Questions for PubPol/Econ 541
Nov 1

Behind the Standard Model

KOM, Ch 3, selected pages:

- "To produce more of one good, the economy must sacrifice some production of another good." Is this always true? What if there is unemployment?
- What do the relative supply and demand curves of a country look like in the Ricardian Model, and why? What do they look like for the world of two countries?
- Suppose that preferences change so that, at given prices, demanders everywhere increase their preferred consumption of one good and decrease it for the other. In most models, such a change will cause both the price and the quantity of the preferred good to increase. Is that true in the Ricardian Model, of a closed economy and/or of a two-country world?
- In the Ricardian Model, do both countries necessarily gain from trade? Is it possible for a country to lose from trade?
- Does comparative advantage imply absolute advantage? Does absolute advantage imply comparative advantage?
- If the wage rate in a country falls due to trade, do workers lose from trade?

KOM, Ch 5, selected pages:

- If one country has more of both capital and labor than the other country, what will it export?
- Is the Heckscher-Ohlin Theorem, as a theory of trade, an alternative to the theory of comparative advantage?
- Who gains and who loses from trade, in the two-factor model?
- How have the wages of skilled and unskilled labor in the US changed since the 1970s? Could this change be due to trade? Is it in fact due primarily to trade?
- In what sense can trade in goods be regarded as equivalent to trade in (or international movement of) factors?
- What are some of the reasons why the prediction of international factor price equalization does not hold in the real world?

Deardorff, "Introduction to Comparative Advantage," 2003.

- Why is comparative advantage a relative concept in two senses simultaneously?
- How can one identify comparative advantage in terms of
    - Unit labor requirements for producing goods?
    - Output per worker in producing the goods?
    - Opportunity cost?
- When a high-wage country trades with a low-wage country in the Ricardian model, who is hurt, or hurt more: The high-wage workers or the low-wage workers?

Freeman, "Are Your Wages Set in Beijing?" 1995.

- What happened to wages in the US, starting in the 1980s, that prompted the literature that Freeman reviews in his article "Are Your Wages Set in Beijing?"?
- Contrast the changes in skilled and unskilled wages and employment in the U.S. and Europe.
- Why is it plausible that international trade might be the cause of these changes?
- What do studies generally say about whether in fact international trade is responsible for these changes?
- By what mechanism can it be argued that globalization could lead to the observed changes in wages that began in the 1980s?
- Two empirical approaches to studying the effects of globalization are described by Freeman, one looking at the "factor content of trade" and the other looking at prices. What is the reasoning behind each?