

OUTLINE — September 9, 2019

- Economic Growth . . . And destruction
- 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*

Example: Increase labor force



Normative vs. Positive Allocating Scarce Resources Production Possibilities Frontier Economic Growth

Ex.: Increase productivity in **food** production



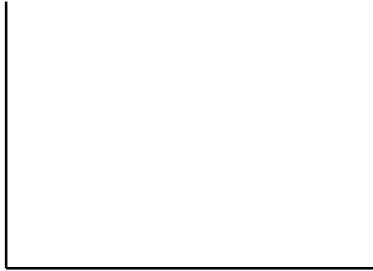
Normative vs. Positive Allocating Scarce Resources Production Possibilities Frontier Economic Growth

Economic Growth

- Economic Growth shifts the PPF out
- Sources of growth
 1. increased quantity of resources
 2. increased productivity of resources

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Example: Hurricane Dorian



Normative vs. Positive Allocating Scarce Resources Production Possibilities Frontier Economic Growth

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!*

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What can increase productivity?

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

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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

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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

Two countries, Two goods

▪ Alta and Beta producing rice and corn

Alta

Beta

Key: Different opportunity costs

Alta	Beta
OC of 1,000 rice =	OC of 1,000 rice =
OC of 1 rice =	OC of 1 rice =
OC of 100 corn =	OC of 2,000 corn =
OC of 1 corn =	OC of 1 corn =

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?

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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)

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Specialize & Trade

- Specialize in “their comparative advantage”
- Then trade

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

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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?

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