

EE451

CHAPTER 6:

ECONOMIC GROWTH AND INTERNATIONAL TRADE

Nitinant Wisawaisuan

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Key Concepts

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

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

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

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

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

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

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