
Introduction

ITRN 504: Microeconomics and Trade

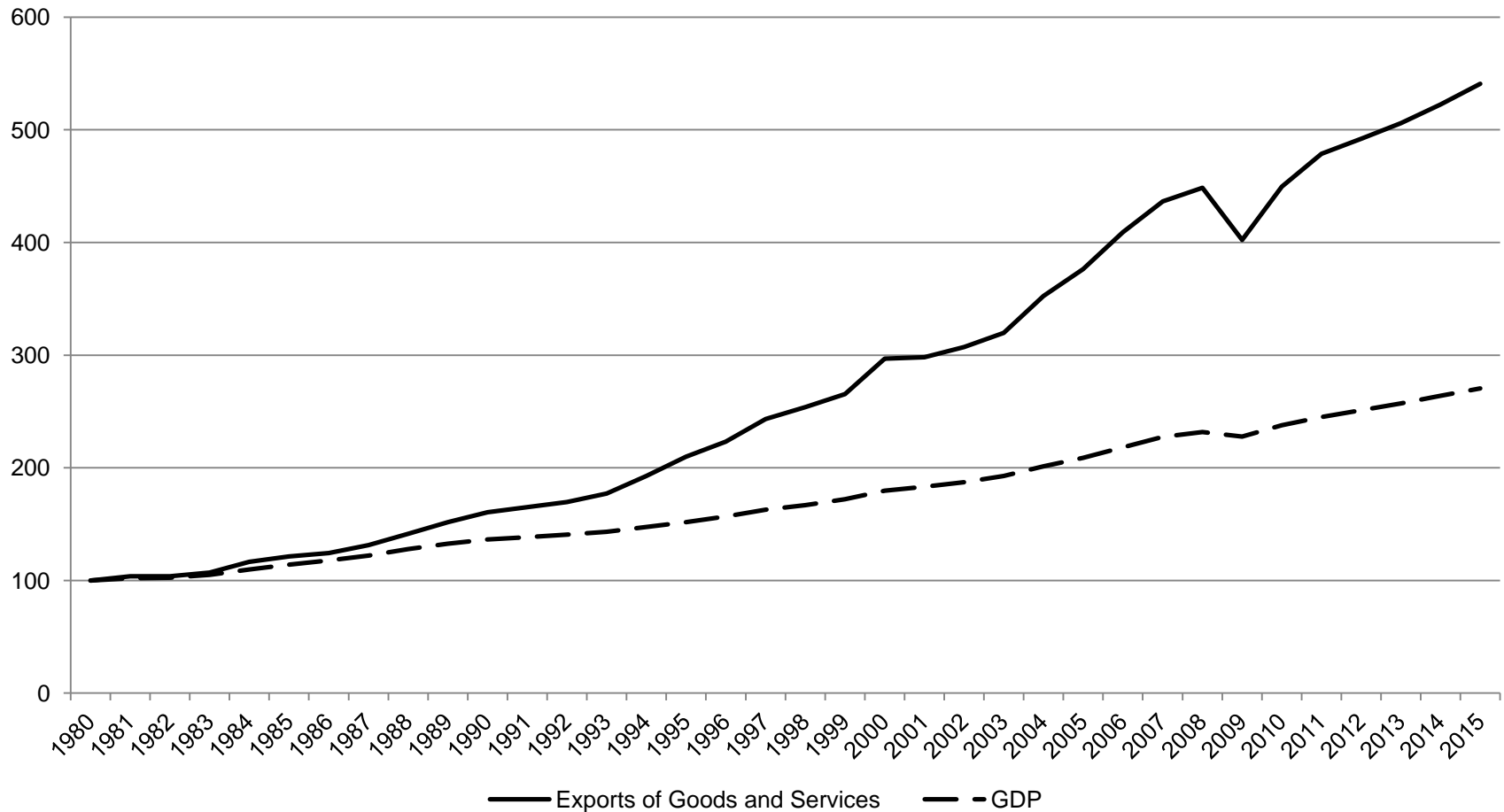
Syllabus

- See handout
 - Consult online version periodically
 - <http://reinert.gmu.edu>
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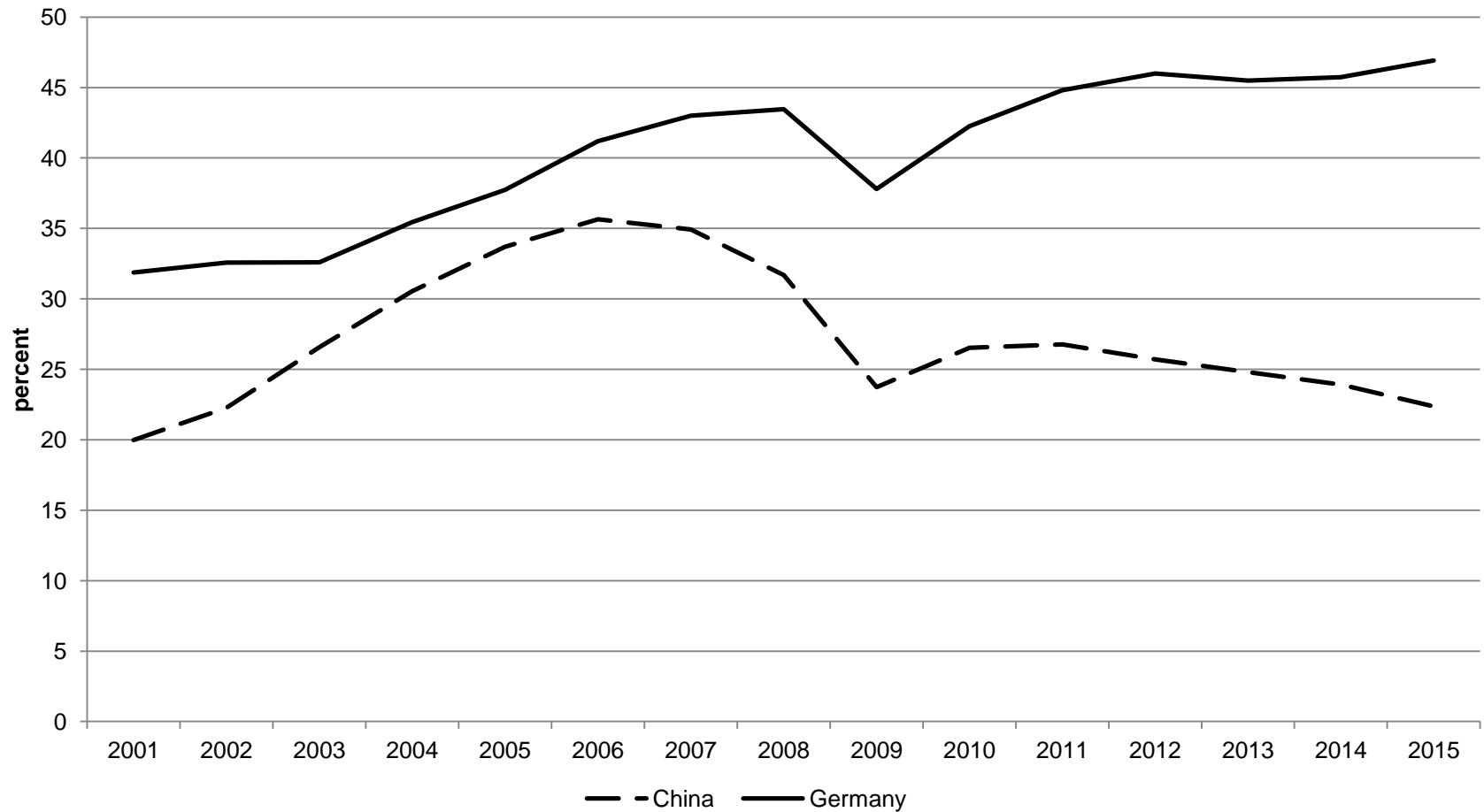
International Trade

- The exchange of goods (merchandise) and services among the countries of the world.
 - Goods: tangible and storable (something you can drop on your toe).
 - Services: intangible and non-storable (something you cannot drop on your toe).
 - Trade in services is about one quarter of total global trade.
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Gross Domestic Product and Exports in the World Economy



Exports as a Percent of GDP, China and Germany



International Production

- International production of a product in multiple countries
 - Can take place through
 - Contracts
 - International licensing and franchising
 - Foreign direct investment (FDI) undertaken by multinational enterprises (MNEs)
 - Involves firms based in one country owning at least a 10 percent of firms producing in another country
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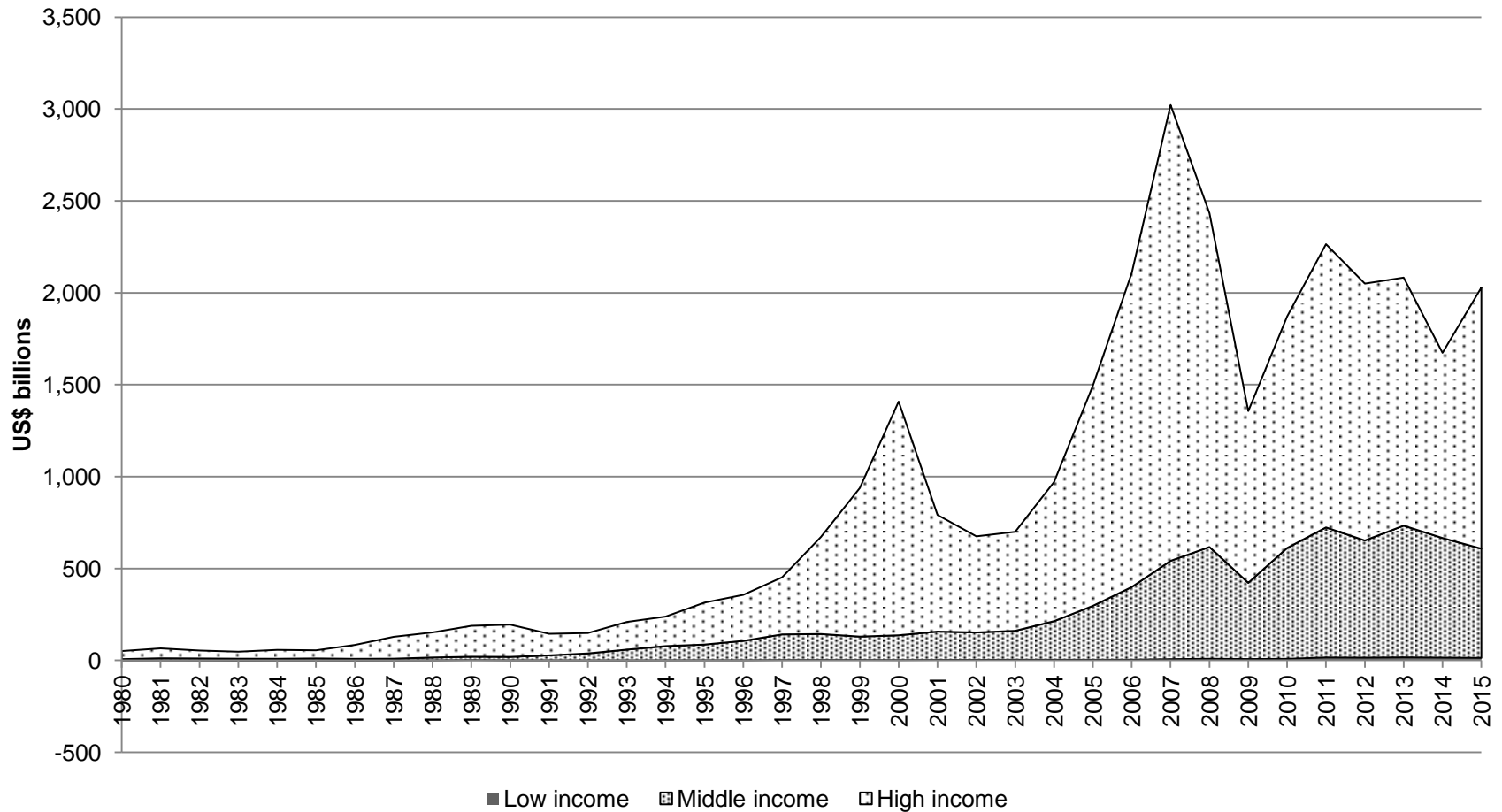
International Production

- MNEs account for approximately one fourth of world gross domestic product (GDP) or aggregate output.
 - The sales of foreign affiliates of MNEs now exceed the volume of world trade.
 - MNEs are involved in approximately three fourths of all world trade.
 - Approximately one third of world trade takes place *within* MNEs (intra-firm trade).
 - MNEs account for approximately three fourths of worldwide civilian research and development.
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Foreign Direct Investment

- A firm from one country owning at least 10 percent of a firm in another country.
 - Direct investment contrasts with *indirect* or *portfolio investment*.
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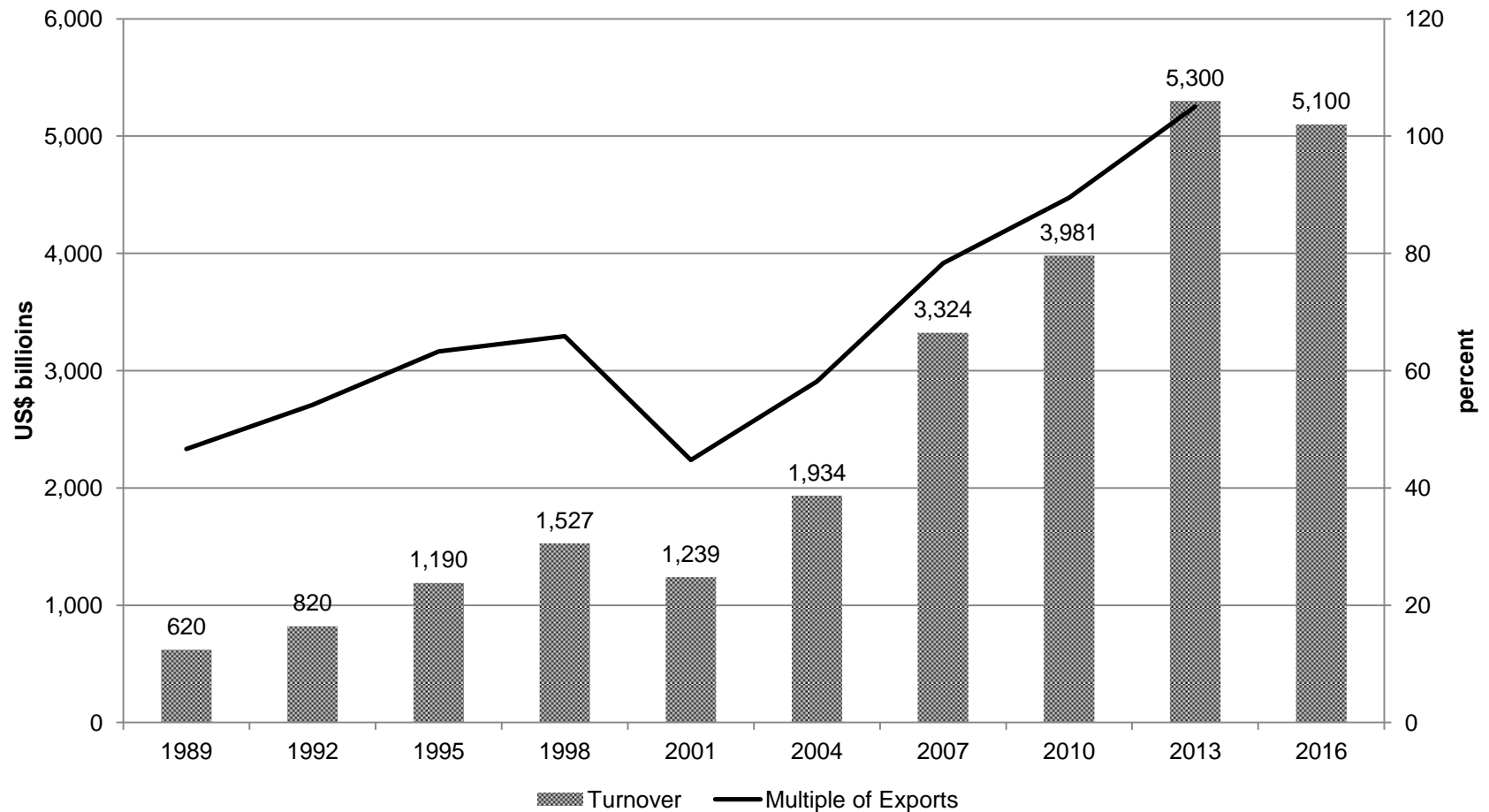
Nominal FDI Inflows



International Finance

- Not a subject covered in this course.
 - Covered in ITRN 503 and ITRN 602 among other courses.
 - International finance matters; we ignore it at our peril.
 - Assess overall magnitudes of trade and finance.
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Daily Foreign Exchange Market Turnover and Annualized Multiple of Exports



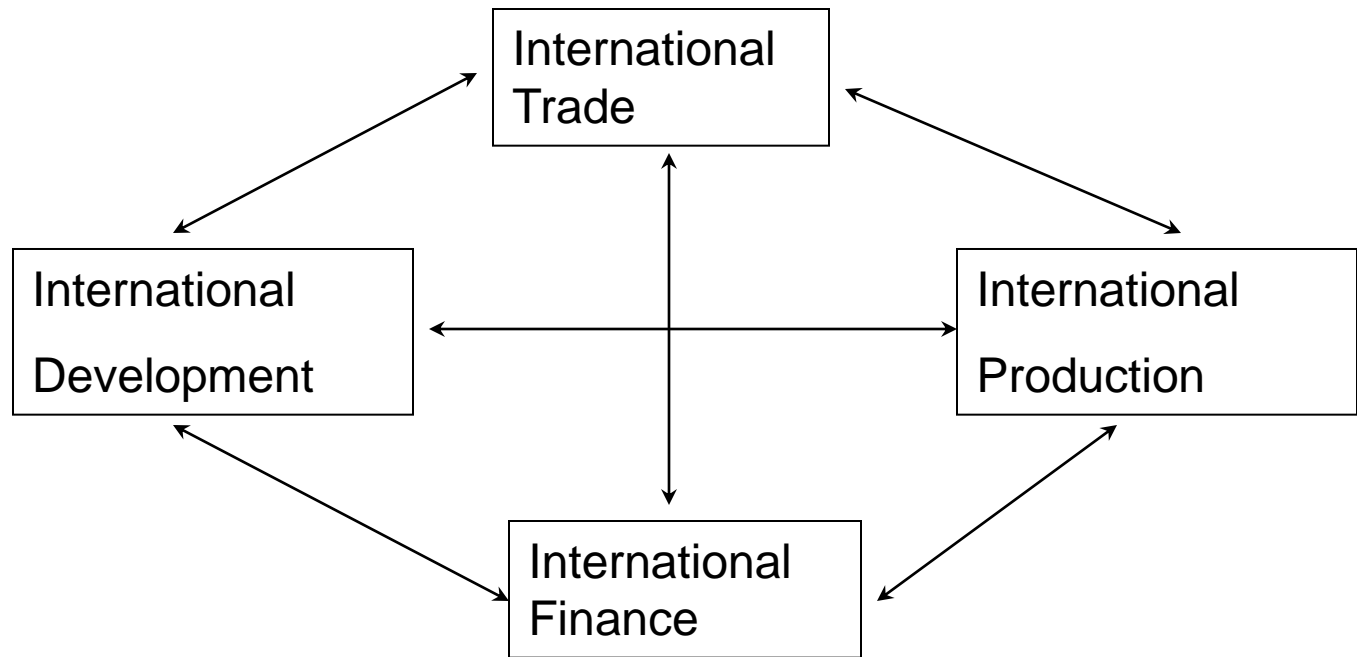
International Development

- Development is conceived of as an improvement in well-being.
 - Different conceptions of well-being lead to different definitions of development.
 - Options
 - Income per capita (standard economic view)
 - Capabilities (Sen and Nussbaum)
 - Basic goods (Reinert)
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Measures of Living Standards, 2014

<i>Country</i>	<i>PPP GDP per capita (U.S. dollars)</i>	<i>Life Expectancy (years)</i>	<i>Mean Years of Schooling</i>	<i>Human Development Index (0 to 1) and Rank</i>
Ethiopia	1,431	64	2.4	0.442 / 174
India	5,392	68	5.4	0.609 / 130
China	12,599	76	7.5	0.727 / 90
Costa Rica	14,232	79	8.4	0.766 / 69
South Korea	33,640	82	11.9	0.879 / 17
United States	51,708	79	12.9	0.915 / 8

Connecting Windows



The Microeconomics Framework

- Resource scarcity
 - \Rightarrow Opportunity costs
 - \Rightarrow Individual and social choices
 - \Rightarrow Marginal (incremental) thinking
 - \Rightarrow Role of private vs. public decisions
 - \Rightarrow Allocative efficiency, market failure, government failure
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Definitions

- *Opportunity Costs*: What is given up to obtain an item.
 - *Marginal*: Incremental.
 - *Economic Efficiency*: Economic choices that balance marginal social benefits and marginal social costs.
 - *Market Failure*: A situation in which markets fail to make economic choices efficiently.
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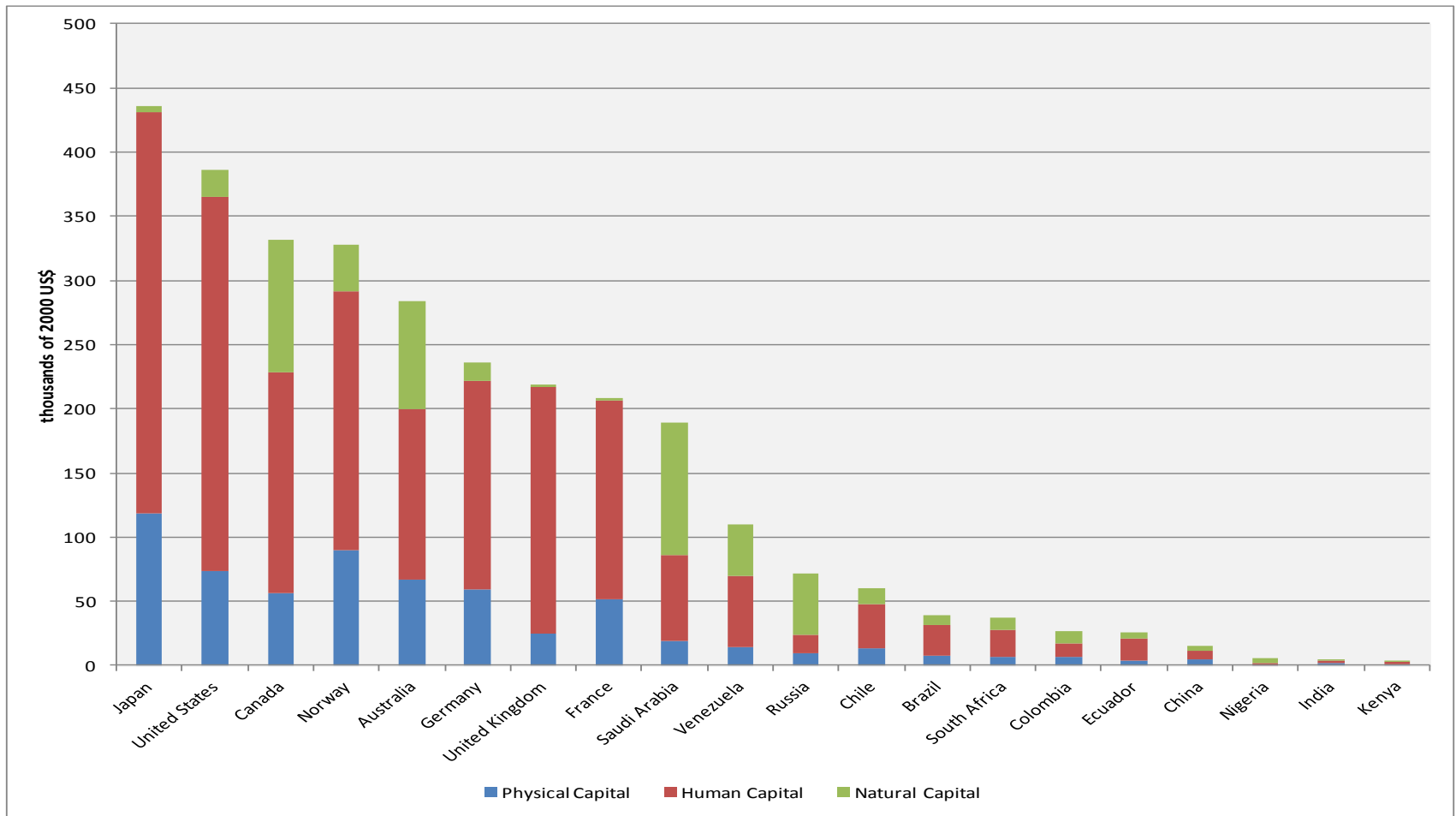
Microeconomics

- The study of how individuals and societies use scarce resources to attempt to provide (the materials of) well-being.
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Types of Scarce Resources

- *Natural resources*: Gifts of nature
 - *Physical capital*: Produced goods used as fixed resources to produce other goods
 - *Human capital*: Persons with their education, training, and skills
 - *Knowledge capital*: Scientific, technical, and market knowledge residing in organizations
 - *Social capital*: Relationships used to obtain information and knowledge and to develop trust
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Per Capita Resources from Inclusive Wealth Report, 2008 (thousand 2000 US\$)



Types of Economic Decisions

- *Ownership Decision*: who owns what scarce resource.
 - *Resource Allocation Decision*: how scarce productive resources are allocated among productive units (firms)
 - *Product Output and Mix Decision*: what and how much productive units (firms) will produce
 - *Product Distribution Decision*: distributing produced goods and services among households.
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Perspectives (Biases)

- Microeconomics
 - Standard measure of economic welfare
 - Quantitative
 - Multilateral
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