

OUTLINE — August 30, 2017

- Economic Growth, continued
- Economic Aid
- Trade
 - Comparative Advantage
 - Gains from Trade

No laptops (exceptions for accommodations)

Tablets ok

Cell phones silenced & put away

Announcements sent by email by Prof. Olney

Extra handouts: in racks outside 532 Evans

Economic Growth

- Economic Growth shifts the PPF out
- Sources of growth
 1. increased quantity of resources
 2. increased productivity of resources
- What can increase productivity? *Institutions!*

Economic Growth Economic Aid Comparative Advantage Gains from Trade

What can increase productivity?

- Institutions!
 - Education
 - Research and Development
 - Financial Institutions
 - Political Institutions
 - Property Rights
 - Judicial System
 - Transportation Networks

Economic Growth Economic Aid Comparative Advantage Gains from Trade

Example: Hurricane Harvey



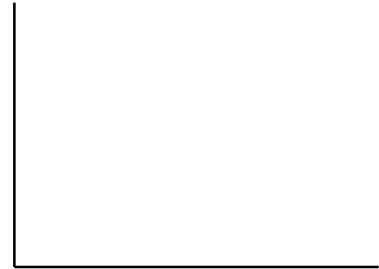
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Consuming beyond PPF: aid

- When one economy or foreign organization provides resources to another economy
- Examples
 - *Bridges to Prosperity*
 - *Cal's Alternative-Break trips to New Orleans*
 - *Marshall Plan after WWII*
- Marshall Plan
 - US aid to Europe after WWII
 - World War II, massive bombing throughout Europe
 - Destroyed much of the transportation infrastructure
 - 1948-1952, rebuild infrastructure, modernize industry

Economic Growth **Economic Aid** Comparative Advantage Gains from Trade

US aid to Europe after WW2



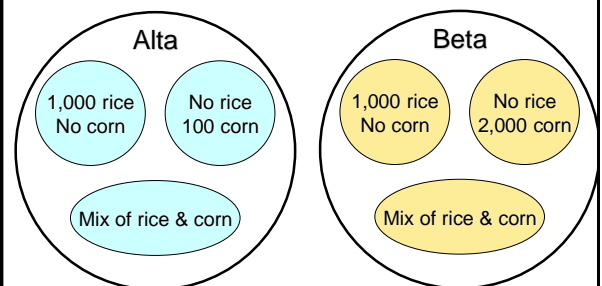
Consuming beyond PPF: Trade

- If two parties have
 - Information about each other
 - Different opportunity costs
 - Relatively cheap transportation
 - A legal way to trade
- Then if each specializes & they trade, **together** they'll produce **more** than if each was self-sufficient

Economic Growth Economic Aid **Comparative Advantage** Gains from Trade

Two countries, Two goods

- Alta and Beta producing rice and corn



Economic Growth Economic Aid **Comparative Advantage** Gains from Trade

Key: Different opportunity costs

Alta	Beta
<p>1,000 rice No corn</p> <p>No rice 100 corn</p>	<p>1,000 rice No corn</p> <p>No rice 2,000 corn</p>
<p>OC of 1,000 rice =</p> <p>OC of 1 rice =</p>	<p>OC of 1,000 rice =</p> <p>OC of 1 rice =</p>
<p>OC of 100 corn =</p> <p>OC of 1 corn =</p>	<p>OC of 2,000 corn =</p> <p>OC of 1 corn =</p>

Economic Growth Economic Aid **Comparative Advantage** Gains from Trade

Comparing Opportunity Costs

	O.C. of producing 1 bu. of rice	O.C. of producing 1 bu. of corn
Alta		
Beta		

- Lower opportunity cost of producing rice?
- Lower opportunity cost of producing corn?

Economic Growth Economic Aid **Comparative Advantage** Gains from Trade

Comparative Advantage

- Country with *lower opportunity cost* of producing rice has the **comparative advantage** in producing rice
 - Comparative advantage in producing rice?
 - Comparative advantage in producing corn?
- Absolute Advantage**
 - Who can produce using the least resources (equivalently: produce the most with equal resources)

Economic Growth Economic Aid **Comparative Advantage** Gains from Trade

Specialize & Trade

- Specialize in "their comparative advantage"
- Then trade

	Initial production		100% specialization	
	Rice	Corn	Rice	Corn
Alta				
Beta				
Total output				

Economic Growth Economic Aid **Comparative Advantage** Gains from Trade

Gains from Trade

- “Gains”: increases in total output possible when there is trade instead of self-sufficiency
 - Gain in rice?
 - Gain in corn?
- Does everyone gain?
- Or, are costs borne unevenly?

Economic Growth Economic Aid Comparative Advantage **Gains from Trade**

Example: Decline in U.S. marriage

- See <http://www.itsthedishes.com/>
- Two activities: market production & home production
- Education and culture pre-1970s created different opportunity costs
- Now, little difference in opportunity costs
- Result: Later marriage & Less marriage
 - Median age at first marriage
 - 1970: women, 20.6 yrs old men, 22.5 yrs old
 - 2010: women, 26.1 yrs old men, 28.2 yrs old
 - % of 30-34 year olds never married
 - 1970: women, 6 % men, 9 %
 - 2010: women, 27 % men, 36 %

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Should there be 100% specialization?

- It's a *normative* question!
 - What's the goal?

U.S. comparative advantage: higher education
 Japan comparative advantage: cars

- What other goals might economies have that might make 100% specialization a bad idea?

Economic Growth Economic Aid Comparative Advantage **Gains from Trade**