Econ 110: Introduction to Economic Theory

38th Class **5/2/11**

handouts today for final

international redistribution

want to discuss two main topics under this rubric:
--trade policy (as redistributive across countries)
--development economics—some topics
  --technology transfer (FDI—who benefits?)
  --foreign direct aid and the relevance of happiness research

trade policy (tariffs, quotas, export subsidization, dumping)
[powerpoints]
note carefully the curve labeling in the diagram
also consider where the DWL is (not necessary to calculate amounts to do the problem set)

interesting study calculates costs to consumers of protectionism, including anti-dumping tariff retaliations
www.tradepartnership.com/pdf_files/ProtectionTaxStudy.pdf
(show intro page and tables 2, 4, and 5—pp. 1, 8, 11, 12)

development economics
some bright spots here but also some continuing bad spots (e.g., Haiti)

foreign direct investment (FDI):
http://en.wikipedia.org/wiki/Foreign_direct_investment

who does it?
http://en.wikipedia.org/wiki/List_of_countries_by_FDI_abroad

most of it goes to developed countries, but can be a larger percentage of total investment in developing countries
http://en.wikipedia.org/wiki/List_of_countries_by_received_FDI

FDI doesn't seem to substitute for domestic companies as much as increase the number of companies in developing countries over what it would otherwise be.
"Companies Aren't Charities"
http://www.economist.com/node/17305554?story_id=17305554

consider our discussion of convergence theory from a couple of lectures ago
some evidence of real gains to people in poor countries thanks to technological innovation, including uses of technology that we actually don't use them for

"Virtual Outsourcing: Mobile Work: A Way to earn money by texting"
http://www.economist.com/node/17366137?story_id=17366137

Subsaharan Africa's GDP and growth--some bright spots in Africa now
http://www.bloomberg.com/news/2011-01-13/world-bank-boosts-sub-saharan-africa-s-growth-forecast-to-5-3-.html

note all of this assumes that the way to improve people's well-being is through getting them higher income

interesting problem/potential implication: if money doesn't buy
happiness, then should we bother to provide financial aid to poor countries?

several new books and papers out on the subject of happiness and its
relationship to income

http://www.brookings.edu/opinions/2010/0130_happiness_graham.aspx
(active debate; pendulum swinging back to saying that money does buy
happiness)

http://www.theatlanticwire.com/opinions/view/opinion/Why-Happiness-Research-Has-Critics-Frowning-2897

Money can buy (at least one form of) Happiness
http://www.washingtonpost.com/wp-dyn/content/article/2010/07/01/AR2010070100039.html

the World Database of Happiness
http://worlddatabaseofhappiness.eur.nl/

mention literature on aid dependence in passing

in addition, development need not be looked at solely as raising people's incomes, or even as raising people's well-being
we can care about other things as well
more cynical views: it makes us feel better to help people; it increases our markets and thus our well-being through being able to sell more stuff to the other countries

Intervention in international trade

- Why intervene?
- Methods of intervention

Why intervene?

- To gain a price advantage
- To protect particular industries
- Noneconomic reasons, including national defense and protection of national culture
- To retaliate against another country's trade policy

Why intervene? (cont.)

- In general trade is redistributional
- It benefits consumers and exporters
- It hurts companies and workers in industries that compete with imports
- The extent of the hurt is dependent on how easily businesses and workers are able to redeploy into other industries, including export and service industries

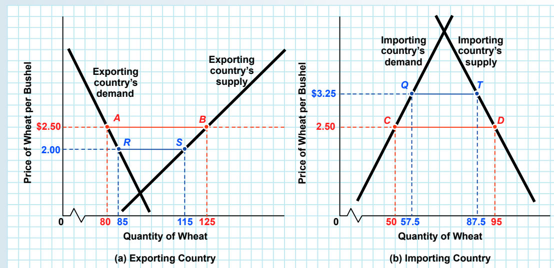
Methods of intervention

- Tariffs: a tax on imports
- Quotas: a limit on the amount of a good that may be imported
- Subsidies on export goods: a government payment to an exporter

Methods of intervention (cont.)

- Both tariffs and quotas raise the price of imports and reduce the quantity of imports
- The government will prefer tariffs because they collect the tariff amount, while the price rise accrues to the foreign producers in a quota system

Quotas and Tariffs in International Trade



Methods of intervention (cont.)

- Export subsidization may lead to dumping: selling goods in a foreign market at lower prices than those charged in the home market
- Dumping benefits foreign consumers, but hurts the domestic businesses and workers that compete in the affected industry
- Any importing, whether dumping or not, will hurt domestic businesses and workers that compete in the affected industry