

Agenda

Describe format of exam

Address questions about

- Trade Policy
- Environmental Policy
- Capital Flows

Format of the Exam

1 essay (45 minutes, 30%)

3 short answer (45 minutes, 30%)

10 identification (60 minutes, 40%)

Leaves 30 minutes of free time

Unit 2: Free Trade

What is autarky?

“Closed economy”: a situation where a country isolates itself from international trade

Can achieve it thorough

- Tariffs
- NTBs



- Quotas and licenses
- VERs
- Exchange controls
- Product standards
- Subsidies

But would forgo the gains from trade

Key Puzzle about Trade Policy

Free trade increases aggregate welfare

Yet countries use protectionism. Why?

- Serve domestic groups ← help constituents
- Preserve national security } help country
- Promote economic growth } as a whole

Ricardo-Viner Model

Consider 2 sectors

- exporting (microchips)
- import-competing (textiles)

Assume 2 factors of production

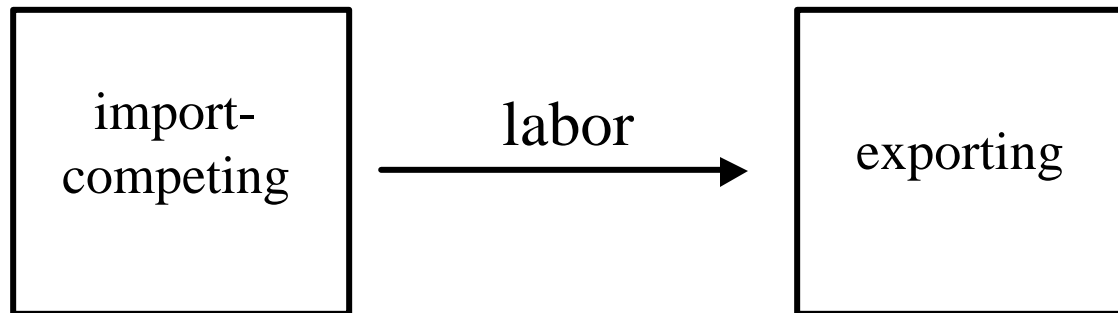
- capital (sector-specific)
- labor (mobile)

Then capitalists in the two sectors disagree about free trade.

The preferences of labor are more ambiguous.

Trade liberalization would cause

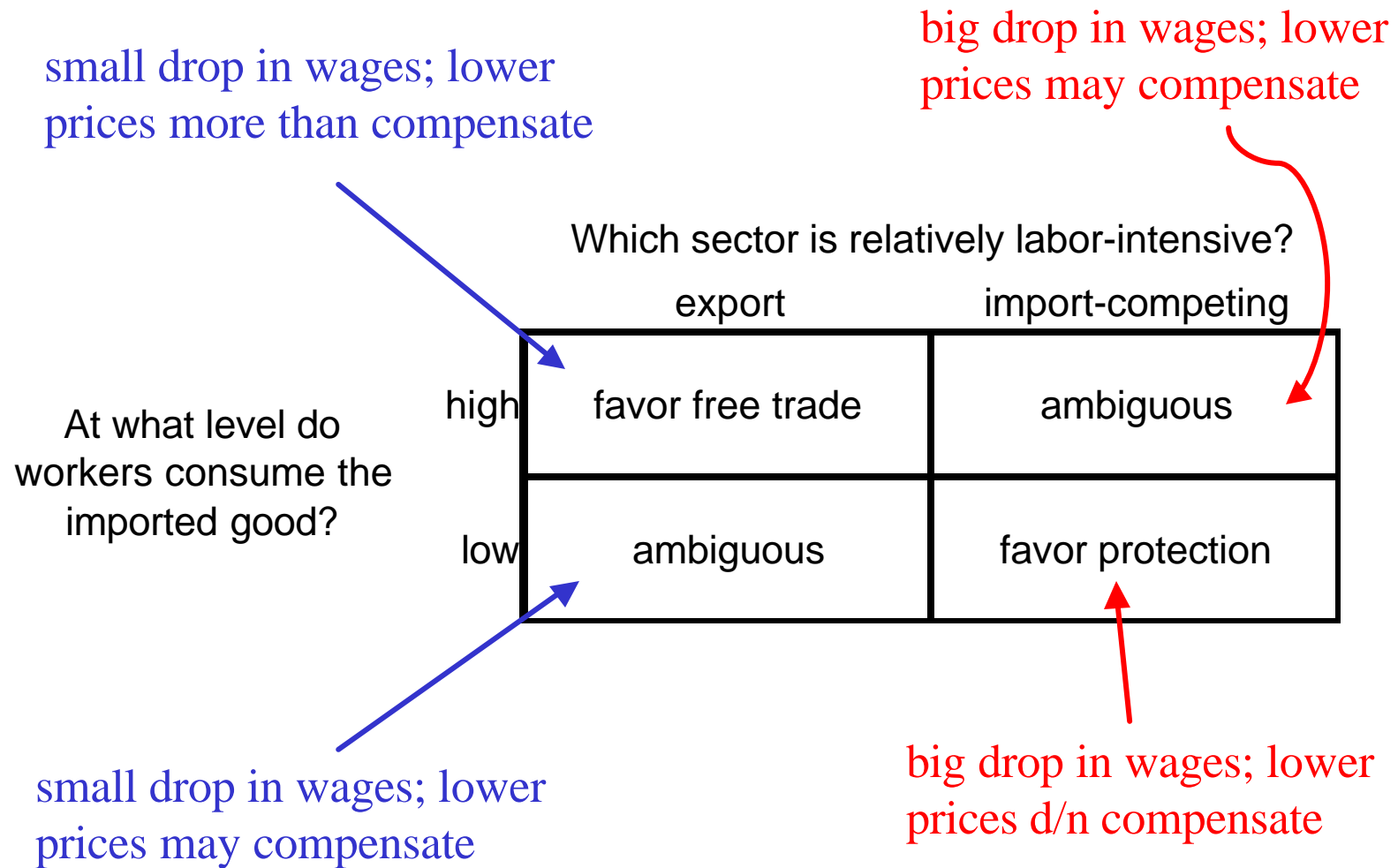
- import prices to fall (helps workers)
- nominal wages to fall (hurts workers)



labor surplus emerges in export
sector, causing wages to fall.

The contingent preferences of labor

(arrows say what happens when remove protection)

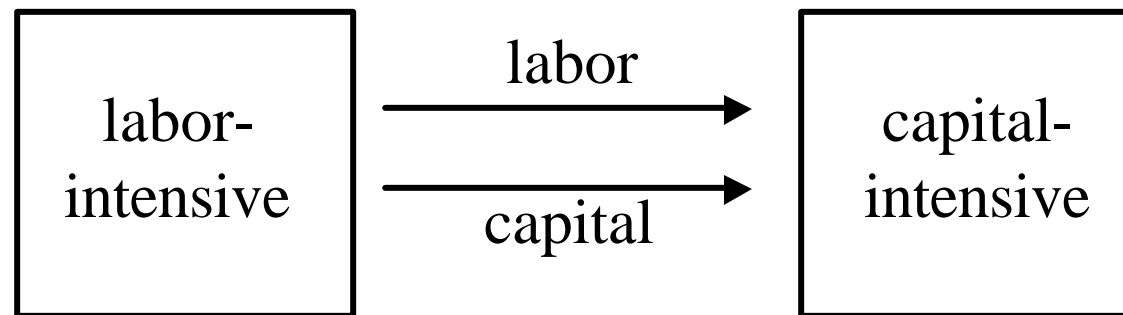


Stolper-Samuelson theory

- Assume two factors of production:
labor and capital
- Suppose both are highly *mobile*.
- Then classes (labor and capital), not sectors, will disagree about free trade.

What's the logic behind this class conflict?

If the country has a comparative advantage in capital-intensive goods, trade liberalization would cause



Result

- wages fall (**hurts workers**)
- price of capital rises (**helps capitalists**)

Summary of SS, RV

<u>Model</u>	<u>Factors</u>	<u>Prediction</u>
SS	Mobile	Class conflict
RV	Specific	Sectoral conflict

But must domestic
groups really disagree?

If free trade increases aggregate welfare, couldn't
the advocates of free trade compensate the losers,
making everyone better off?

Those cleavages exist in theory, but
will they materialize in practice?

Depends on factor mobility, affected by

- Technology and human expertise
- Location and time

Depends on costs of collective action

- Lobbying is costly, so
- why not free-ride?

We should expect the following patterns of lobbying

workers & capitalists
disorganized

organized workers vs.
organized capitalists

Collective action costs

	high	low
factors mobile	Widespread free riding	class-based coalitions
factors specific	sectoral interest dominate	consumers and sectors active

sector vs. sector
(consumers are disorganized)

sector vs. sector &
organized consumers

Some evidence? preferences of US parties

Before 1945

<u>Party</u>	<u>Constituents</u>	<u>Preference</u>
Republicans	industry (NE, MW)	protectionism
Democrats	agriculture (South)	free trade

Situation reversed after 1945.

Why else might countries be protectionist?

Bolster national security

- Produce key goods at home
- Avoid negative security externalities

Help the economy

- Promote industrialization (ISI)
- Stimulate infant industries
- Create positive externalities
- Gain market power
- Improve terms of trade

Some terms people asked about

- Uruguay round
- Imperfect competition
- Basic force vs. force activation
- Tit for Tat
- Discount factor
- Rawlsian justice

We considered three moral perspectives

1. Utilitarian (justice as happiness)
2. Rawlsian (justice as fairness)
3. Libertarian (justice as freedom)

The Rawlsian contract

Rawls describes an “original position”

- People in the state of nature
- Behind the veil of ignorance

What contract would people make?

- They would adopt the “maximin rule,”
- which would lead to the difference principle

Unit 3: Environment

Some terms people asked about

- Montigo Bay Convention
- Counterfactuals
- Social dumping
- Non-excludability/ non-rivalry

Unit 4: Capital Flows

How did Tomz select his cases?

(he looked at 1700s, 1820s, 1870s)

For 1700s and 1800s, he picked periods that

- Utilized available data
- Maximized variation on independent variable
(brand new borrowers & long established ones)
- Minimized contamination from defaults

The broader study covers 3 centuries.

Some terms people asked about

Social liberalism

- Distinguishes insiders from outsiders
- Example: Rawlsian “Law of Peoples”

Cosmopolitan liberalism

- Borders are morally arbitrary
- Example: cosmopolitan extension of Rawls

Laissez-faire liberalism:

- International libertarianism
- I acquired it justly, so I am entitled to keep it