Ricardian Model

1. A country has comparative advantage in producing a good when the country’s opportunity cost of producing the good is lower than the opportunity cost of producing the good in another country.

2. The pattern of trade between countries is determined by comparative advantage. This means that even countries with poor technologies can export the goods in which they have comparative advantage.

3. All countries experience gains from trade. That is, the utility of an importing or exporting country is at least as high as it would be in the absence of international trade.
Ricardian Model

4. The level of wages in each country is determined by its absolute advantage, that is, by the amount the country can produce with its labor. This result explains why countries with poor technologies are still able to export: their low wages allow them to overcome their low productivity.

5. The equilibrium price of a good on the world market is determined at the point where the export supply of one country equals the import demand of the other country.

6. A country’s terms of trade equal the price of its export good divided by the price of its import good. A rise in a country’s terms of trade makes it better off because it is exporting at higher prices or importing at lower prices.
Specific Factors Model

1. Opening a country to international trade leads to overall gains, but in a model with several factors of production, some factors of production will lose.

2. The fact that some people are harmed because of trade sometimes creates social tensions that may be strong enough to topple governments. A recent example is Bolivia, where the citizens cannot agree on how to share the gains from exporting natural gas.

3. In the specific-factors model, factors of production that cannot move between industries will gain or lose the most from opening a country to trade. The factor of production that is specific to the import industry will lose in real terms, as the relative price of the import good falls. The factor of production that is specific to the export industry will gain in real terms, as the relative price of the export good rises.
Specific Factors Model

4. In the specific-factors model, labor can move between the industries and earns the same wage in each. When the relative price of either good changes, then the real wage rises when measured in terms of one good but falls when measured in terms of the other good. Without knowing how much of each good workers prefer to consume, we cannot say whether workers are better off or worse off because of trade.

5. Economists do not normally count the costs of unemployment as a loss from trade because people are often able to find new jobs. In the United States, for example, about two-thirds of people laid off from manufacturing or services find new jobs within two or three years, though sometimes at lower wages.
Specific Factors Model

6. Trade Adjustment Assistance policies are intended to compensate those who are harmed due to trade by providing additional income during the period of unemployment. Recently, the Trade Adjustment Assistance program in the United States was expanded to include workers laid off due to trade in service industries.

7. Even when many people are employed in export activities, such as those involved in coffee export from certain developing countries, fluctuations in the world market price can lead to large changes in income for growers and workers.
Heckscher-Ohlin Model

1. In the Heckscher-Ohlin model, we assume that the technologies are the same across countries and that countries trade because the available resources (labor, capital, and land) differ across countries.

2. The Heckscher-Ohlin model is a long-run framework, so labor, capital, and other resources can move freely between the industries.

3. With two goods, two factors, and two countries, the Heckscher-Ohlin model predicts that a country will export the good that uses its abundant factor intensively and import the other good.
Heckscher-Ohlin Model

4. The first test of the Heckscher-Ohlin model was made by Leontief using U.S. data for 1947. He found that U.S. exports were less capital-intensive and more labor-intensive than U.S. imports. This was a paradoxical finding because the United States was abundant in capital.

5. The assumption of identical technologies used in the Heckscher-Ohlin model does not hold in practice. Current research has extended the empirical tests of the Heckscher-Ohlin model to allow for many factors and countries, along with differing productivities of factors across countries. When we allow for different productivities of labor in 1947, we find that the United States is abundant in effective—or skilled—labor, which explains the Leontief paradox.
Heckscher-Ohlin Model

6. According to the Stolper-Samuelson theorem, an increase in the relative price of a good will cause the real earnings of labor and capital to move in opposite directions: the factor used intensively in the industry whose relative price goes up will find its earnings increased, and the real earnings of the other factor will fall.

7. Putting together the Heckscher-Ohlin theorem and the Stolper-Samuelson theorem, we conclude that a country’s abundant factor gains from the opening of trade (because the relative price of exports goes up), and its scarce factor loses from the opening of trade.