



Σconomics Club

Third Meeting / Fall Term
Thursday, November 7, 2007, (5pm-6:00pm)
Stag 107

Call to Order: 5pm

Presentation by Prof. **Ayca Tekin-Koru**

Related to her new class: **Econ 407; Multinational Corporations**

Topic Points:

- Background: Trade Economist
- International Trade: trade of goods/services along with financial instruments to form international trade
 - US international trade tripled in past 40 years.
- Smaller World: as technology improves, distance shrinks
 - Two waves of globalization 1840s-1914 and post WWII
- Primary component of trade relates to manufactured goods, but role of services increasing
- In past 40 years, trade composition of developing world has reversed from agriculture to manufacturing
- Most MNCs originate from US
 - GM and Ford revenues higher than GDP of sub-Saharan Africa
- Trade Openness: total of imports and exports divided by GDP, compared to US other countries even more tied to trade
- Canada is US's largest trading partner
 - Size and proximity are important to trade as more is available to trade
- Other Factors affecting trade:
 - Abundance of Labor (Skilled or Unskilled) or Abundance of Capital, Cultural Affinity (cultural ties), Number of Multinational Corporations, Borders: crossing borders can affect such things as Tariffs.
- The Gravity Equation: Strong correlation between size and proximity of countries and their amount of trade
- Since Gravity equation isn't used, we must find formal answers to positive questions as well as normative ones.
- International Trade theory:
 - Tons of Assumptions, are they realistic?
 - NO!
 - But in using theories, we make empirical models, and we are aware of their limitations.
- Ricardian Model:
 - Comparative advantages are productivity differences across countries.

- HOS Model:
 - Examines factor endowments (sources of comparative advantages: labor, capital, resources, etc) which can explain international trade and income distribution
- New theories:
 - Previous theories predict more trade between unequal countries, but this isn't the case
 - Armington Approach: Nationally differentiated goods.
 - Product Cycle: Technology diffusion over time, combined with standardization (from rich to poorer nations)
 - Vertical Differentiation: low vs. high quality products are valued differently across countries (linder hypothesis)
 - Economies of Scale, Horizontal economies
- Why does geography matter?
 - Factor Costs
 - Knowledge Spillover
- Political Economy of Trade:
 - Influence the costs of trade: which policy to use, how much should we use it, how will foreign countries respond?
- Tech, Trade, and Growth
 - Models of learning by doing
 - Integration and Growth
- Trade and Environment, activists wanting more stringent standards
 - Is it a good thing?

Introduction to new participants

Joffer

Paul

Colin

Katie

Meeting Adjourn at 6pm