PART I  BASIS AND GAINS FROM INTER-INDUSTRY TRADE

CHAPTER 1  BASIS OF INTER-INDUSTRY TRADE
1.1 Arbitrage and Inter-industry Trade  4
1.2 Comparative Advantage  8
   1.2.1 Public Policy and Induced Comparative Advantage: Fundamental Sources  8
   1.2.2 Selective Factor Disadvantage, Innovations, and Shifting Comparative Advantage  11
1.3 Advanced Topic: Revealed Comparative Advantage  13

CHAPTER 2  GAINS FROM TRADE
2.1 Trade, Gains, and Redistribution  19
2.2 Resource Reallocation and Gains from Trade  23
2.3 Decomposition of GFT: Specialization and Exchange Gains  27
   2.3.1 Substitution Possibility in Consumption and the Exchange Gain  28
   2.3.2 Substitution Possibility in Production and Specialization Gain  28
2.4 Sufficient Conditions for GFT  29
2.5 Pollution: A Trade-Off between GFT and Environmental Degradation  32
2.6 Increasing Returns to Scale (IRS) and GFT  33
   2.6.1 Case I: GFT under Weak IRS and Violation of Tangency Condition  33
   2.6.2 Case II: GFT under Strong IRS and Non-convexity  33

Appendix A2
I. Returns to Scale and Convexity of the Production Set  34

CHAPTER 3  TEST OF COMPARATIVE ADVANTAGE AND MEASURING GFT
3.1 Measuring the Welfare Change: Compensating and Equivalent Variations  40
3.2 GFT by CV Measure  41
3.3 Equivalent Variation and GFT 42
3.4 A Test of Comparative Advantage: The Case of Japan 44

CHAPTER 4  International Equilibrium and the Terms of Trade  48
4.1 Offer Curve of the Home Country  49
4.2 Backward Bending Offer Curve  51
4.3 Offer Curve under Constant Opportunity Cost  53
4.4 Foreign Offer Curve and the International Equilibrium  53

Appendix A4
I. Geometric Measurement of the Import Demand Elasticity along Offer Curve  56
II. Existence, Uniqueness, and Stability of International Equilibrium  57
III. Trade Indifference Curves and Alternative Derivation of Offer Curves  59
IV. Measurement and Trends in Barter TOT  60

PART II  THEORIES OF COMPARATIVE ADVANTAGE AND PATTERN OF TRADE

CHAPTER 5  Technology and Trade  67
5.1 Constant Opportunity Cost, Technology, and Trade  67
5.2 Role of Relative Size of Trading Nations and Distribution of GFT  71
5.3 Advanced Topics  72
  5.3.1 Many Commodity Extension  72
  5.3.2 World Production Possibility Frontier and Many Countries Extension  75
  5.3.3 Technology for Sale  77
5.4 International Trade and Technology Choice  79

CHAPTER 6  Factor Endowment and Trade  84
6.1 Assumptions and the Structure of the HOS Model  84
6.2 Autarchic Equilibrium and the Pattern of Trade  89
6.3 Two Properties of the Model: Output and Price Magnification Effects  92
  6.3.1 Endowment Shock and Output Changes  92
  6.3.2 Price Magnification Effect  93
6.4 Factor Prices at the Post-trade Equilibrium  95

Appendix A6
I. Full Employment Output Levels and Conditions for Incomplete Specialization  103
II. Price Magnification Effect  104
III. Algebraic Derivation of the Relative Supply Curve  106
IV. Output Magnification Effect or the Rybczynski Theorem  108
V. A Fixed Coefficient HOS Model  109

CHAPTER 7  Digressions on Factor Endowment Theory and Trade Empirics  115
7.1 Empirical Tests of the HO Theorem: Leontief Paradox  115
7.2 Factor Content and the HOV Theorem  117
7.3 Price Magnification Effect and FPE Revisited 119
7.3.1 Factor Immobility and Specific Factors 119
7.3.2 Non-traded Goods 126
7.3.3 Advanced Topic: FPE in Higher Dimensions 131
7.4 Advanced Topic: Evidence on Within Country Wage Movements and the Wage Gap Debate 132
Appendix A7
I. Price Magnification Effect in the SF Model 137
II. Growth in Labour Force and Relative Supply 138

PART III BASIS AND GAINS FROM INTRA-INDUSTRY TRADE

CHAPTER 8 Theories of Intra-industry Trade 147
8.1 IIT in Identical Products 148
8.2 IIT in Horizontally Differentiated Products 152
8.2.1 Love for Variety Approach, Monopolistic Competition, and IIT 152
8.2.2 Characteristic Approach 153
8.3 Product Development and IIT in Vertically Differentiated Products 156
8.4 Advanced Topic: Intra-industry Trade Indices 158
8.4.1 The Grubel–Lloyd (GL) Index of Intra-industry Trade 158
8.4.2 Other Measures and Refinements of the GL Index of Intra-industry Trade 161
Appendix A8
II. Monopolistic Competition and IIT in Differentiated Goods: Krugman (1979) 165

PART IV TRADE INTERVENTION AND COORDINATION

CHAPTER 9 Import Tariff and Export Subsidies 175
9.1 Economic Effects of an Import Tariff: A Partial Equilibrium Analysis 176
9.2 Revenue Motive and Revenue Maximizing Tariff 178
9.3 General Equilibrium Analysis: TOT and Volume of Trade (VOT) Effects 180
9.3.1 Change in Output, Consumption, and Volume of Trade for a Small Economy 180
9.3.2 TOT Effect, Welfare Change, and the Optimum Tariff for a Large Country 182
9.3.3 Tariff Retaliation and Trade War among Countries 186
9.4 Tariffs and Protection of Domestic Industries 187
9.4.1 Infant Industry Argument for Protection 188
9.4.2 Imported Input and Effective Rate of Protection 188
9.4.3 Tariff Protection in a Large Country: The Metzler Paradox 191
9.5 Tariff and Income Distribution 193
9.6 Export Subsidy, TOT Deterioration, and Welfare Loss 194
Appendix A9
I. Import Demand Elasticity and Its Decomposition 196
II. Change in Real Income and the Optimum Tariff 197
III. Revenue Maximizing and Optimum Tariffs 199
IV. Welfare Reaction Curves 201
V. Lerner's Symmetry Result 202
VI. Lerner's Case: Government Spending and TOT Deterioration 203
VII. Symmetry of Lerner’s Case and the Metzler Paradox 203

Chapter 10 Quantitative Restrictions, Non-tariff Barriers, and Equivalence 209
10.1 Import Quota, Implicit Tariff, and Scarcity Rent 209
10.2 Voluntary Export Restraints 213
10.3 Other Non-tariff Barriers 217

Chapter 11 Market Imperfection and Trade Policy 221
11.1 Competitive World Production and Domestic Monopoly 221
11.2 Protection of a Domestic Monopoly 223
11.2.1 Competitive Foreign Supply: Non-equivalence of Tariff and Quota 223
11.2.2 Monopoly Foreign Supplier and Strategic Competition 224
11.3 International Price Discrimination and Dumping 227
11.4 International Market Share Rivalry and Strategic Trade Policy 228
11.4.1 Export Subsidies and Market Share Rivalry 229
11.4.2 Tariff as an Export Promotion Strategy 232
11.5 Advanced Topic: Monopoly, Pareto Sub-Optimality, and GFT 232

Appendix A11
I. Decomposition of the Change in Real Income in a Non-competitive Economy 235

Chapter 12 Political Economy of Trade Policy 240
12.1 DUP Lobbying Activities 240
12.2 Political Economy of Trade Policy Choice 244
12.2.1 Democracy, Political Risk, and Political Support Approach 244
12.2.2 Lobbying and Contribution Approaches 247

Appendix A12
I. Comparison of Profits Under Import Quota and Import Tariff 250

Chapter 13 Market Failure, Distortions, and Trade Policy 254
13.1 Taxonomy of Distortions 255
13.1.1 Types of Distortions 256
13.1.2 Causes of Distortions 257
13.2 Optimal Intervention 266
13.2.1 Tariff or Quota as Optimal Policy Intervention for Foreign Distortion 266
13.2.2 Optimal Policy Intervention for Production Distortion 268
13.2.3 Optimal Policy Intervention for Consumption Distortion 270

Appendix A13
I. Product Distortion under Wage Differential 270
CHAPTER 14  Multilateralism and Regionalism
14.1 Typology of Regional Trading Agreements (RTAs) and Economic Cooperation 276
  14.1.1 Different Stages of Regional Economic Cooperation 276
  14.1.2 Evolution of the European Union through Successive Stages of Cooperation 277
  14.1.3 Open and Unanimous Regionalism 279
  14.1.4 Scope and Coverage of RTAs 280
14.2 Bilateralism and Regionalism: Old and the Contemporary 280
  14.2.1 Pre–World War I Bilateralism and Regionalism 280
  14.2.2 Post–World War and Contemporary Regionalism 281
14.3 Regional Trading Agreements: Trends, Causes, and Effects 282
  14.3.1 Growth, Composition, and Distribution of RTAs 282
  14.3.2 Economic Effects and Gains from Regionalism 283
  14.3.3 Why are RTAs Formed? 287
14.4 Multilateralism in the Post-WTO Era and Global Free Trade 290
  14.4.1 From Regionalism to Multilateralism? 291

PART V  INPUT TRADE, SERVICES, AND GROWTH

CHAPTER 15  Trade, Growth, and Inclusion
15.1 International Trade and Growth 302
  15.1.1 Trade as an Engine of Growth 302
  15.1.2 Trade as Vent for Surplus 303
  15.1.3 Trade, Redistribution, and Growth 303
  15.1.4 Trade, Variety, and Growth 304
  15.1.5 Country Experiences 305
15.2 Growth, TOT, and Welfare 307
  15.2.1 Secular Deterioration in TOT for a Primary Good Exporter 307
  15.2.2 Immiserizing Growth 309
15.3 Trade, Growth, and Inclusion 311

Appendix A15
  I. Diversification of the Export Basket 314
  II. Composition of the Export Basket: Manufacturing and High-Technology Exports 315

CHAPTER 16  Foreign Capital Inflow, Multinationals, and Migration
16.1 Factor Flows and the Goods Price Equalization (GPE) Theorem 322
16.2 Foreign Capital Inflow: Causes and Consequences 324
  16.2.1 Growth, Welfare, and Distributional Consequences of Foreign Capital Inflow 324
  16.2.2 Foreign Capital Inflow and Aggregate Employment in the Host Country 329
16.3 Foreign Direct Investment and Multinational Corporations (MNCs) 330
  16.3.1 Tariff Jumping Theory 333
  16.3.2 Fragmentation and Economies of Scale 334
16.3.3 Government Policies in Developing Countries: Export Processing Zones (EPZs) 336
16.4 Asymmetry between Labour Migration and Capital Flow 337

CHAPTER 17 Services Trade 342
17.1 Conceptual Issues 342
17.2 Services Trade: Types and Trends 343
17.3 Determinants of Services Trade 347
17.4 Services Trade, Welfare Gains, and Growth 349
  17.4.1 Welfare Gains and Income Distribution 349
  17.4.2 Services Export-Led Growth 351

PART VI STANDARDS, REGULATIONS, AND MULTILATERAL TRADE AGREEMENTS

CHAPTER 18 Product Standards, Regulations, and Trade 359
18.1 Quality Standards, Trade, and Employment 360
18.2 Labour Standards and Trade Sanctions 361
18.3 Environmental Standards, Trade, and FDI 365
  18.3.1 Standards, Comparative Advantage, and Unfair Trade 365
  18.3.2 Trade, Income Gains, and Demand for Higher Standards 367
  18.3.3 Capital Flight, Pollution Havens, and Migration of Dirty Industries 368

CHAPTER 19 World Trade Organization and Trade Agreements 373
19.1 Structure and Functions of the WTO 373
  19.1.1 Structure of the WTO 373
  19.1.2 Functions of the WTO 374
19.2 Decision Making 375
19.3 WTO Rules and Principles of Trade Policy 376
19.4 WTO Agreements 378
  19.4.1 Multilateral Agreements on Trade in Goods 378
  19.4.2 Agreement on Trade Related Intellectual Property Rights (TRIPS) 382
  19.4.3 Plurilateral Trade Agreements: Agreement on Government Procurement (GPA) 386

Appendix A19 387
  I. Tariff Reductions and Market Access for Non-agricultural Products (NAMA) 387

PART VII THEORY OF BALANCE OF PAYMENTS AND OPEN ECONOMY MACROECONOMICS

CHAPTER 20 Balance of Payments and National Income Accounting 397
20.1 Classification of Transactions and Sub-accounts 397
20.2 BOP Accounting: An Example 400
20.3 Autonomous and Accommodating Transactions and BOP Equilibrium 401
20.4 Basic Identities in BOP and National Income Accounting 403
CHAPTER 21 National Income and Current Account Balance: The Income Approach

21.1 Effective Demand, National Income, and Trade Balance: Income Approach

21.2 Expenditure and Foreign Trade Multipliers Without the International Transmission Effect

21.2.1 Foreign Trade Multipliers

21.2.2 Expenditure Multipliers

21.3 International Transmission Mechanism

21.4 Transfers and Trade Balance: The Transfer Problem

21.4.1 The Classical Case

21.4.2 Under-Effected Transfer in a Keynesian World

Appendix A21

I. Foreign Trade and Expenditure Multipliers without Transmission Mechanism

II. Expenditure Multiplier with Transmission Mechanism

III. Transfer, TOT, and Real Income of the Donor

IV. Under-Effected Transfer in an Effective-Demand Model

CHAPTER 22 International Currency Systems and Exchange Rate Regimes

22.1 The International Monetary System

22.1.1 Gold Standard

22.1.2 Bretton Woods and Thereafter

22.1.3 Different Currency and Exchange Rate Regimes in the Post-Bretton Woods Era

22.2 Exchange Rate under a Clean Float

22.3 Interventions in the Foreign Exchange Market

22.3.1 A Dirty or Managed Float

22.3.2 Over-Valued Pegged Exchange Rate Regime

22.3.3 Exchange Control and Black Market for Foreign Exchange

22.3.4 BOP Crisis under Over-Valued Pegged Exchange Rate Regime

22.3.5 Target Zone

22.4 India's BOP Crisis and Its Exchange Rate Policies

Appendix A22

I. Existence, Uniqueness, and Stability in the Foreign Exchange Market under Clean Float

II. The Optimal Under-Invoicing of Exports

III. Allocation of Expenditure and Black Market Dollar Demand

CHAPTER 23 BOP Adjustment Policies in a Pegged Exchange Rate Regime

23.1 Two Types of Adjustment Policies

23.1.1 Expenditure Reducing Policies: Absorption Approach

23.1.2 Expenditure Switching Policy: Elasticity Approach

23.2 Synthesis Approach

23.2.1 Expenditure Reducing Policy

23.2.2 Expenditure Switching Policies