

# **EE451**

## **CHAPTER 5:**

## **ECONOMIC GROWTH AND INTERNATIONAL TRADE**

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# Key Concepts

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## Sources of Economic Growth & Implications to PPF

- Factor growth
- Technological change

## Neutral/ non-neutral growth

## Effects of an increase in real income

- Production effect → increased output
- Consumption effect → increased purchasing power

# Trade Effects of Production Growth

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## Given

- a labour-abundant country
- X is labour-intensive and Y is capital-intensive
- HO predicts the country would export X and import Y.
- Neutral factor growth

## 5 possible trade effects

- Neutral:  $\% \Delta X^P = \% \Delta Y^P$
- Protrade:  $\% \Delta X^P > \% \Delta Y^P$
- Ultra-protrade:  $X^P$  increases,  $Y^P$  falls
- Antitrade:  $\% \Delta X^P < \% \Delta Y^P$
- Ultra-antitrade:  $X^P$  falls,  $Y^P$  increases

# Trade Effects of Consumption Growth

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Neutral:  $\% \Delta X^C = \% \Delta Y^C$

Protrade:  $\% \Delta X^C < \% \Delta Y^C$

Ultra-protrade:  $X^C$  falls,  $Y^C$  increases

Antitrade:  $\% \Delta X^C > \% \Delta Y^C$

Ultra-antitrade:  $X^C$  increases,  $Y^C$  falls

# Ultimate Impact on Trade

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Depends on income elasticity of demand for import, which shows change in import values as national income changes

$$\epsilon_M^{NI} = \frac{\% \Delta M}{\% \Delta NI}$$

# Growth and Welfare

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Welfare change due to production growth

- Analysis is straightforward.

Welfare change due to consumption growth

- A change in consumers' real income can alter CIC.
- Analysis is a bit more complicated.

# Growth and TOT

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Growth in **scarce factors** leads to enhanced trade.

Growth in **abundant factors** can lead to a deterioration of TOT and then would possibly produce negative effects on welfare.

## Immiserizing Growth

- Bhagwati (1958)
- Negative TOT effects outweigh the positive growth effects

# Immiserising Growth

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