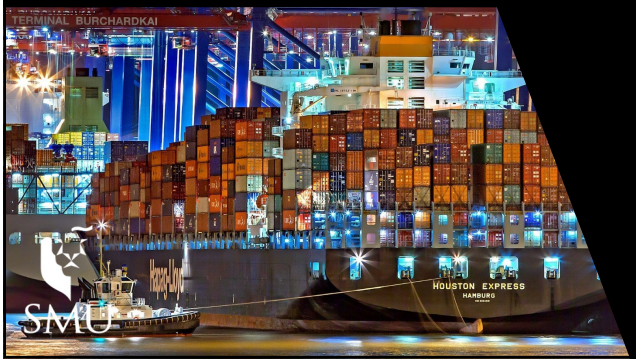
Kosmas Marinakis, Ph.D.

Economics & Society





Lecture 11

Labor Market & Trade

1

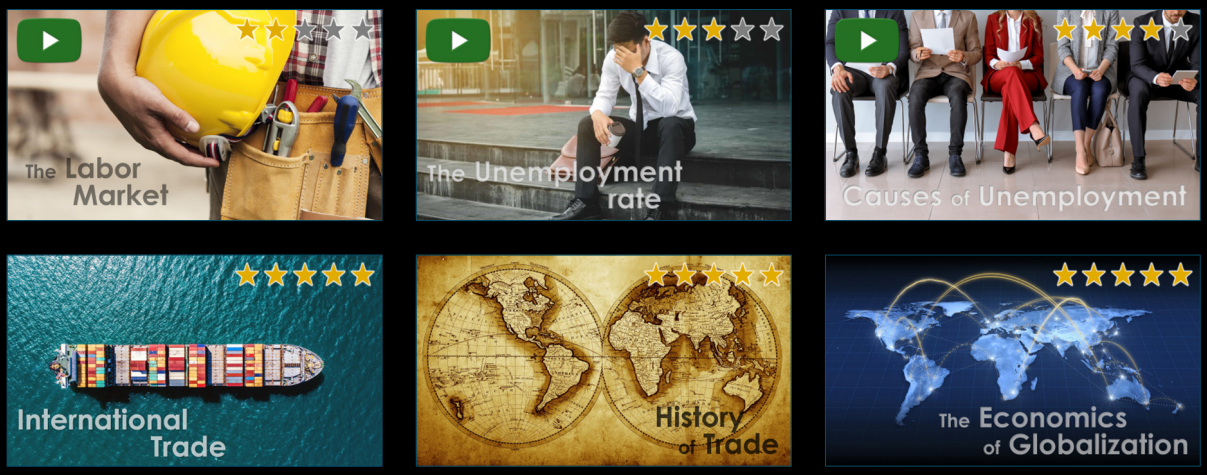
Previously in E&S...

- The commodity market
  - households, firms, the government, foreign sector
- Equilibrium in the commodity market
  - when $Y = C + I + G$
- Links between the markets:
  - Output → money demand → interest rate
  - Interest rate → investment → output.
- Fiscal policy through G vs. t
- Monetary policy and stabilization
- Crisis

© 2019 Kosmas Marinakis, SMU

2

Labor Market – Trade



Lecture 11

3



30

Local vs. Global

Geography

Culture

History

Politics

Economics

31

World trade

- Today, foreign products are ***everywhere***
  from microchips to toothpicks
- Nowadays, it is ***not easy*** to even tell ***where*** a product was really made
- ***For instance***, the ***iPhone***:
  - Is ***designed*** in California
  - Is ***assembled*** in China
  - From ***parts*** produced in Korea, Germany, Japan
  - By ***natural resources*** extracted in China, Russia, South Africa.
- ***Services*** follow a similar pattern of ***outsourcing***:
  - ***Customer*** support
  - ***Services*** that can be communicated electronically

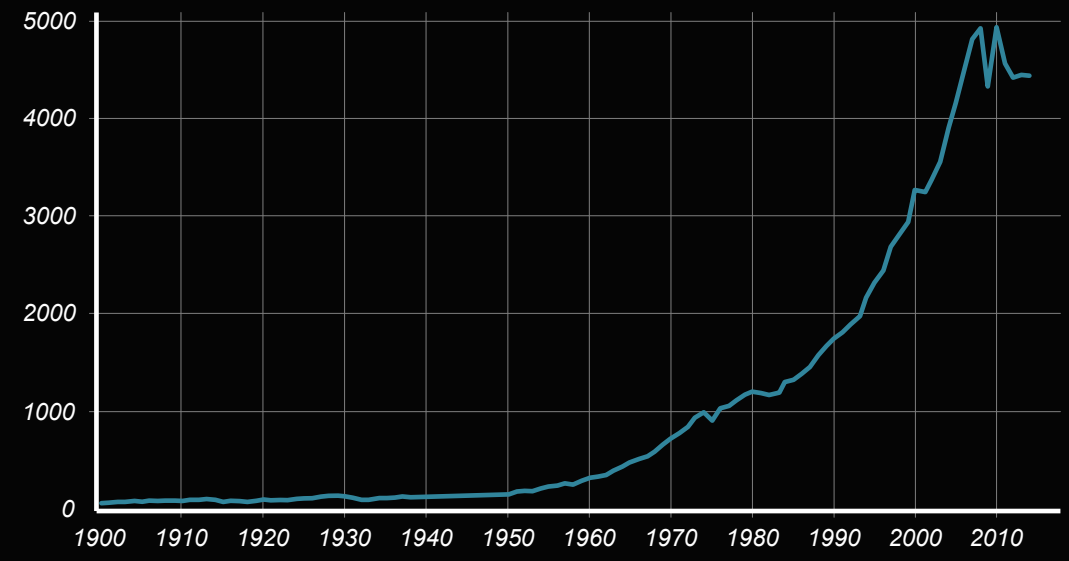
© 2019 Kosmas Marinakis, SMU

32



33

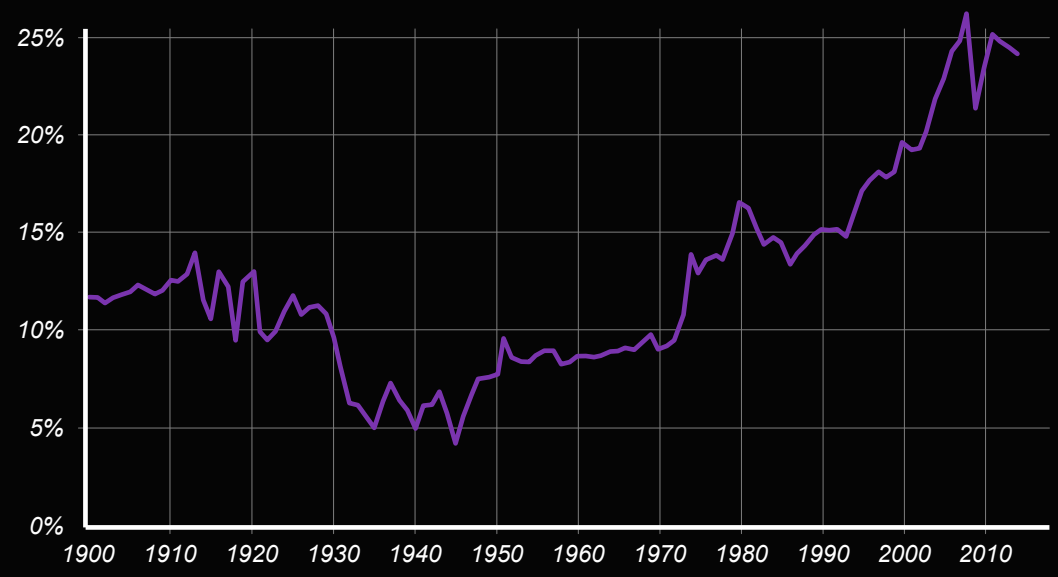
Volume of exports 1900 – 2019



© 2019 Kosmas Marinakis, SMU

34

Volume of trade as share of GDP



© 2019 Kosmas Marinakis, SMU

1900 – 1959

- Global trade became possible after having in place 2 ***basic technologies***
  steam engine – telegraph
- The ***beginnings*** of the global economy was in fact more than a century ago
  people in ***England*** were able to buy ***Chinese tea*** in the 1910s
- Between the two World Wars commerce was ***reduced*** as a share of the GDP:
  - Not so much because of the ***war***
  - Because of ***restrictions*** such as tariffs and quotas.
- ***By 1960*** trade as a share of GDP was ***below*** the level of ***1910***

© 2019 Kosmas Marinakis, SMU

1960 – today

- After 1960 there has been an ***increase*** in the volume of world commerce
- Mainly attributed to 2 new ***technological breakthroughs***

- Till the 1980s the increase has been ***moderate*** relative to the size of the economy
- From 1989, international commerce ***increased rapidly***
  this period sometimes is referred to as ***"hyper-globalization"***
- Nowadays, the evidence shows that international trade has ***leveled off***

© 2019 Kosmas Marinakis, SMU

37



38

The economic driving force

- Trade allows for ***division of labor*** and ***specialization***
- Those make the world ***richer*** in ***2 ways***:
  1. Allow nations to ***focus*** on what they can do better:
     - Greece is better than Singapore in ***tourism***
     - Singapore is better than the US in ***trade services***.
  2. Allow for the development of large ***economies of scale***

     focusing on ***less industries***, allows to produce ***larger quantities***, which ***decreases average costs***

Absolute advantage

- In 1817, the British economist ***David Ricardo*** offered the first example for the benefits from trade:
  - England is better in the production of ***cloth***
  - Portugal is better in the production of ***wine***.





- A country has the ***absolute advantage*** in the production of a good when it can produce it ***using fewer resources***

Comparative advantage

- What if a country is ***better*** in the production of ***both*** goods?:
  - ***England*** can produce either 100 units of ***cloth*** OR 50 units of ***wine*** per year
  - ***Portugal*** can produce either 50 units of ***cloth*** OR 40 units of ***wine*** per year.

COST	Wine	Cloth
England	100 / 50 = **2*c***	50 / 100 = **0.5*w***
Portugal	50 / 40 = **1.25*c***	40 / 50 = **0.8*w***

- England has the ***absolute advantage*** in both products
- But Portugal has the ***comparative advantage*** in ***wine***

comparative advantage: when you can produce something at a ***lower opportunity cost***

Trade & prosperity

- What if a country is ***better*** in the production of ***both*** goods?:
  - ***England*** can produce either 100 units of ***cloth*** OR 50 units of ***wine*** per year
  - ***Portugal*** can produce either 50 units of ***cloth*** OR 40 units of ***wine*** per year.
- If countries ***do NOT trade*** and split resources 50-50:
  - England can produce 50% · 100 = **50*c*** and 50% · 50 = **25*w***
  - Portugal can produce 50% · 50 = **25*c*** and 50% · 40 = **20*w***

  } Total: ***75c*** and ***45w***
- If countries ***trade***:
  - England could produce 80% · 100 = **80*c*** and 20% · 50 = **10*w***
  - Portugal could produce 0% · 50 = **0*c*** and 100% · 40 = **40*w***

  } Total: ***80c*** and ***50w***

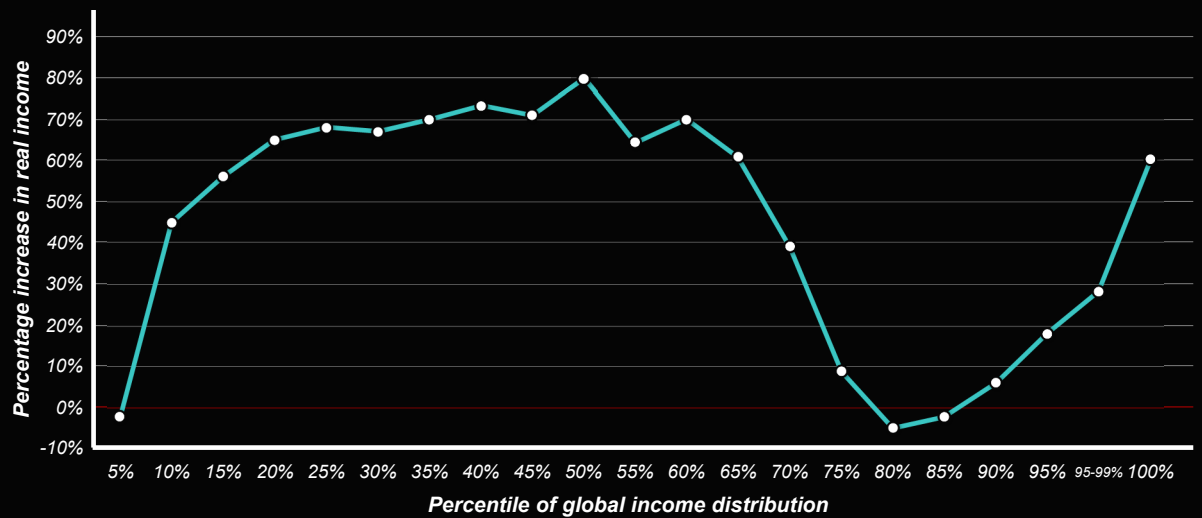
** 80-20 and 0-100 spits purposely chosen to show that **more of both** goods can be produced with trade*

Inequality

- Trade allows for a ***larger pie*** to be distributed
  making the world richer ***on average***
- When ***China*** opened up in 1989:
  - Allowed the ***developed economies*** to outsource low added value products and focus on higher added value products
  - But brought ***unemployment*** to several local communities.
- Costs and benefits of globalization were ***NOT distributed equally***

© 2019 Kosmas Marinakis, SMU

The Lakner-Milanovic curve (1988 – 2008)



© 2019 Kosmas Marinakis, SMU

Political change

- It was the latter group that got disappointed, turned ***against globalization*** and ***drove*** the recent political turn towards "economic nationalism"
  - Donald Trump, Brexit, radical parties gained power in Europe

Should we de-globalize?

- Globalization undoubtably ***has contributed*** to inequality
  - ***BUT all progress*** brings inequality
- De-globalization will ***not undo*** the inequality, it will cause an ***all-new shock***:
  - ***Communities*** have adapted (factories closed, technologies evolved, people left)
  - ***Tariffs*** on goods may have unpredictable adverse effects.
- We could have ***mitigated*** the domestic inequality with ***policies***:
  - public goods, social safety nets, reskilling
- But it is always easier to do ***nothing*** and put the blame on ***others***
  - especially when they are ***far***, of slightly ***different color***, ***religion***, or ***culture***

The end!

(you may stay for *consultation*)

47

WARNING!

These slides are created to serve a visual aid for the students during the live presentation in the lecture. As such, they are not designed to be standalone reading material and should only be used as reference, side by side with notes taken in the lecture.

48