
Introduction

ITRN 504: Microeconomics and Trade

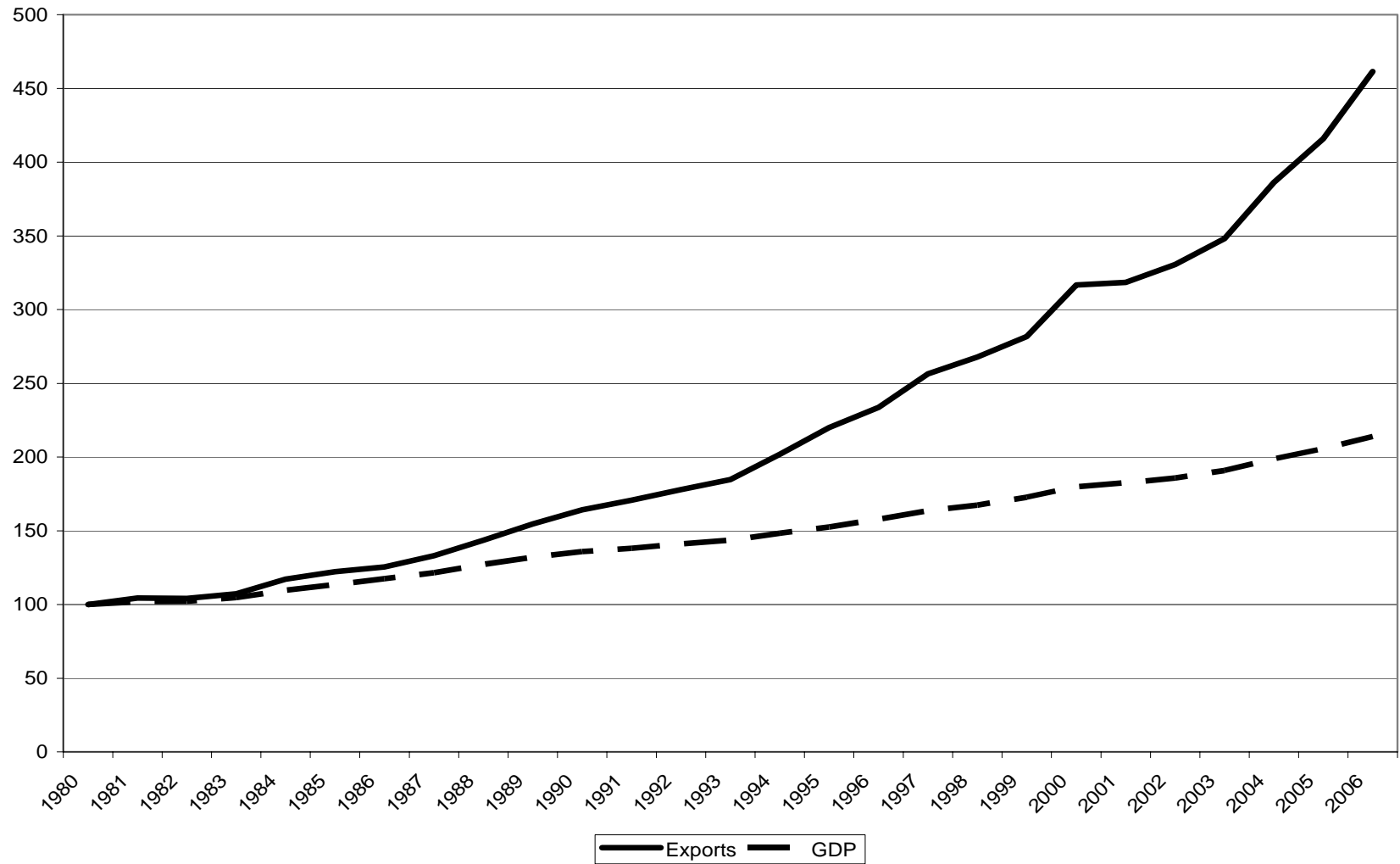
Syllabus

- See handout
 - Consult online version periodically
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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).
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Gross Domestic Product and Exports (1980=100)



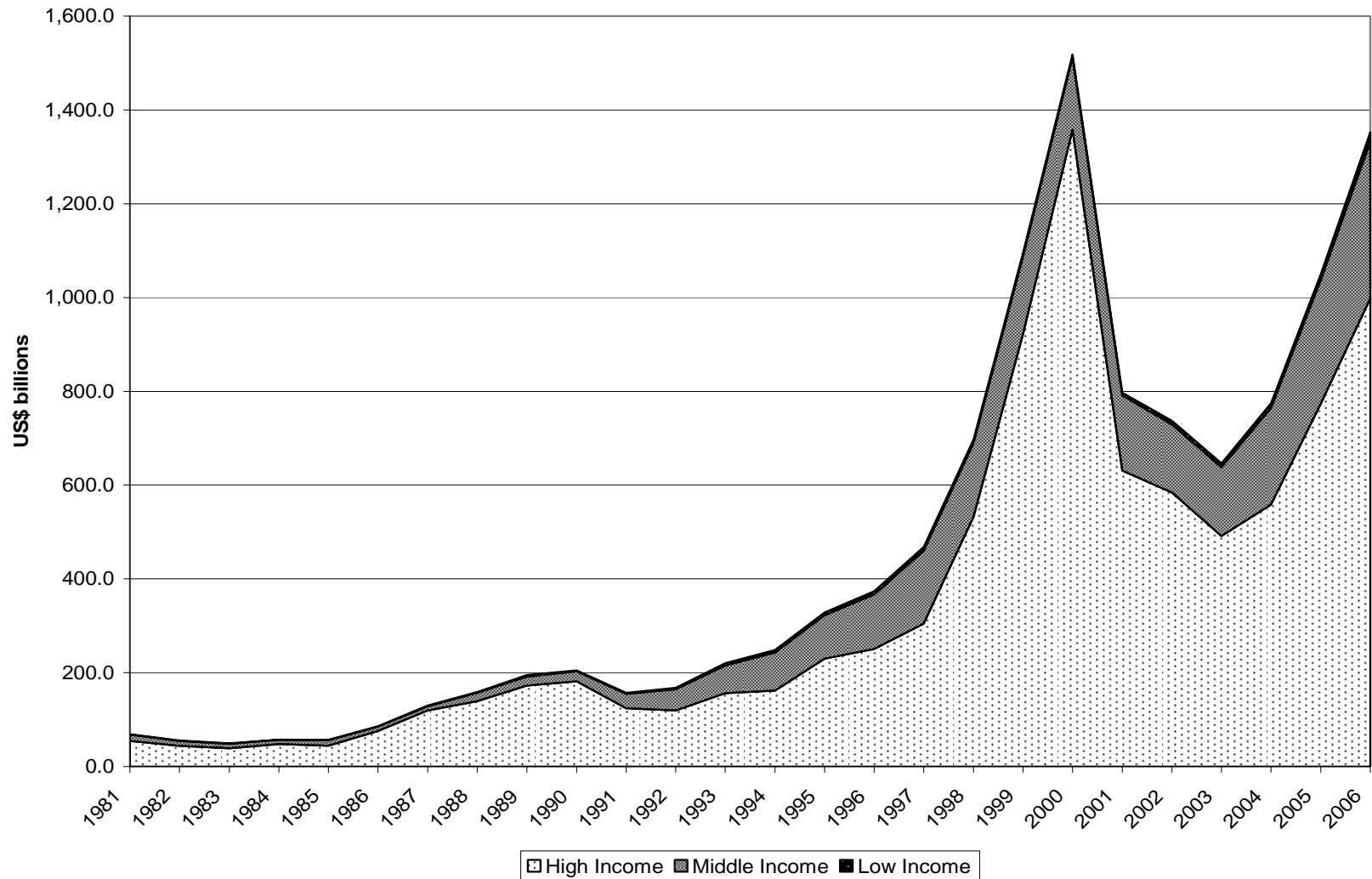
International Production

- 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.
 - 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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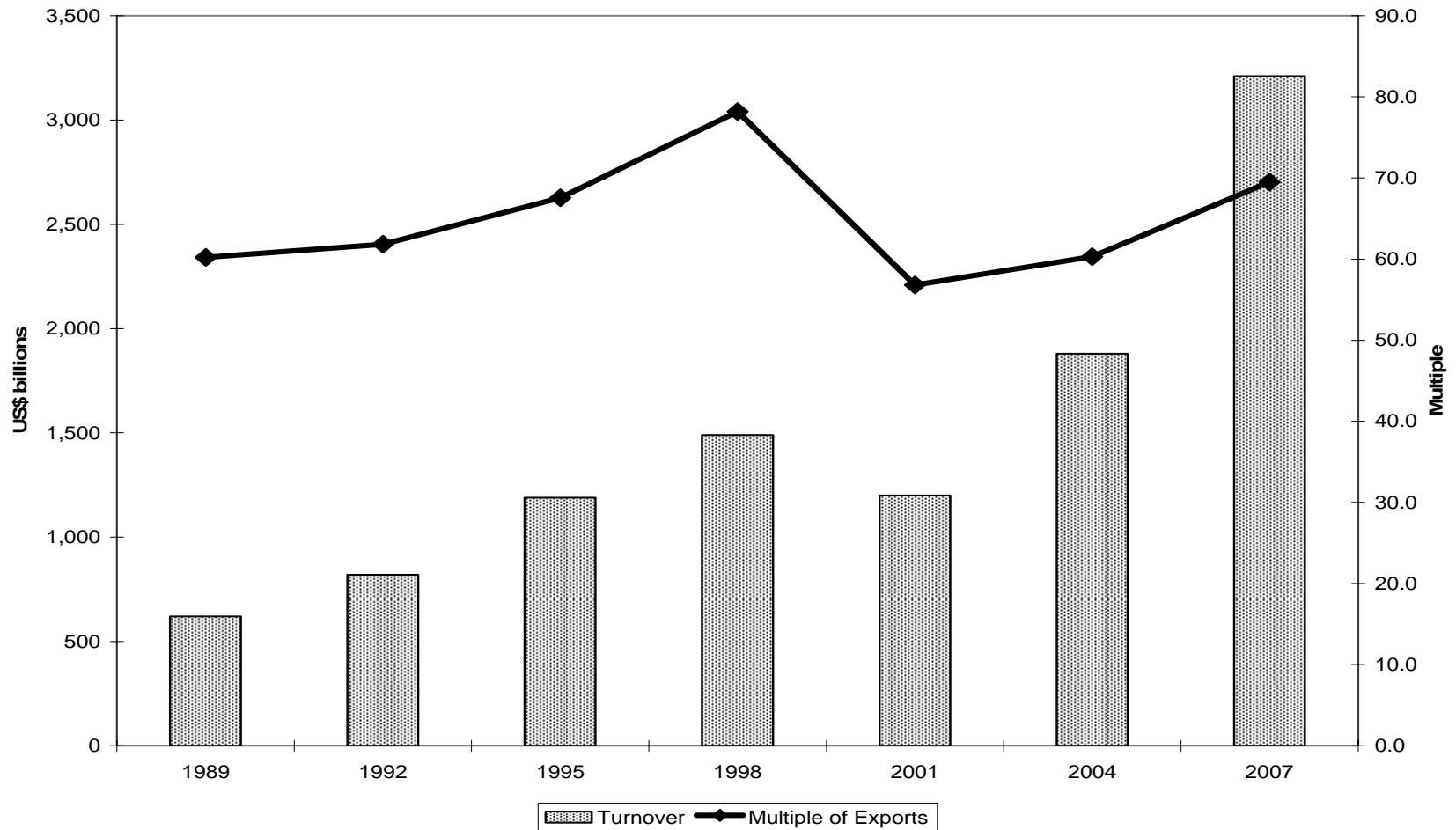
Nominal FDI Inflows



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



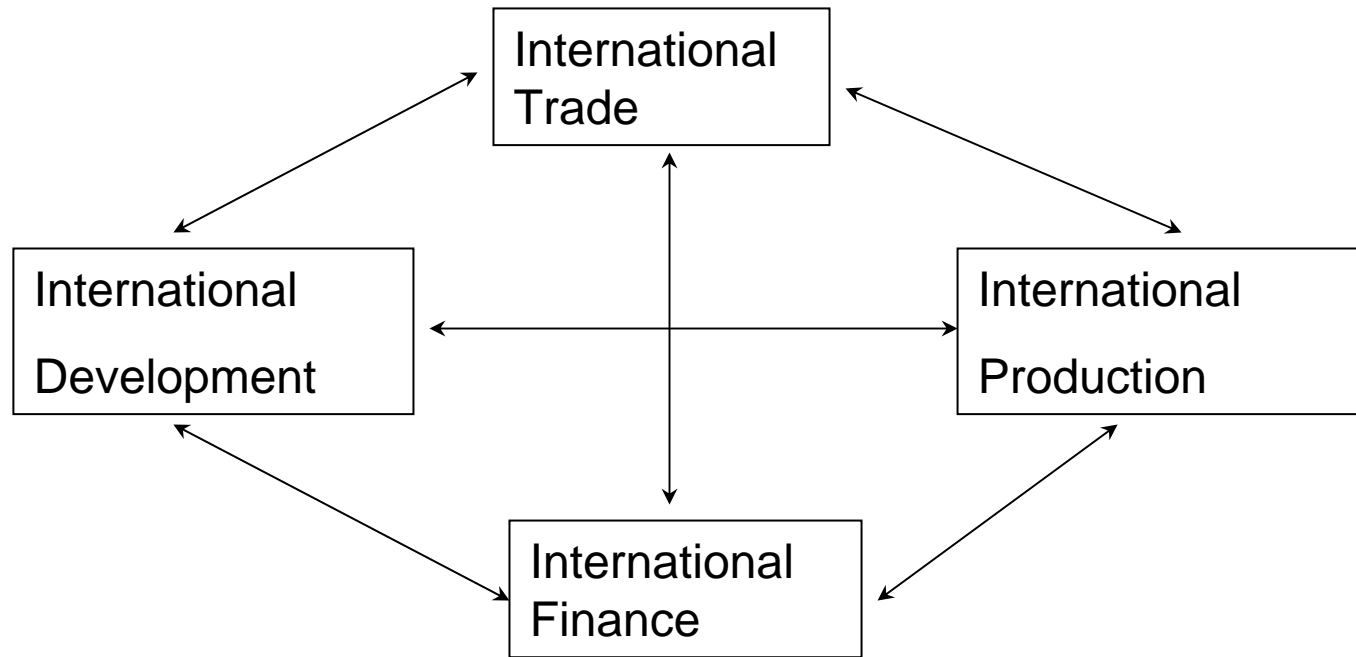
International Development

- 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 (2005)

Country	PPP GDP Per Capita (US dollars)	Life Expectancy (years)	Adult Literacy (percent)	Human Development Index (0 to 1)
Ethiopia	1,084	43	36 (2004)	0.406
India	3,452	64	61 (2001)	0.619
China	6,760	72	91 (2000)	0.777
Costa Rica	10,192	79	95 (2000)	0.846
South Korea	22,080	78	-	0.921
United States	41,890	78	-	0.951

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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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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