## OUTLINE — August 29, 2018

- Economic Growth, continued
- Economic Aid
- Trade
  - Comparative Advantage
  - Gains from Trade
  - Opposition to trade

No laptops (except if pre-approved); 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!

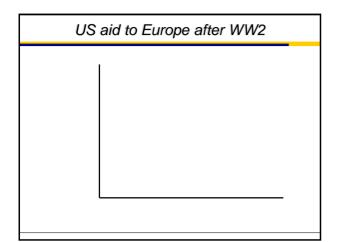
Comparative Advantage

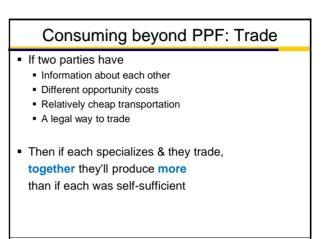
Gains from & Opposition to Trad

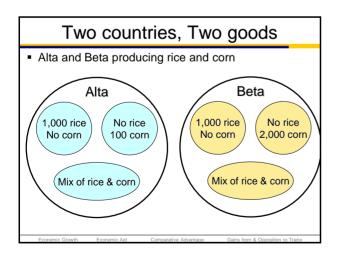
	Example:	Hurricane	Maria
	I		
Economic Grow	th Economic Aid	Comparative Advantage	Gains from & Opposition to Trade

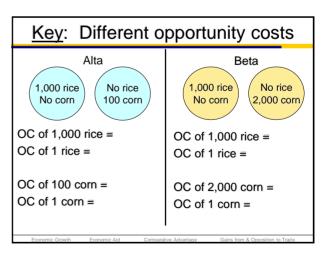
## Consuming beyond PPF: aid

- When one economy or foreign organization provides resources to another economy
- Examples
  - FEMA coordinates interstate aid to disaster areas
  - 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









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?

# 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)

Specialize &	Trade

- Specialize in "their comparative advantage"
- Then trade

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

## Gains from Trade

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

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

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

 What <u>other goals</u> might economies have that might make specialization <u>a bad idea</u>?

Other goals?	

## **Opposition to Trade**

Some causes of opposition

How restrict trade (trade protection policies)