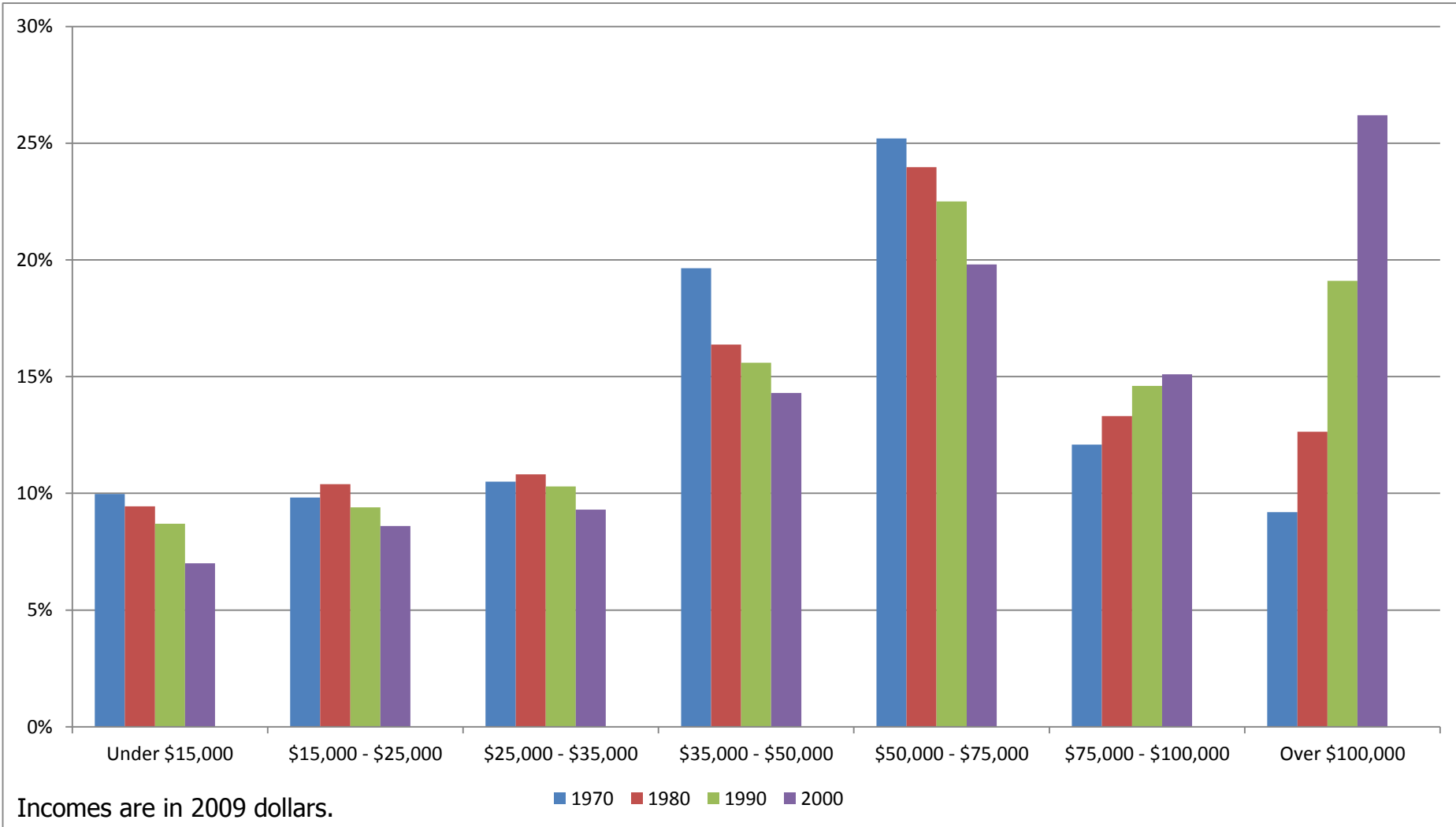
Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 1995-2012.

# U.S. Households According to Income



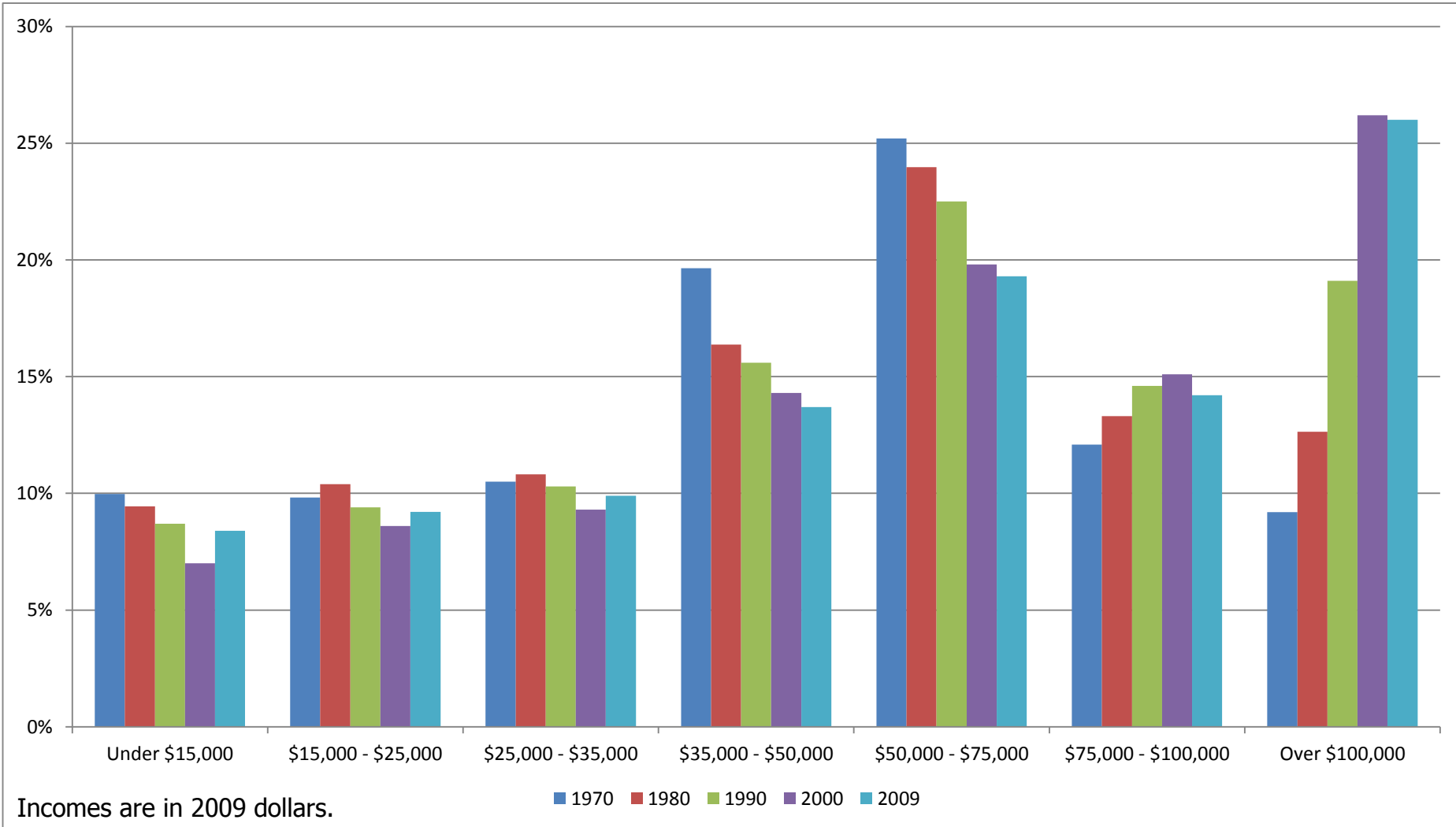
Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 1995-2012.

# U.S. Households According to Income



Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 1995-2012.

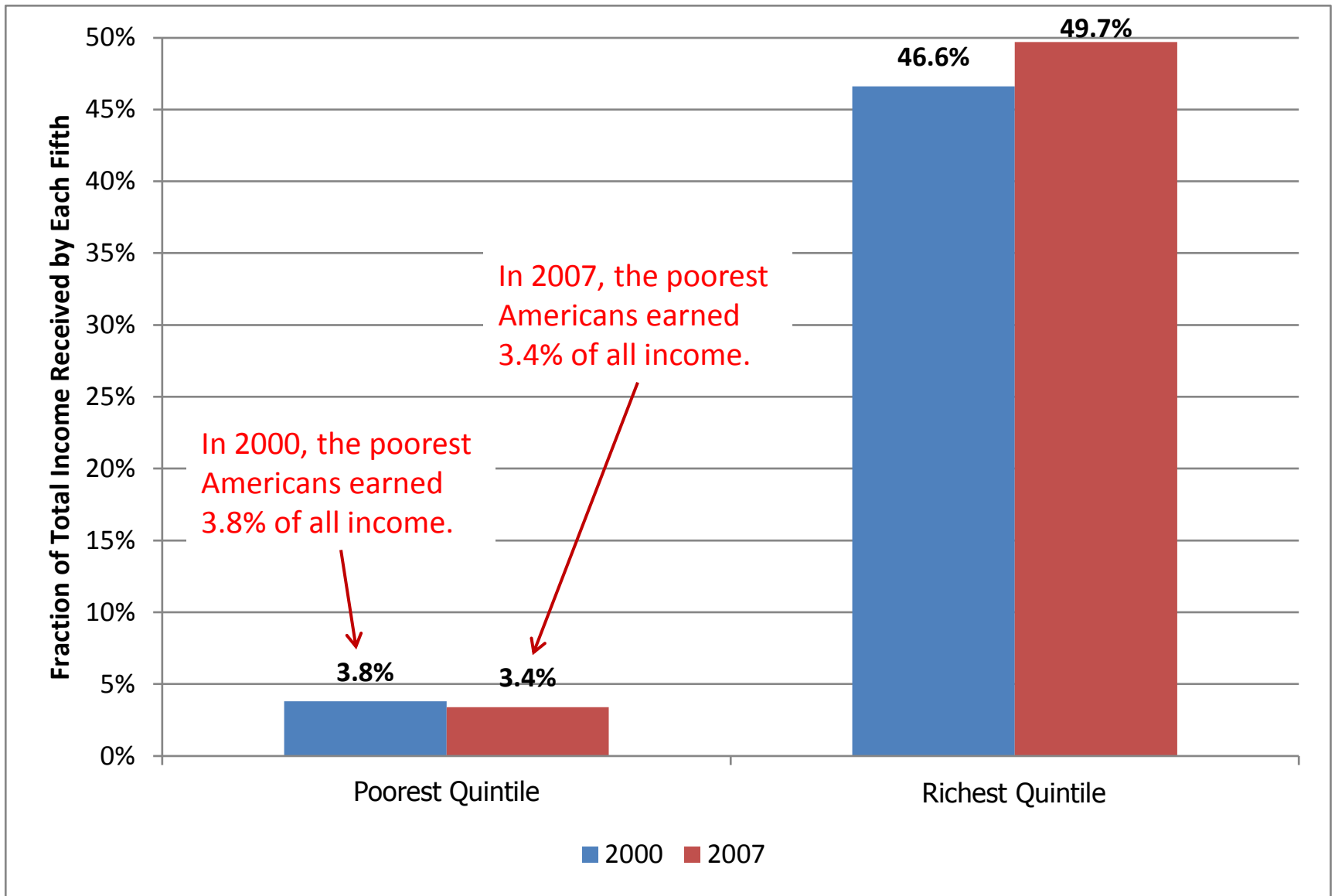
# U.S. Households According to Income



Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 1995-2012.

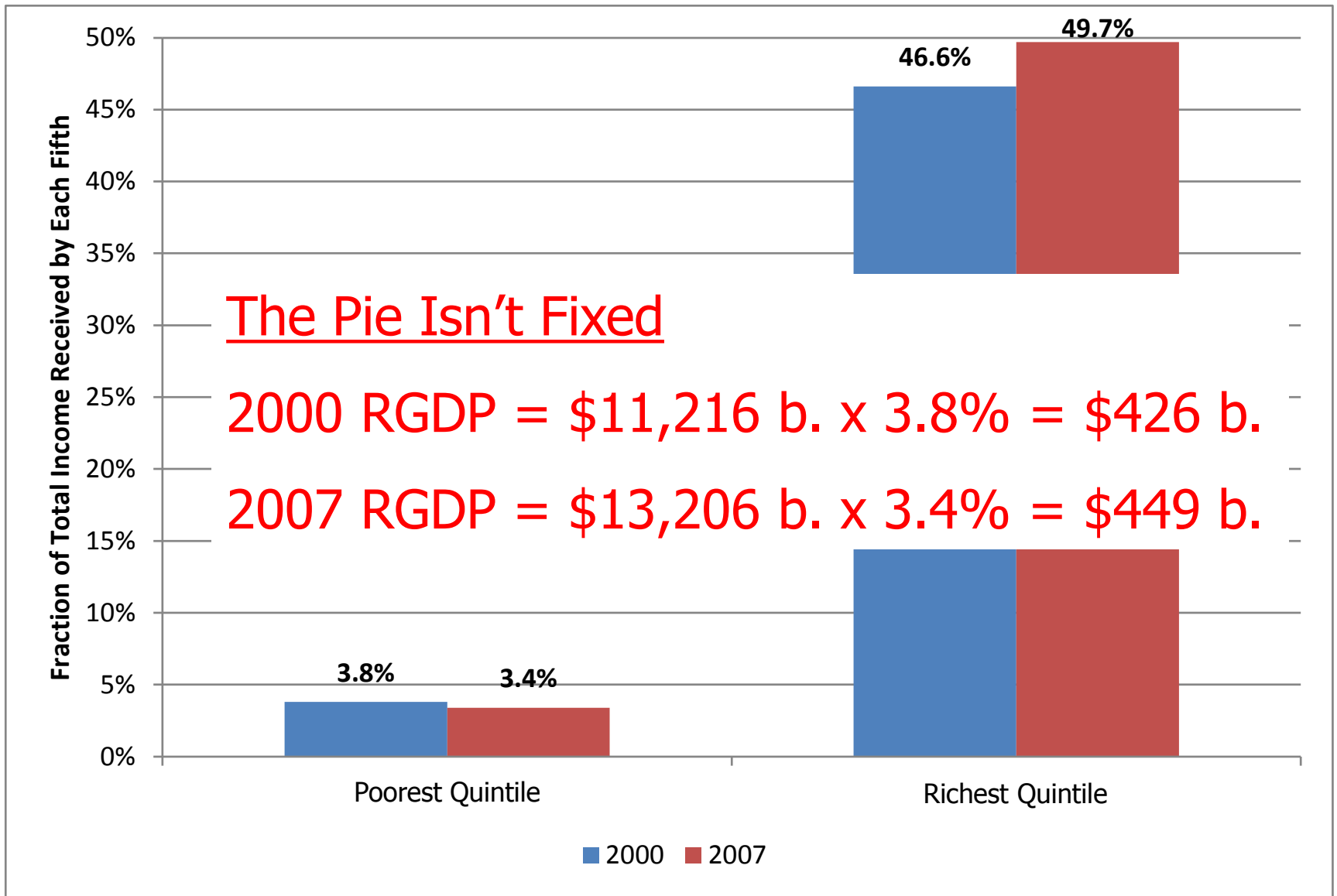
## Problems with Inequality Measures

- Assumes that the pie is fixed.
- Assumes that the population is stagnant.

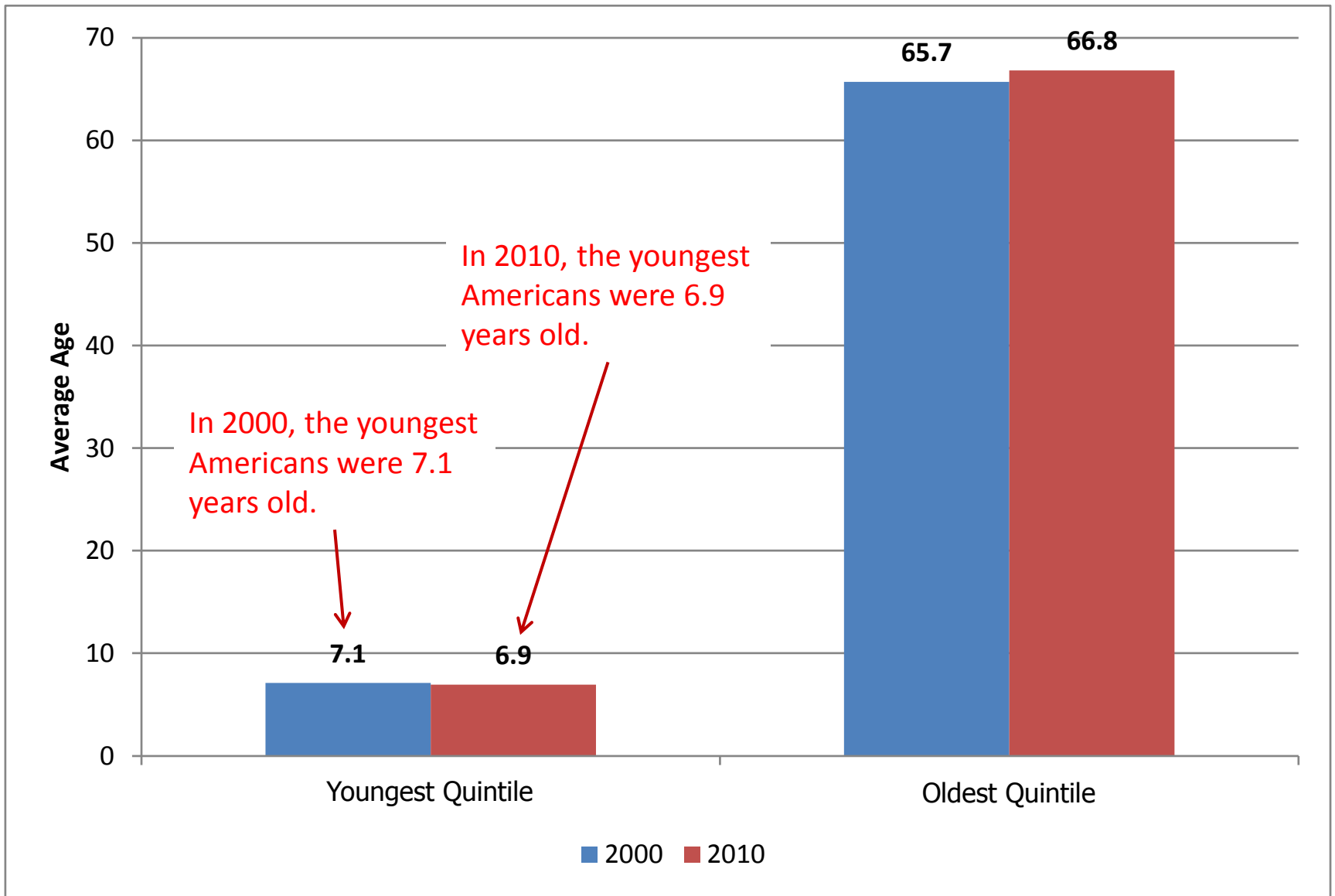


Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 2010, Table 678.

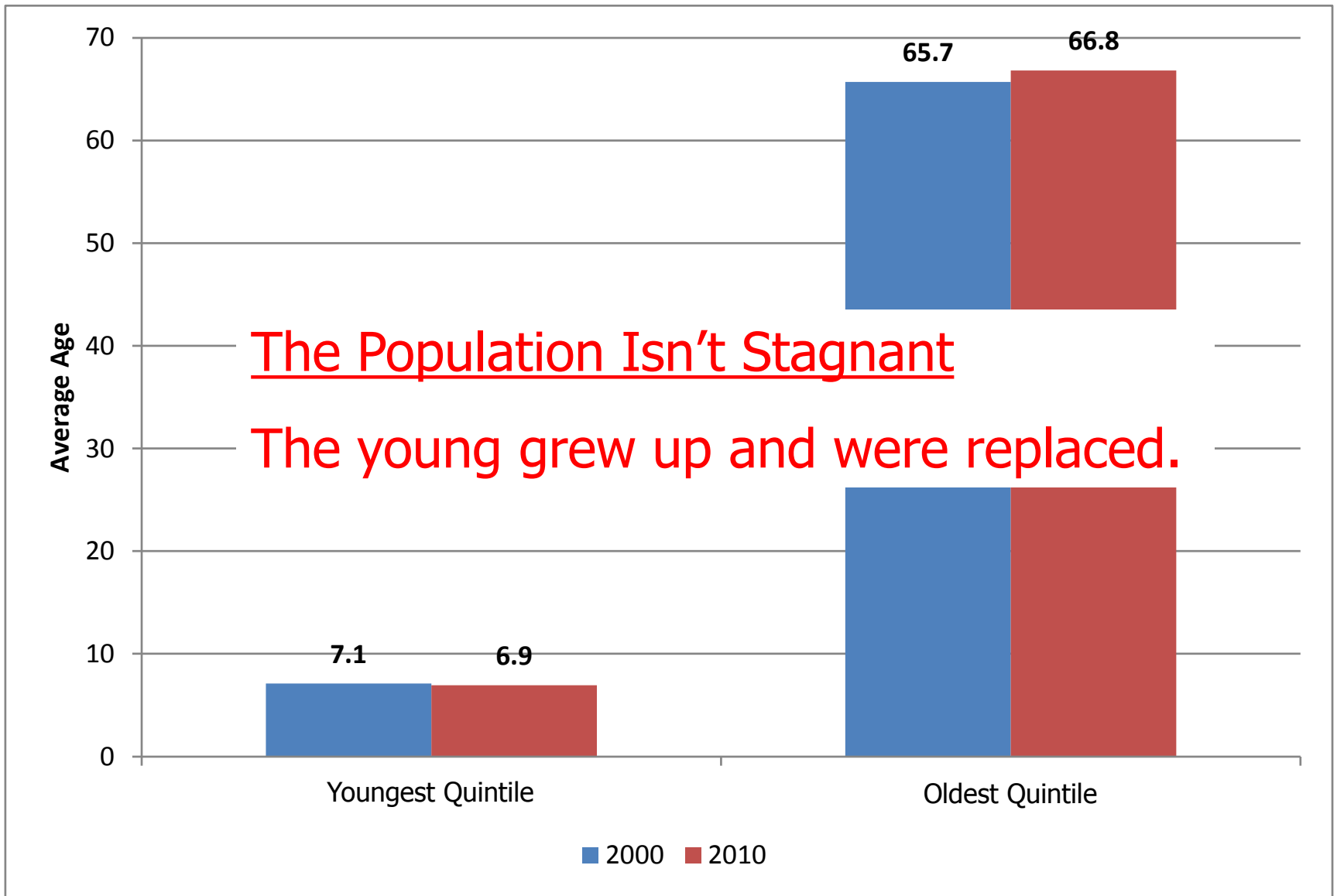




Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 2010, Table 678.



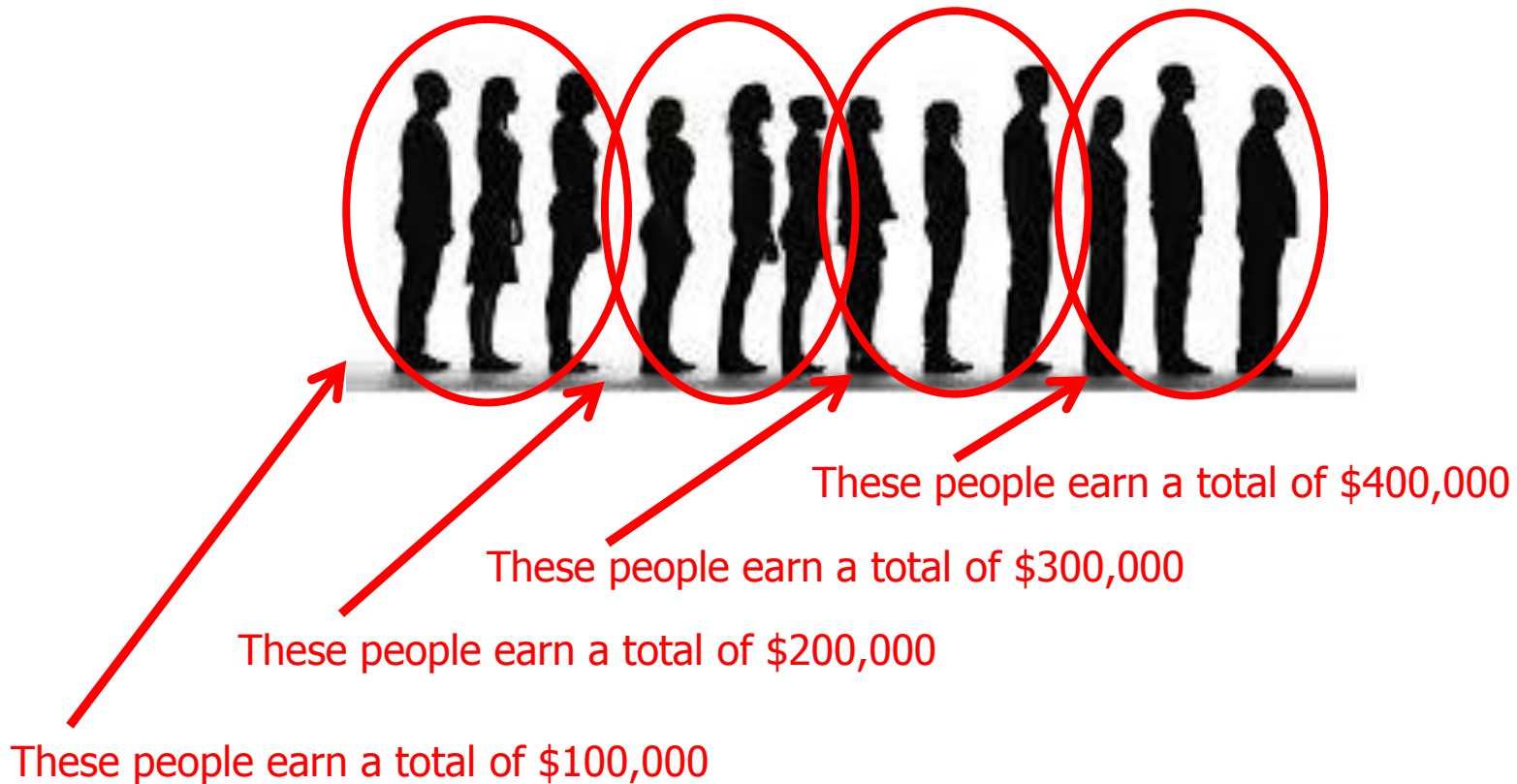
Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 2010, Tables 8, 9.



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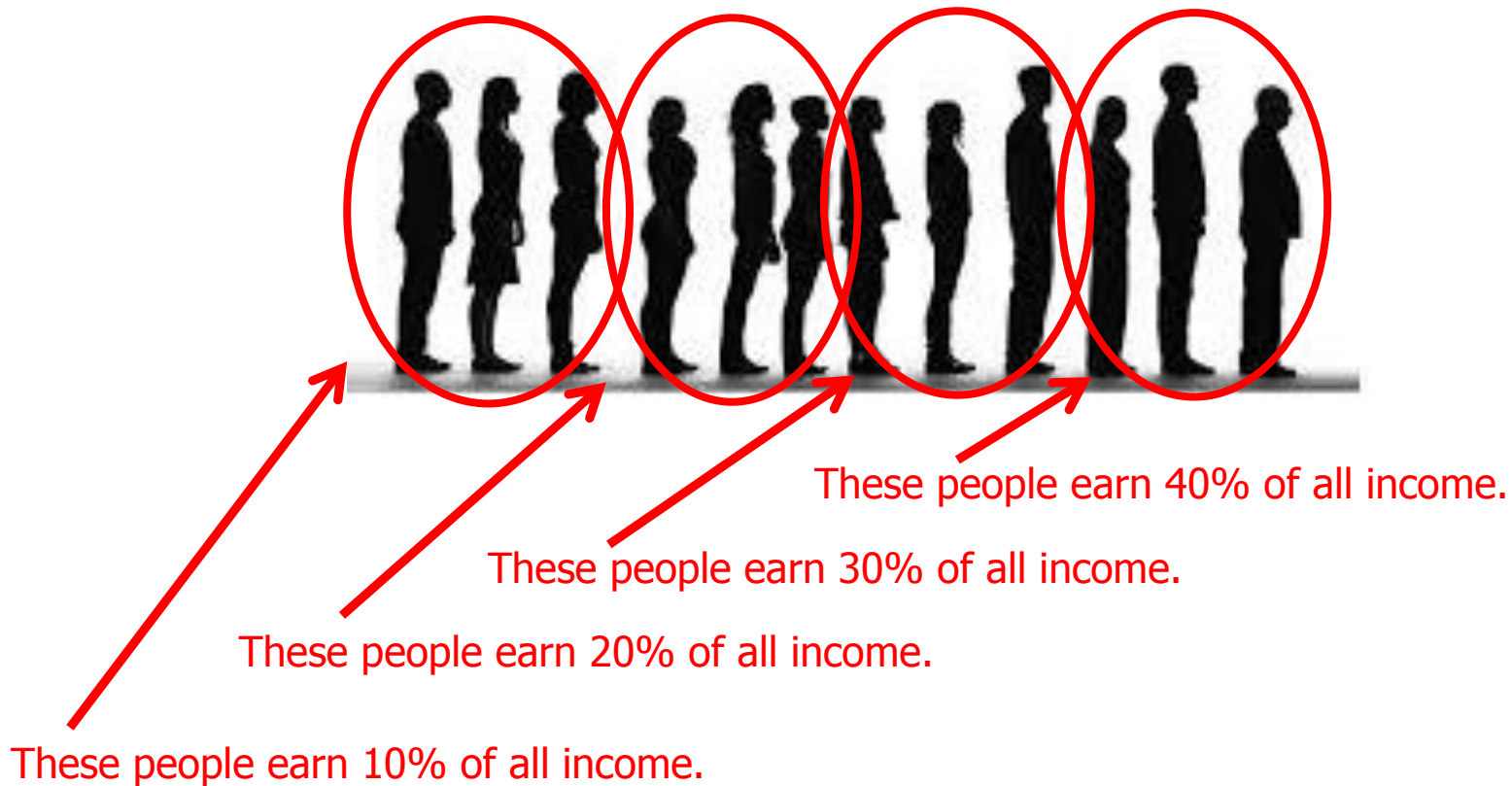
# Inequality and the Gini-Coefficient

Line up people from poorest to richest.  
Total income = \$1 million



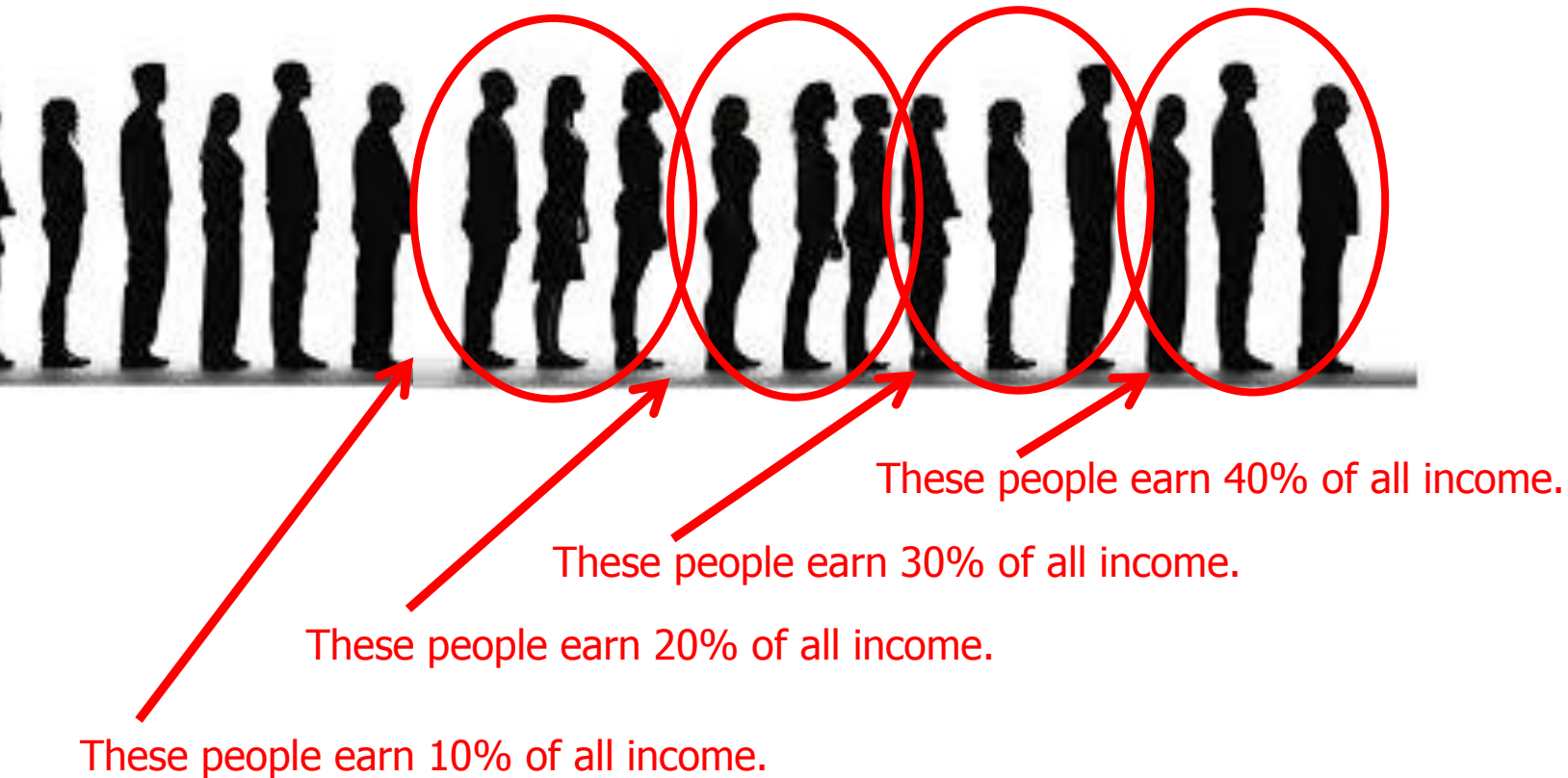
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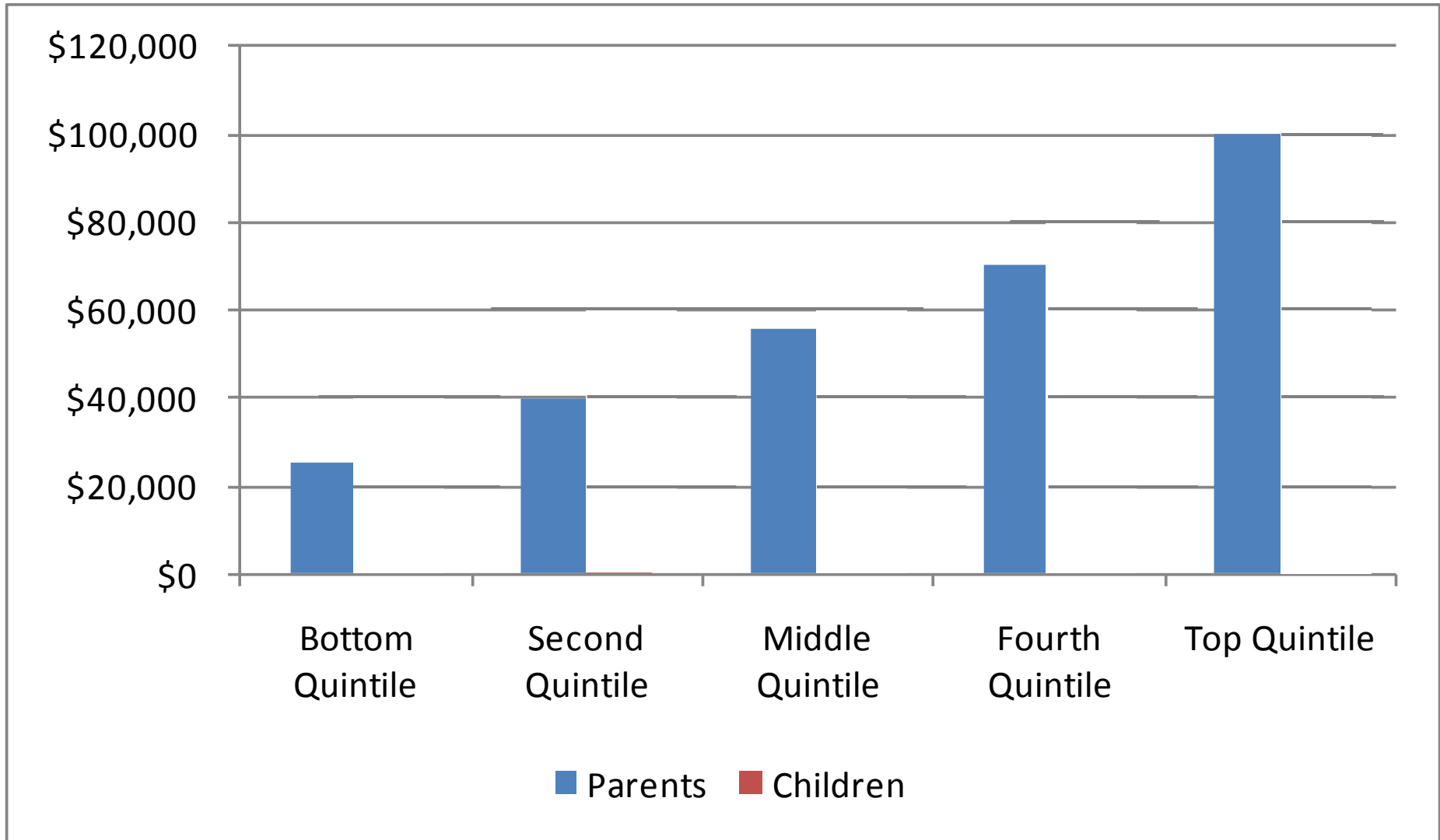


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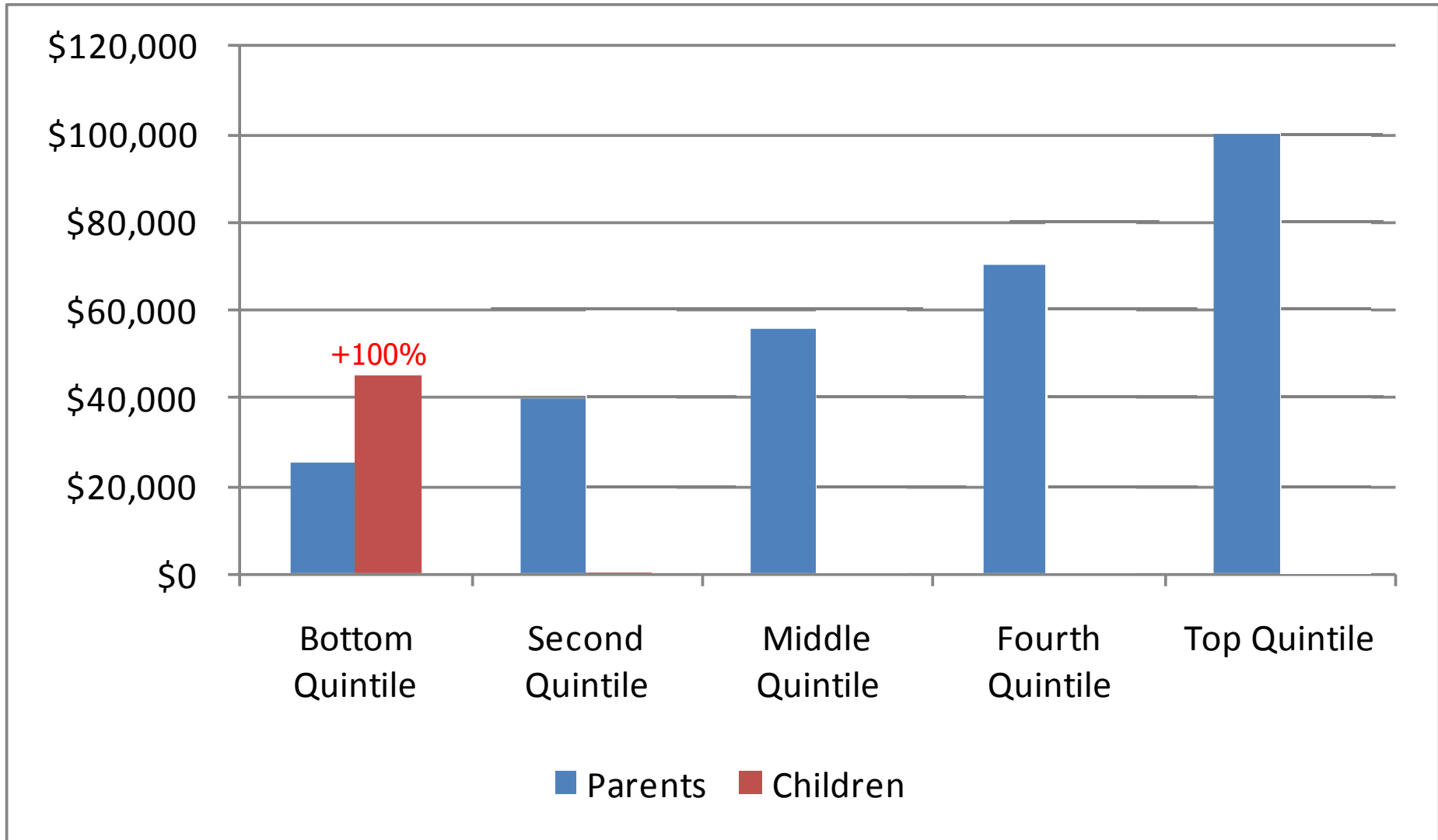


# Median Income Within Each Quintile (2006\$)



Source: Pew Economic Mobility Project

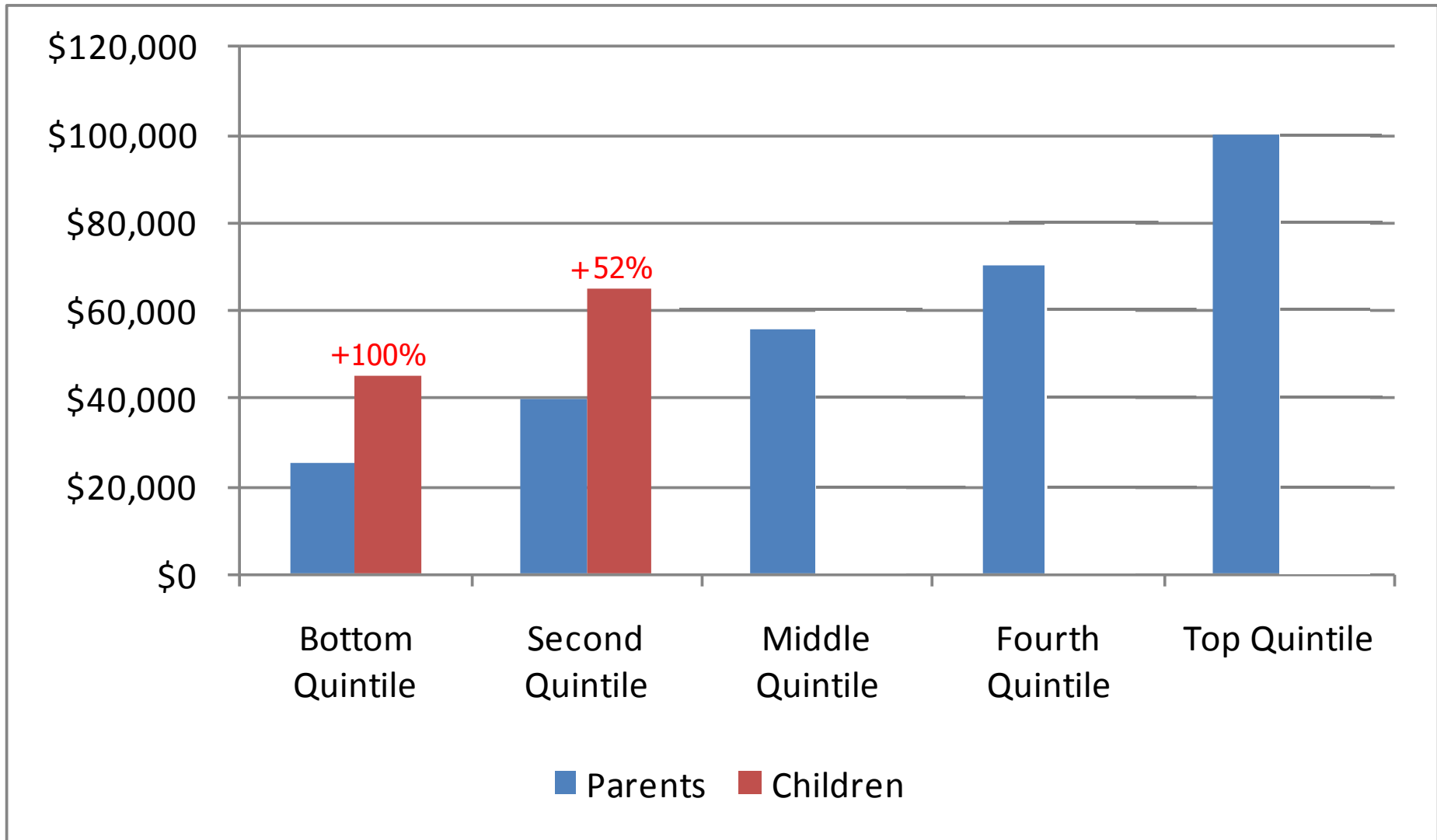
# Median Income Within Each Quintile (2006\$)



Source: Pew Economic Mobility Project

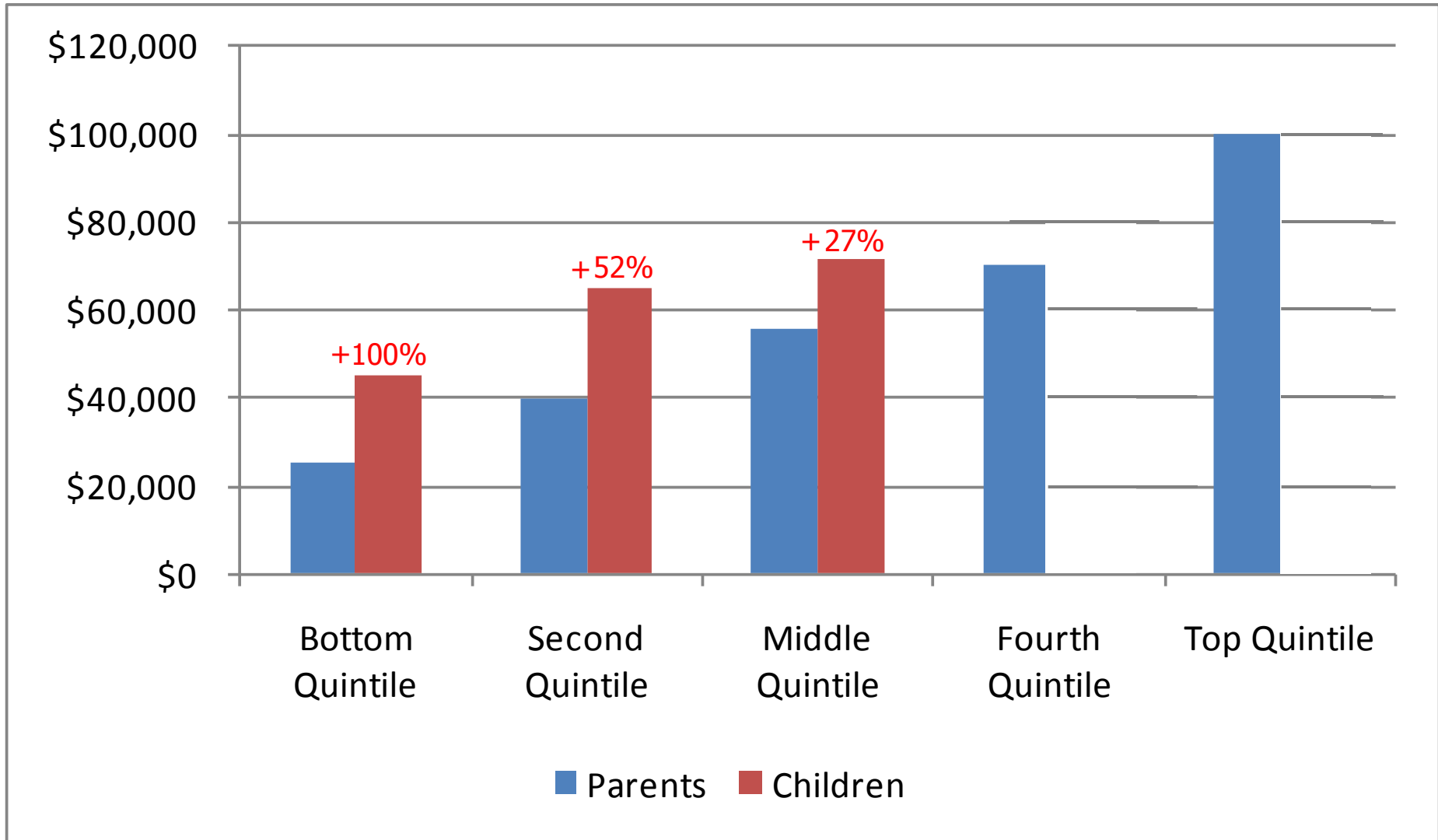


# Median Income Within Each Quintile (2006\$)



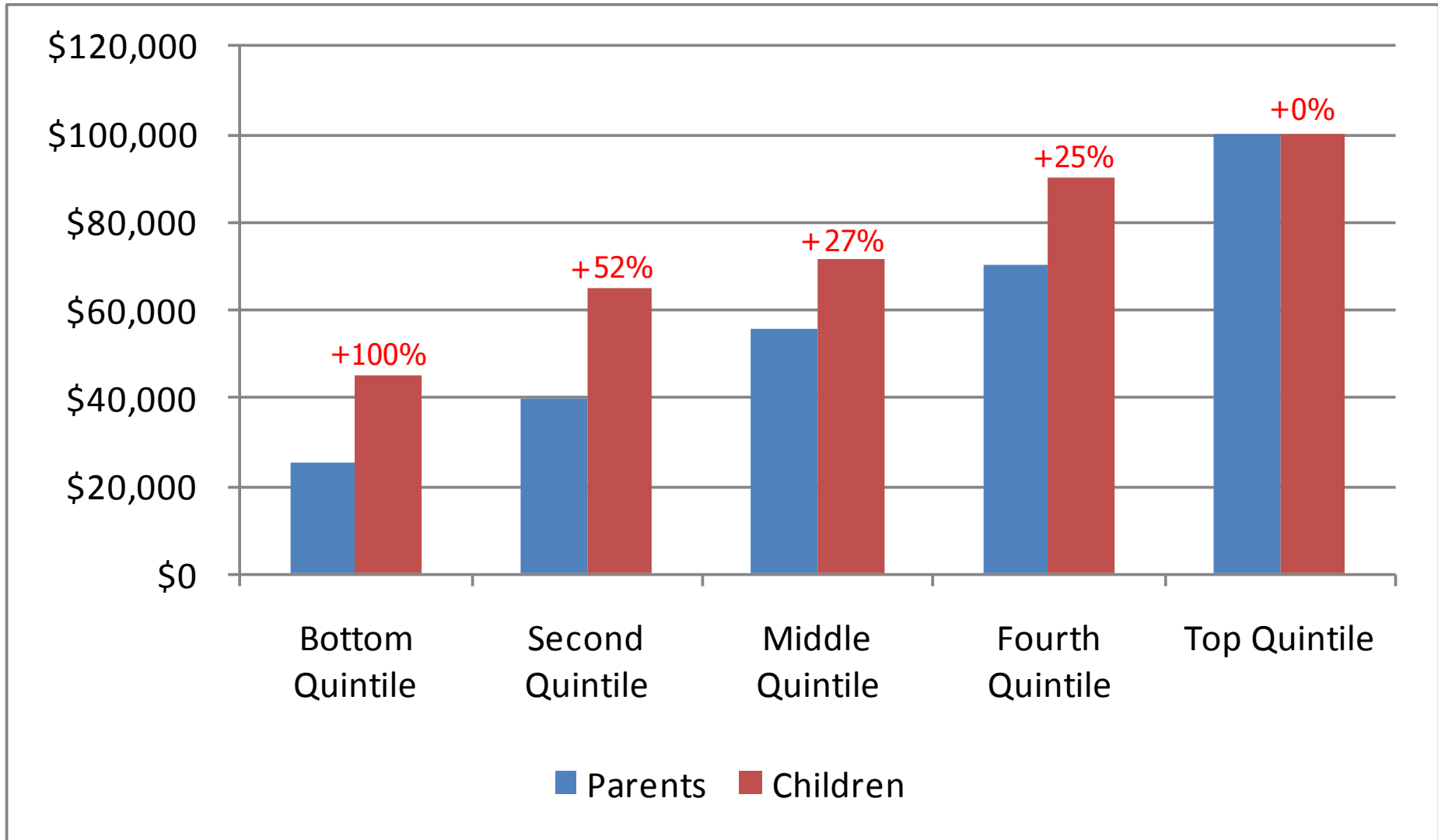
Source: Pew Economic Mobility Project

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