

The Pure Theory of International Trade and Distortions

BHARAT R. HAZARI



CROOM HELM LONDON



CONTENTS

Acknowledgements

Introduction	1
(1) Subject-Matter of the Pure Theory of International Trade	1
(2) Purpose of the Book	1
(3) Tools of Analysis Used in the Book	2
(4) Organisation of the Book and Some Comments on Distortions	2
1. A Model of a Trading World	7
1.1 The Formal Model	7
1.2 Factor Intensities, Factor Prices and Commodity Prices	13
1.3 Production Possibility Curve	18
1.4 The Rybczynski Theorem	22
1.5 The Stolper–Samuelson Theorem	25
1.6 Summary	27

Part One: The Theory of Factor Price Differentials and the Pure Theory of International Trade

2. Factor Price Differentials, the Shape of the Transformation Locus and the Relationship Between Prices and Output Levels	33
2.1 The Model With the Factor Price Differential (Wage Differential)	34
2.2 Factor Intensities, Factor Prices and Commodity Prices in the Presence of the Wage Differential	35
2.2.1 Physical-Factor Intensities and Value-factor Intensities	36
2.2.2 On the Explanation of the Relation Between Commodity and Factor Prices in the Presence of a Wage Differential	40
2.3 Shrinkage and the Slope of the Production Possibility Locus	42
2.4 The Relationship Between Changes in the Relative Prices and Output Levels	46
2.5 The Shape of the Production Possibility Curve	49
2.6 Summary	49

3. Factor Price Differentials and the Theorems on Gains from Trade	54
3.1 The Model With Two Factor Price Differentials	55
3.2 Free Trade versus No Trade	56
3.3 Terms of Trade and Welfare	65
3.4 Higher versus Lower Tariff	69
3.5 Summary	71
4. Factor Price Differentials, Economic Expansion and Welfare	75
4.1 Technical Progress	75
4.2 Technical Progress, Factor Intensities, Factor Prices and Output Levels	76
4.3 Factor Accumulation and Output Levels	82
4.4 Economic Expansion and Welfare	84
4.5 Summary	89
5. Factor Price Differentials, Economic Expansion, Terms of Trade and Welfare at Variable Terms of Trade	92
5.1 Technical Progress and Terms of Trade	92
5.2 Factor Accumulation and Terms of Trade	98
5.3 Economic Expansion and Real Income With Variable Terms of Trade	99
5.4 Summary	103

Part Two: Minimum Wage Rates and the Pure Theory of International Trade

6. Minimum Wage Rates and Some Propositions in the Pure Theory of International Trade	107
6.1 The Model With a Minimum Wage	107
6.2 Production Possibility Curve in the Minimum Wage Economy	108
6.3 Free Trade versus No Trade	114
6.4 Terms of Trade, Employment and Welfare	116
6.5 Economic Expansion, Employment and Welfare	118
6.6 Summary	120
7. Sector-Specific Minimum Wages, Urban Unemployment and Optimal Commercial Policy in a Small Open Economy	122
7.1 The Model With the Harris—Todaro Minimum Wage	122

7.2 A Geometric Exposition of the Existence of Urban Unemployment in the Harris—Todaro Model	125
7.3 Policy of <i>Laissez-Faire</i>	126
7.4 Wage Subsidy in Manufacturing	128
7.5 Production Subsidy to Agriculture	131
7.6 Uniform Wage Subsidy (Optimal Policy Intervention)	134
7.7 Summary	134

Part Three: Externalities and the Pure Theory of International Trade

8. Meade-Type Production Externalities and Some Propositions in the Pure Theory of Trade	141
8.1 The Model With Meade-Type Production Externality	142
8.2 The Shape and the Slope of the Production Possibility Curve	142
8.3 Free Trade versus No Trade	145
8.4 Externalities, Terms of Trade and Welfare	149
8.5 Externalities and Rybczynski Theorem	151
8.6 Technical Progress and Output Levels	153
8.7 Externalities and Immiserising Growth	154
8.8 Economic Expansion and the Terms of Trade	156
8.9 Summary	157
9. Monopoly and Some Propositions in the Pure Theory of Trade	160
9.1 The Model With Monopoly	160
9.2 The Autarky Equilibrium	162
9.3 Monopoly and the Gains from Trade	165
9.4 Lerner Symmetry Theorem and Monopoly	168
9.5 Summary	173

Part Four: Tariffs, Illegal Trade and Immiserising Growth

10. Tariffs, Smuggling, Welfare and Immiserising Growth	179
10.1 The Model with Smuggling	179
10.2 Impact of Smuggling on Welfare When Legal Trade is Eliminated by Smuggling	180
10.3 Impact of Smuggling on Welfare When Legal Trade and Smuggling Coexist	186
10.4 Impact of Smuggling on Welfare When Smuggling Eliminates Legal Trade and Smugglers Face Increasing Costs	188

10.5 Impact of Smuggling on Welfare when Smuggling and Legal Trade Coexist and Smugglers Face Increasing Costs	188
10.6 Economic Expansion and Welfare in the Presence of a Tariff But No Smuggling	191
10.7 Summary	193
11. Conclusions and Some General Propositions in the Pure Theory of International Trade and Distortions	196
Appendix: The Derivation of the Offer Curve and Stability Conditions	198
Index	204