International/Devt. Ecos Primer for Social Scientists

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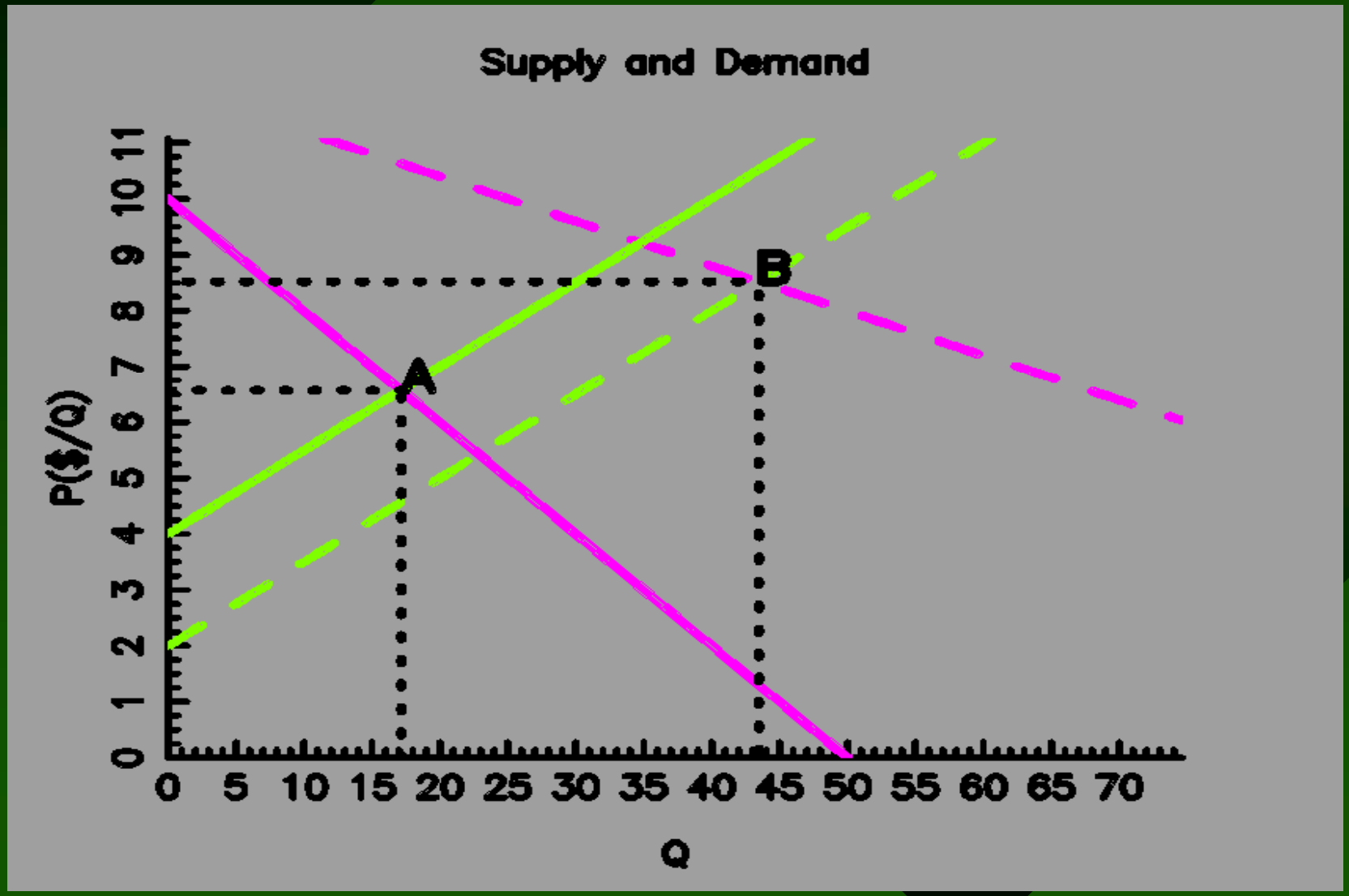
SFU Spring 2010

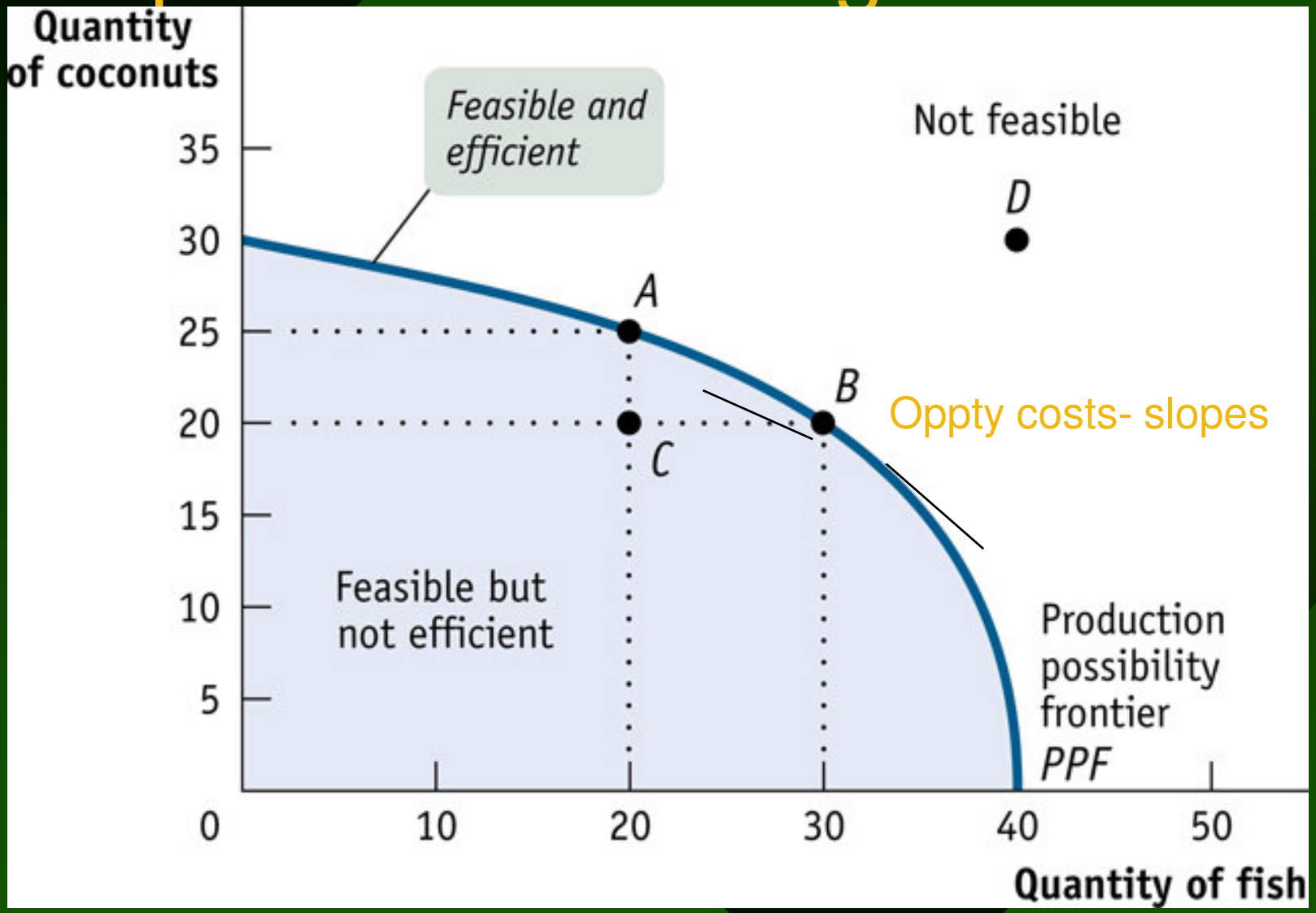
Introduction

- Usefulness of economics: reflection of resource constraints & value
- Meaning of political economy: macro vs. micro
- Neoclassical, Marxist, Institutional, & New Institutional Eco approaches
- Overview of Lecture:
  - basic concepts
  - tools for analysis
  - policy implications

Supply and Demand



Comparative Advantage



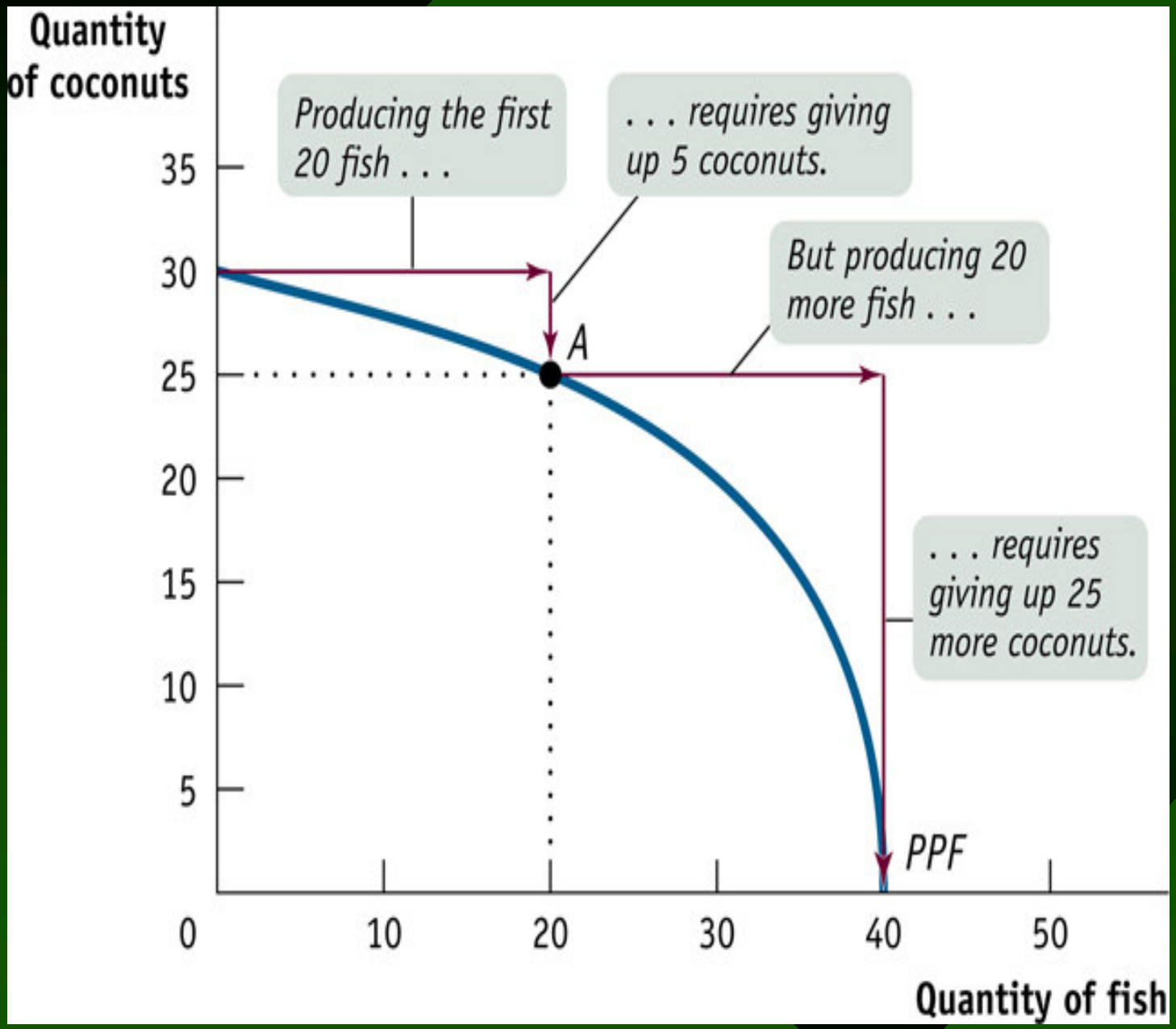
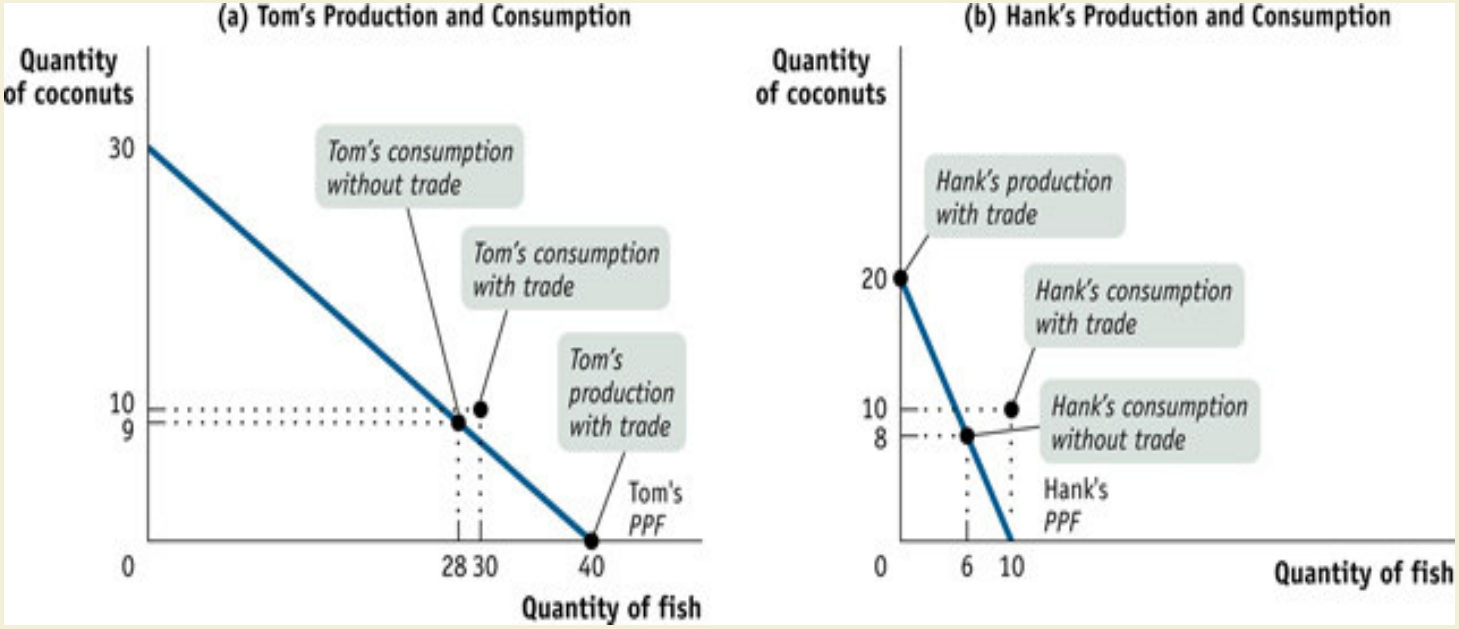
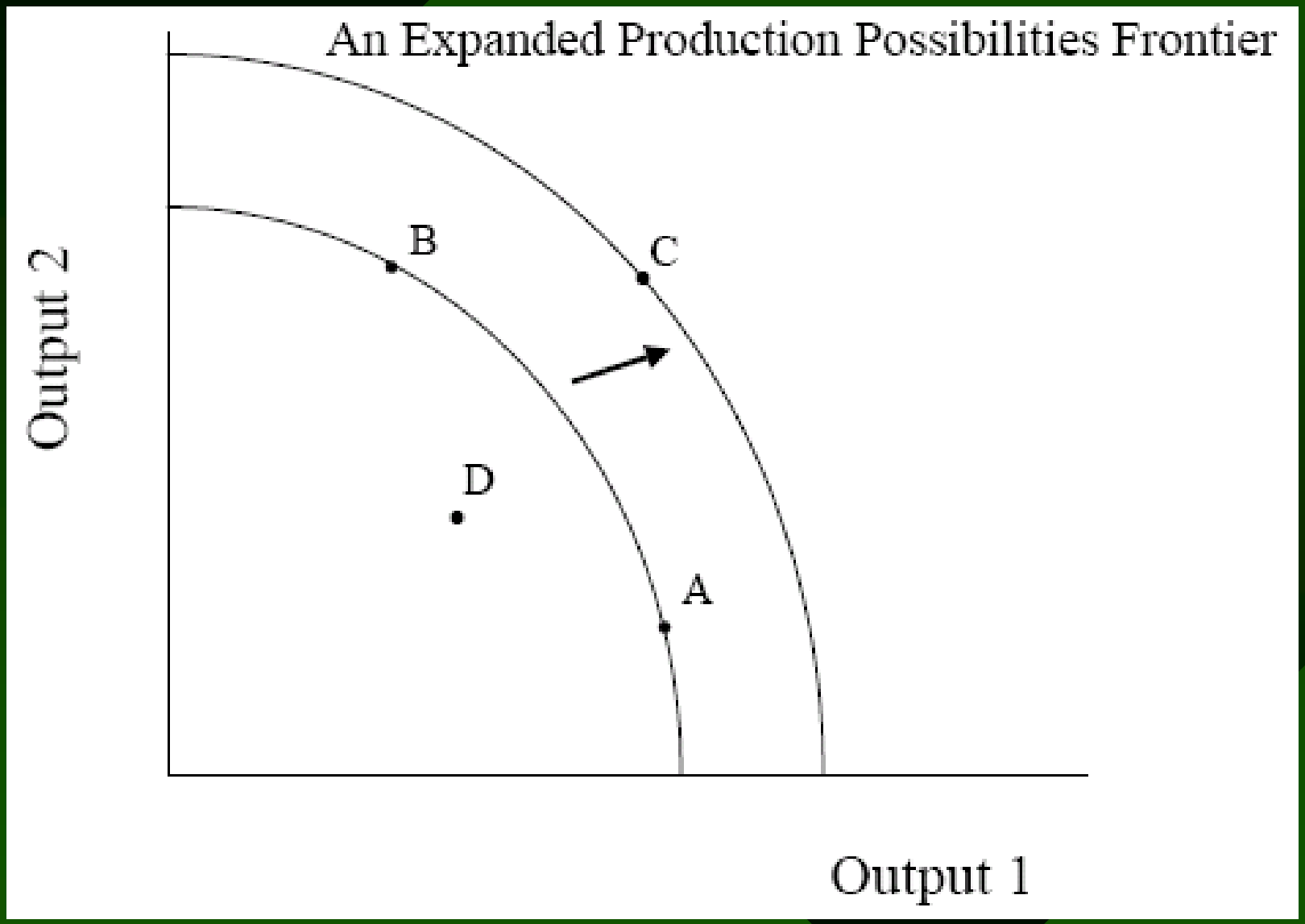
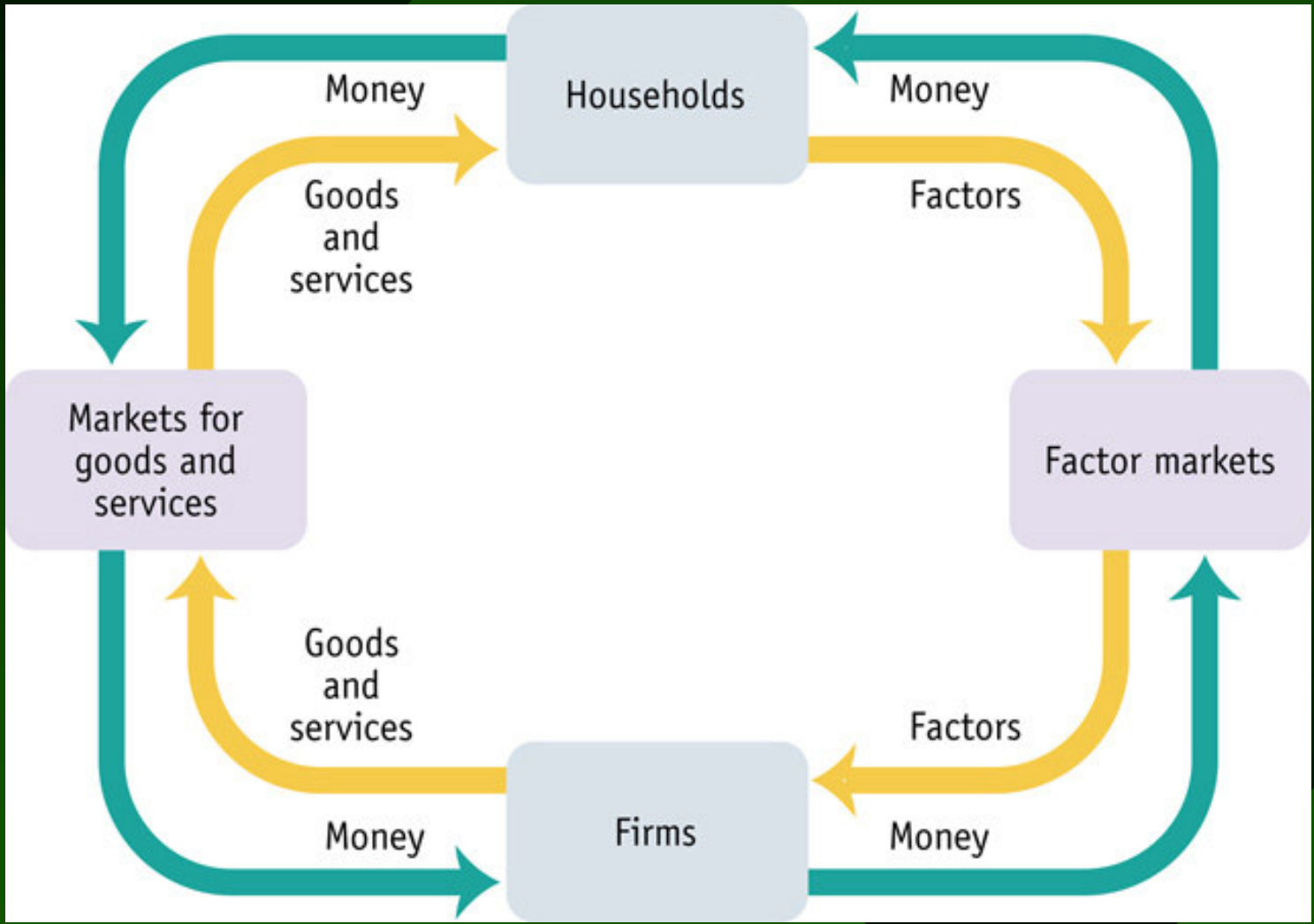

Quantity of coconuts
35
30
25
20
15
10
5
0
10
20
30
40
50
Quantity of fish
Producing the first 20 fish . . .
. . . requires giving up 5 coconuts.
But producing 20 more fish . . .
. . . requires giving up 25 more coconuts.
A
PPF

Figure 2-5 Comparative Advantage and Gains From Trade



By specializing and trading, the two castaways can produce and consume more of both goods. Tom specializes in catching fish, his comparative advantage, and Hank—who has an *absolute* disadvantage in both goods but a *comparative* advantage in coconuts—specializes in gathering coconuts. The result is that each castaway can consume more of both goods than either could without trade.


An Expanded Production Possibilities Frontier
Output 2
B
C
D
A
Output 1


Households
Money
Money
Goods and services
Factors
Markets for goods and services
Factor markets
Goods and services
Factors
Firms
Money
Money

Policy tools

- MP: Money Supply; Interest rate
- FP: taxes, govt. exp.s, subs
- XRs: fixed vs. flexible vs. pegged vs. $ization
- Regulation
- Intl: tariffs; NTBs; trade agreements
- Re-distributional, incl. welfare, adj., and infant industry policies

Keynesian vs. Monetarist Ecos

- Diff diagnosis of business cycles
- 2 contexts: GD & stagflation
- 2 policy tools: FP & MP
- Depression conquered by FP
- Inflation conquered by MP
- Which is right?

Eco Theory Assumptions

- homogeneous and perfectly divisible product
- no diff. b/t buyer and seller's power to negotiate
- many buyers and many sellers: price determines mkt clearance; firms seek pfit
- perfect competition
- complete and transparent information
- no barriers to entry or exit
- no costs of moving from one product to another (either on the S or D side)

Basic Obstacles to Eco Assumptions

- Supply and Demand; Price/Inflation; Engel's law: gds vs. svices (ipr)
- Elasticities: S & D; commodity P/value-added issues
- Economies of Scale; pdct cycle
- compar. adv; Speculation; expectations; barriers to entry; dynamic/role techy?
- Government tools: MP & FP: interest rates/investment; multiplier fx; regulation: xax costs and competition policies
- Intl. Aspects: exchange rate; debt/intl. K

Policy Implications for LDCs

- over-riding constraints: artificial pols; highly un= distn; major popn, edu, health, infrastr. probs
- declining terms of trade?
- value-added problems
- dependency- fin, technological, X mkts
- “shallow” markets: tax base; regulatory, infrastr; tacit understandings
- high levels of competition for goods they pdce: lack of differentiation; market niches; elasticity probs

LDCs- basic solution proposals

- (socialist) redistribution: usually req.s a revolution; even then, rarely done
- protectionism: led to major inflationary crises & major state-run inefficiencies & corruption; in doubt now w/debt crisis
- South-South solidarity: never got off the ground
- market liberalization: macro stability, but worse distribution probs; same or worse levels of dependency & volatility