Class Discussions of Policy Topics in International Trade

Many controversial US policy debates involve concepts from international trade. The class discussions and short written assignments address three of these issues. They are described in detail below.

Discussion #1—Competitiveness: A Dangerous Obsession?

Write a two to three page (double-spaced) memo to President Bush describing whether you agree or disagree with the objective of his economic policy to help the United States “compete and win” in “a [] global economy”. Be specific why you agree or disagree. No matter what your argument is, you need to support it with the theoretical concepts we learnt in the class and empirical facts presented in the readings and in the class.

Discussion #2—Trade, Wages, Income Inequality and Jobs

Write a two to three page (double-spaced) memo to President Bush arguing whether US should restrict its trade with less developed countries like China and Mexico since such trade might lead to increased wage inequality and the loss of jobs in the US.

Discussion #3—Industrial Policy and High Technology Industries

Write a two to three page (double-spaced) memo to President Bush describing whether you support or oppose US government active promotion of high-technology and highly profitable sectors. Be specific why you oppose or support such policy. No matter what your argument is, you need to support it with the theoretical concepts we learnt in the class and empirical facts presented in the readings and in the class.

Guidelines for Class Discussion

All of you need to be prepared for these discussions, but you only need to hand in one of the memos to me in class on Friday, November 30, 2001. The memo will count as 10% of your grade.

You should start your discussion or memo with an overview of a particular policy topic and continue by addressing more detailed issues. Make sure you base your arguments in favor or against a particular policy on the economic concepts and theory. I encourage you to support your argument with real life examples and empirical facts. Everybody should try to actively
participate in the discussion. Your participation in discussion will be reflected in your class participation grade.

Below are some questions that should help guide your policy recommendation and discussion. See the syllabus for the required and recommended readings on each topic. Please contact me with any questions regarding the assignment.

**Discussion #1**  
**Competitiveness: A dangerous obsession?**

Do countries compete like corporations on the global marketplace? Why or why not?

What is competitiveness?

What determines US standard of living?

Give some examples of international competitiveness being blamed for domestic problems.

What do you think might be alternative explanations for domestic problems such as high European unemployment?

Should the United States actively promote its exporting industries so they stay competitive in the world marketplace?

**Discussion #2**  
**Trade, Wages, Jobs and Income inequality**

What do theoretical models of trade we discussed in the class predict about the link between international trade and workers’ wages? Be specific about the implications of Ricardian, Short-Run Endowment Model, Specific-Factors Model, and Hecksher-Ohlin model and assumptions they impose?

Using the Hecksher-Ohlin framework, what is the mechanism through which international trade with developing countries can impact US wages?

Consider the following claim: Increased competition with third world countries lowers wages of low-skilled US workers. What is the evidence in favor of this claim? What is the evidence contradicting this claim?

What has happened to income inequality in many less developed countries? How does this square with the predictions of trade models?
What are the alternative explanations for the rising wage inequality in the US between the skilled and unskilled workers?

**Discussion #3**  
**US Industrial policy in High-Technology Industries**

Give some examples of policy instruments governments use to promote their high-technology sectors or very profitable sectors.

Present some real-world examples of active government support of industries in Japan, the US, and Europe. What did these policies accomplish?

How do governments actively support the domestic producers in the commercial aircraft industry? Have trade disputes due to government activism in this industry been solved? If so, how?

Should US government actively support activities of its high-technology sectors? Why or why not? Motivate your arguments with economic concepts we learnt in the class.

Should US government actively support activities of its high-technology sectors if other countries such as Japan and European Community do so? Why or why not?