

## LECTURE 1

### What explains the rise of political extremism in the West?

- Technological change (automation)
- Rise of winner-take-all markets (aided by tax policies)
- Erosion of labor bargaining power
- Softening of labor-market protection
- Decline of norms restricting pay differential
- Anti-immigrant sentiment

### Trade has also played an “Important” Role

- US elections
  - o Congressional districts exposed to larger increases in import penetration disproportionately removed moderate representatives from offices in the 2000s
- Brexit
  - o Support for the Leave option was systematically higher in regions hit harder by economic globalization
  - o Immigration and trade provides relatively explanatory power for the referendum vote, which results in areas with deprivation in terms of education, income and employment were more likely to vote Leave

### Trade, Geographic Immobility, and Inequality

Why does it matter?

- Suppose trade leads to a net increase in jobs, but job growth is in location A and job decline is in area B
- If moving costs are sufficiently high, then region B can permanently under perform in terms of employment

Geographic mobility becomes more crucial as an economy becomes more service and technology driven

### What trade policy options does Australia have?

As a member of the World Trade Organization (WTO), Australia has agreed to a set of **bound tariff rates** for imported products. Bound tariff rates are the maximum tariff that a country can apply to an imported product. For most products, the tariff that is actually applied is lower than the bound rate. The former is known as the **applied tariff rate**. The difference between the bound and the applied rate, which is referred to as the **overhang**, provides room for maneuvering. On average, the overhang for imports into Australia is about 6%.

### Should we use trade barriers in response to political extremism?

Arguments for:

- In principle, those who lose from trade can be compensated make trade a Pareto improvement
- In practice, this is both costly to do and often politically infeasible
- While compensation is often promised, governments have little incentive to follow through

Arguments against:

- Trade barriers will unravel global value chains
- Re-shoring may increase local production, but not necessarily jobs
- Consumer welfare losses from higher trade barriers

## LECTURE 2

### Absolute Advantage

Table: Marginal Product of Labour - Output Per Worker

	AUS	THA
Autos	1	2
Services	3	1

Australia has an **absolute advantage** in services while Thailand has an absolute advantage in autos

### Comparative Advantage

Let us define the opportunity cost of producing either good as the amount of the second good that is forgone.

Table: Marginal Product of Labour - Output Per Worker

	AUS	THA
Autos	1	0.75
Services	3	0.75

Consider the opportunity cost (OC) of **autos**:

- Australia: the OC of A is 3 units of S. Why? To make 1 unit of auto, Australia has to sacrifice 3 units of labour in services
- Thailand: the OC of A is 1 unit of S

Thus, Australia can obtain cheaper autos from Thailand despite being more productive. In other words, Thailand as a **comparative advantage** in autos despite being less productive.

Consider the opportunity cost (OC) of services:

- Australia: the OC of S is  $\frac{1}{3}$  units of A
- Thailand: the OC of S is 1 unit of A