



Introduction

GCP 504:

Microeconomics and Trade Policy



Syllabus and Canvas

- Consult online version periodically
- <http://reinert.schar.gmu.edu>
- Follow drop-down menus
- Canvas site will be our online meeting place with assignments
- If there are any issues during the semester, please email me at kreinert@gmu.edu



Course Elements

- Weekly readings
 - *Marshall's Blackberries*
 - *An Introduction to International Economics*
- Problem sets
- Participation
- Midterm exam
- Cumulative final exam



A Bit About Me

- International economist
- Experience in consulting, government (US International Trade Commission), liberal arts and universities
- Edited the *Princeton Encyclopedia of the World Economy*
- Wrote *An Introduction to International Economics*, *No Small Hope*, and *The Lure of Economic Nationalism*
- Other books, articles, and chapters

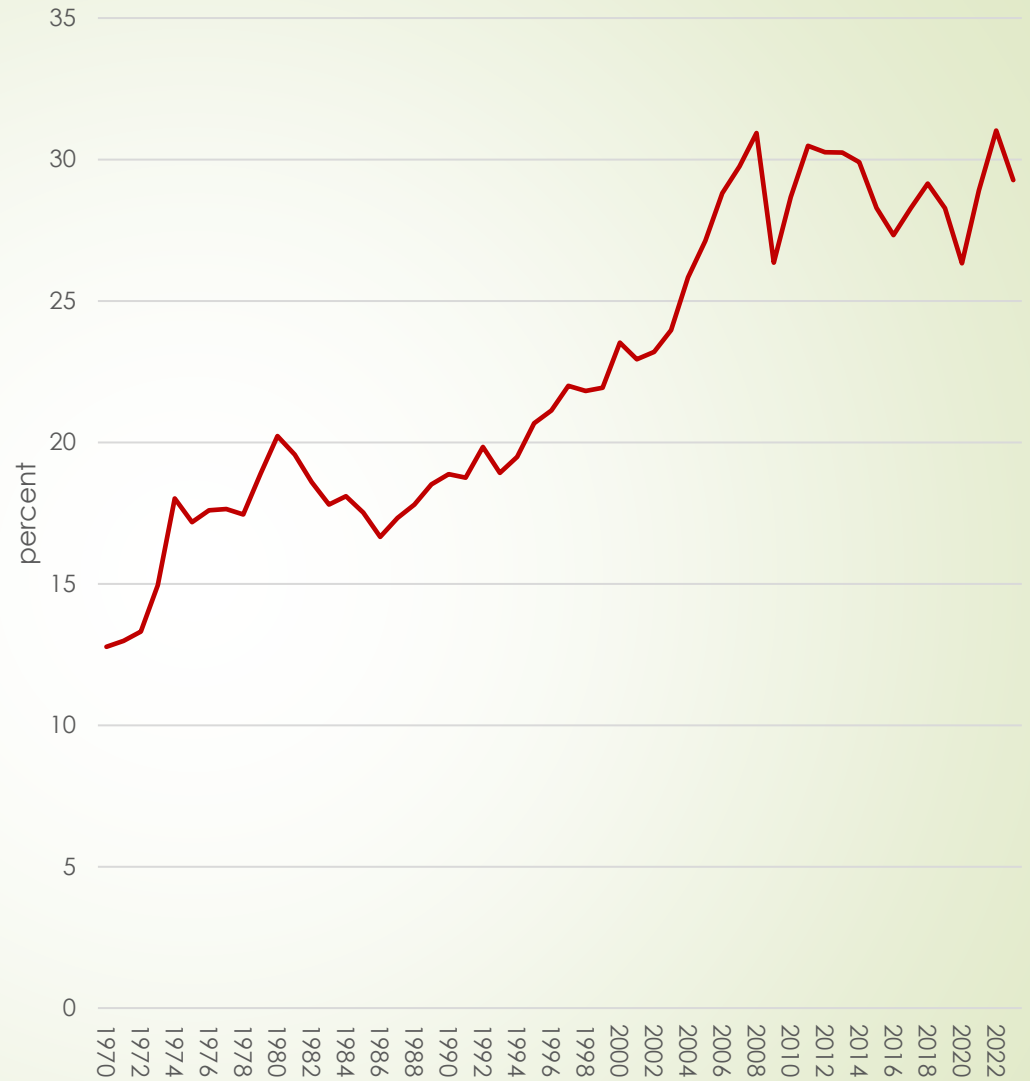


International Trade

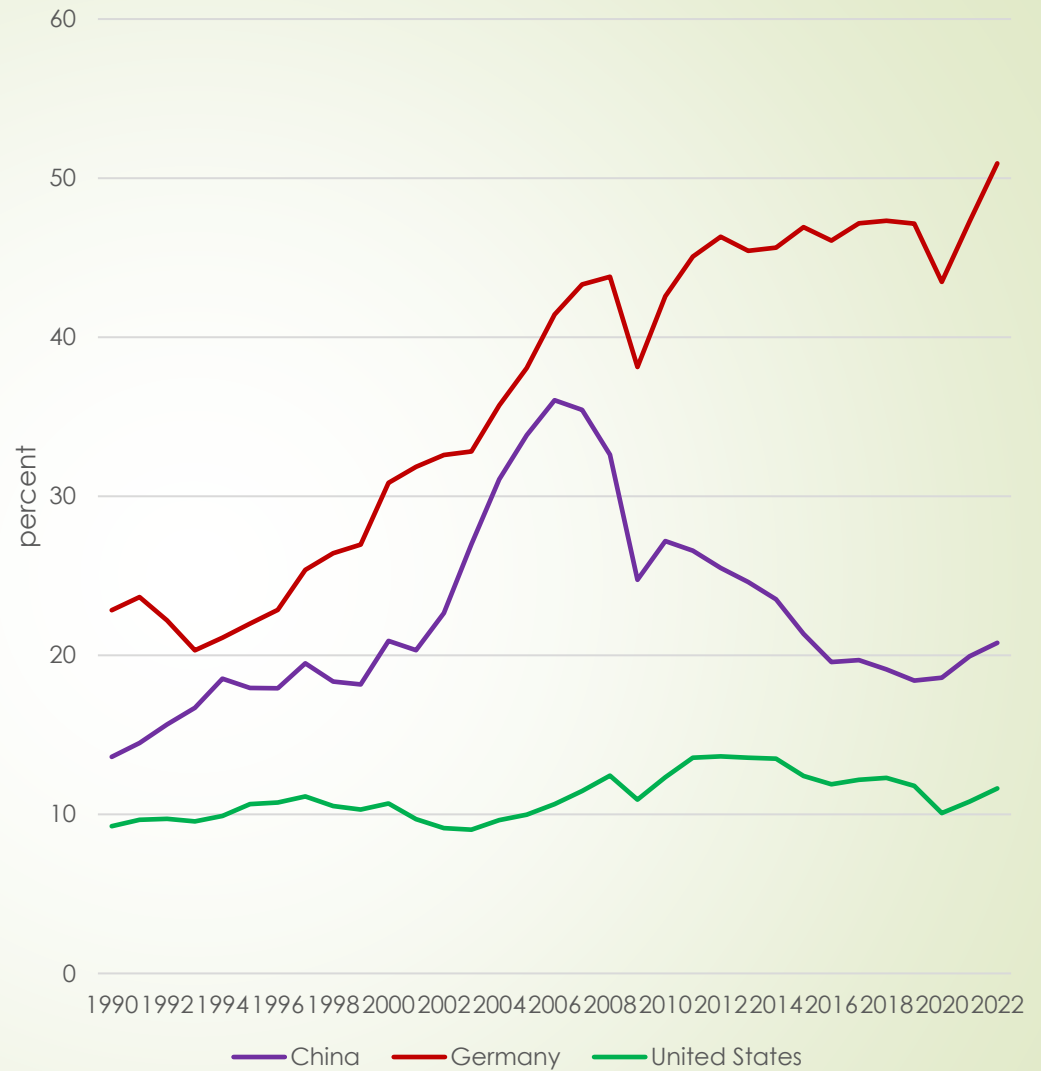


- The exchange of goods (merchandise) and services among the countries of the world
- **Goods:** tangible and storable (something you can drop on your toe)
 - Both **final** and **intermediate** goods
 - About two thirds of trade is in intermediate goods
- **Services:** intangible and non-storable (something you cannot drop on your toe)
 - Both **consumer** and **producer** services
- Trade in services is just over one fifth of total global trade

World Exports as a Percent of World Gross Domestic Product



Exports as a Percent of GDP, China, Germany and the United States





International Production

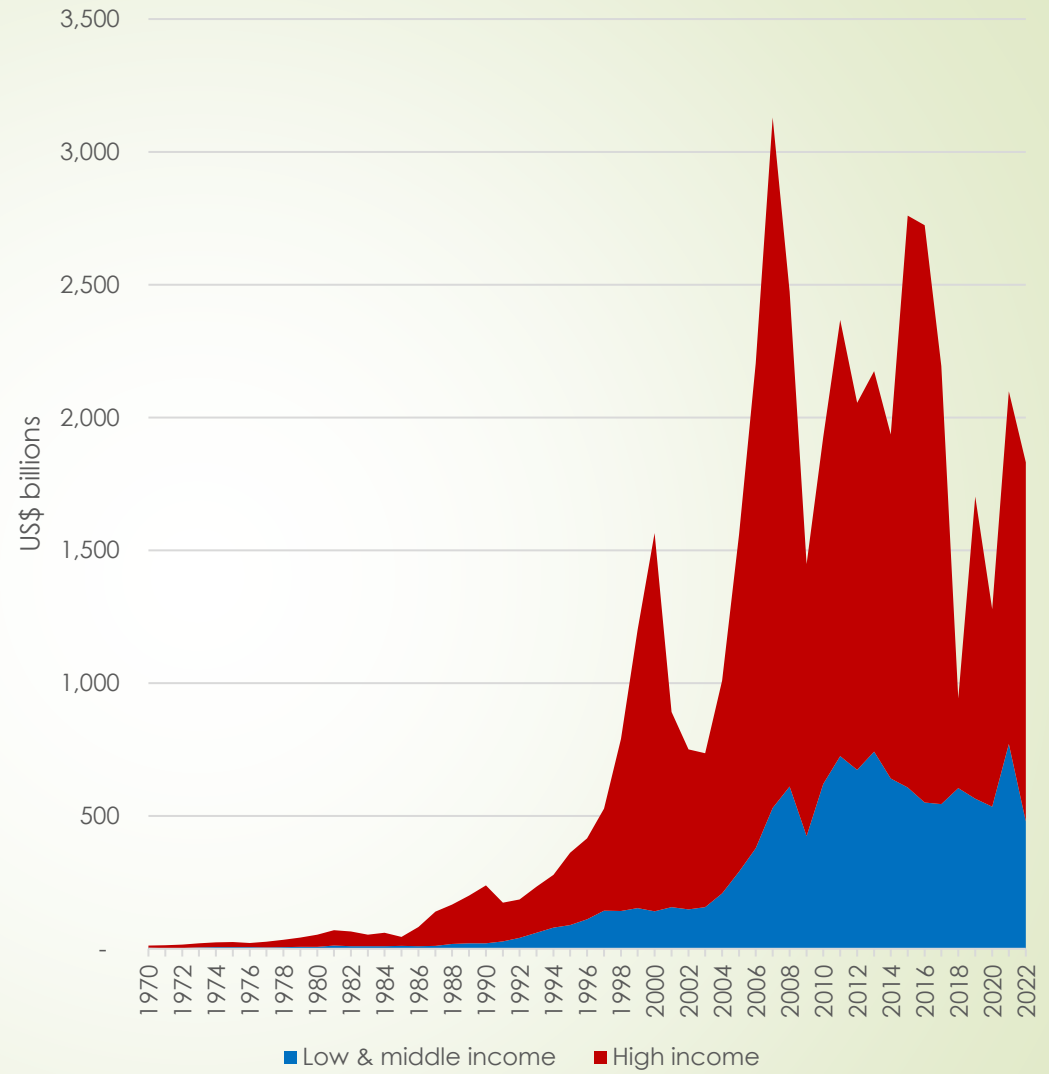
- Refers to the production of a product (good or service) in multiple countries
- *Contracting* in the form of international subcontracting, licensing and franchising
- *Foreign direct investment* (FDI) undertaken by multinational enterprises
 - FDI involves firms based in one country owning at least a 10 percent of firms producing in another country
 - Joint ventures, M&As and greenfield
- Both contracting and FDI are part of the development of *global value chains* (GVCs)



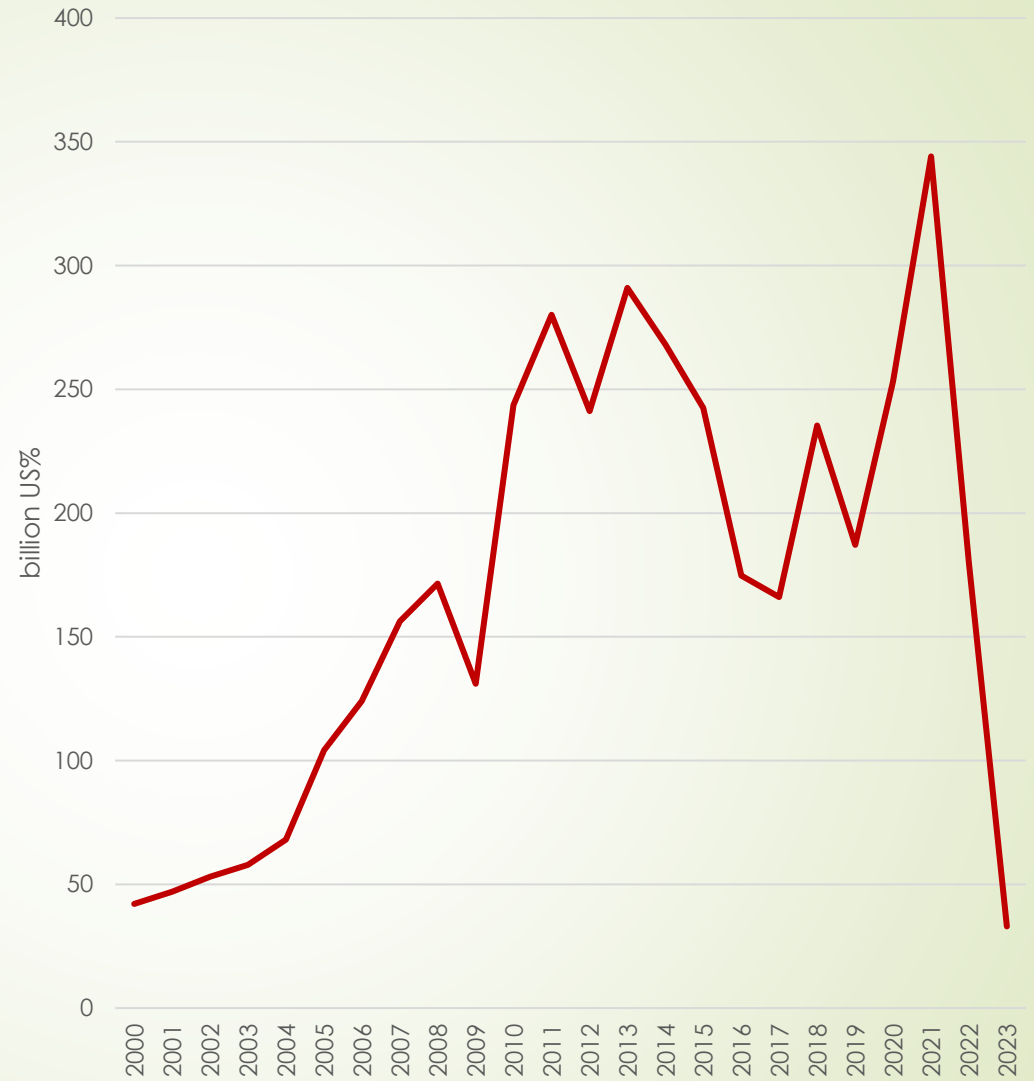
Multinational Enterprises

- MNEs account for approximately one fourth of world gross domestic product (GDP) or aggregate output
- The sales of foreign affiliates of MNEs now exceed the volume of world trade
- MNEs are involved in approximately three fourths of all world trade
- Approximately one third of world trade takes place *within* MNEs (intra-firm trade)
- MNEs account for approximately three fourths of worldwide civilian research and development

Nominal FDI Inflows



Net FDI Inflows into China





International Finance

Not a subject covered in this course.

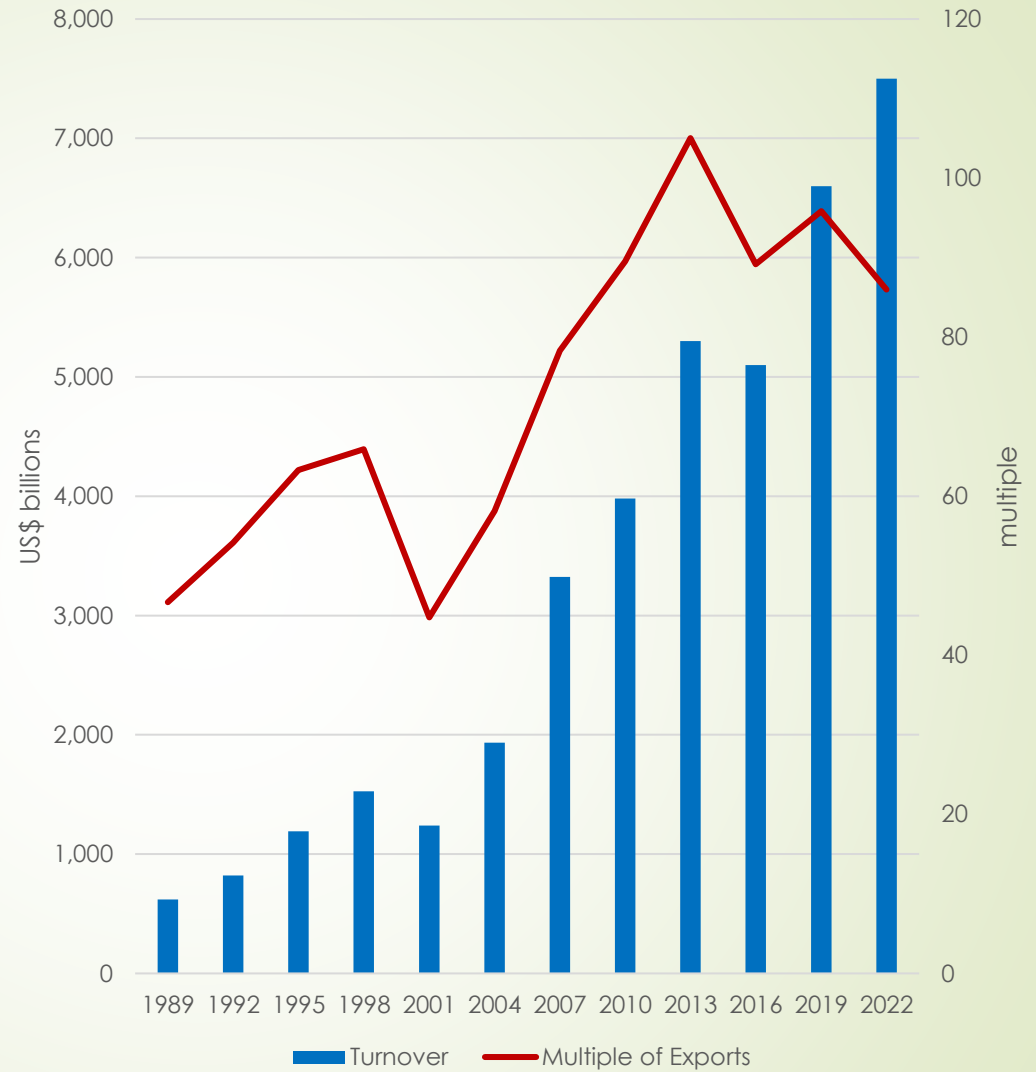
Covered in GCP 503 and GCP 602 among other courses.

International finance matters; we ignore it at our peril.

It also involves what are known as *capital flows*.

Assess overall magnitudes of trade and finance.

Daily Foreign Exchange Market Turnover and Annualized Multiple of Exports



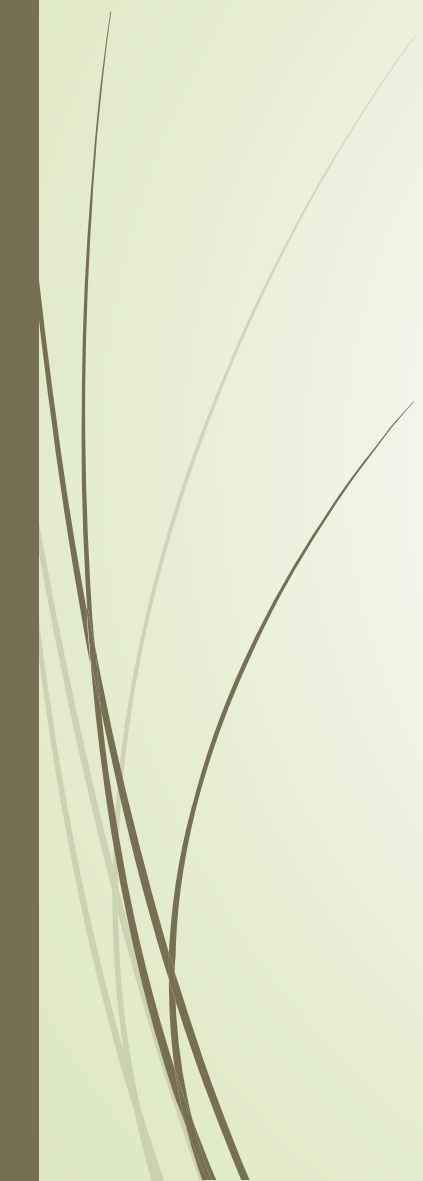


The Microeconomics Framework

- *Resource scarcity*
- *Opportunity costs*
- Individual and social *choices*
- *Marginal* (incremental) *thinking*
- Role of private vs. public decisions
- *Allocative efficiency, market failure, government failure*

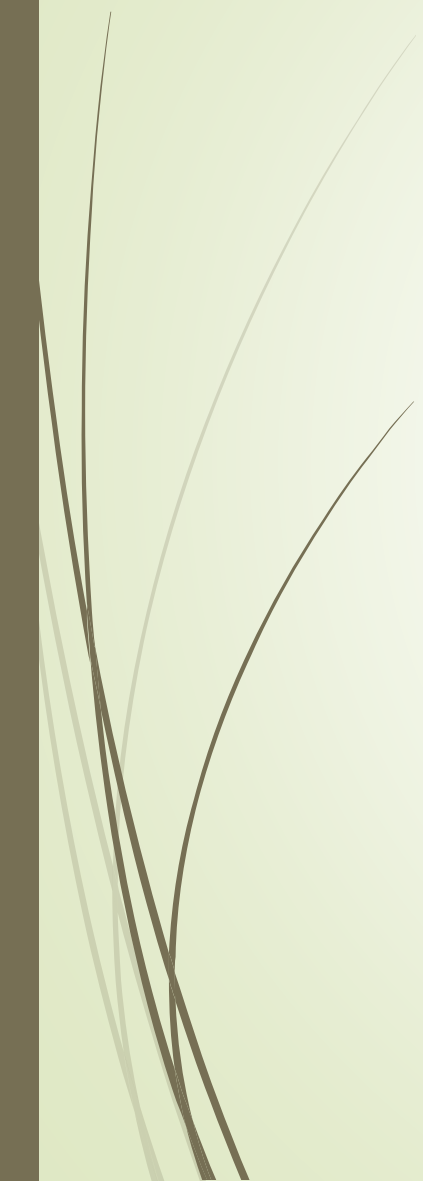


Definitions

- *Opportunity Costs*: What is given up to obtain an item.
 - *Marginal*: Incremental.
 - *Economic/Allocative Efficiency*: Economic choices that balance marginal social benefits and marginal social costs.
 - *Market Failure*: A situation in which markets fail to make economic choices efficiently.
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Definition of Microeconomics

- The study of how individuals and societies use scarce resources and make choices to attempt to provide (the materials of) “well-being”
 - Well-being defined in terms of consumption levels
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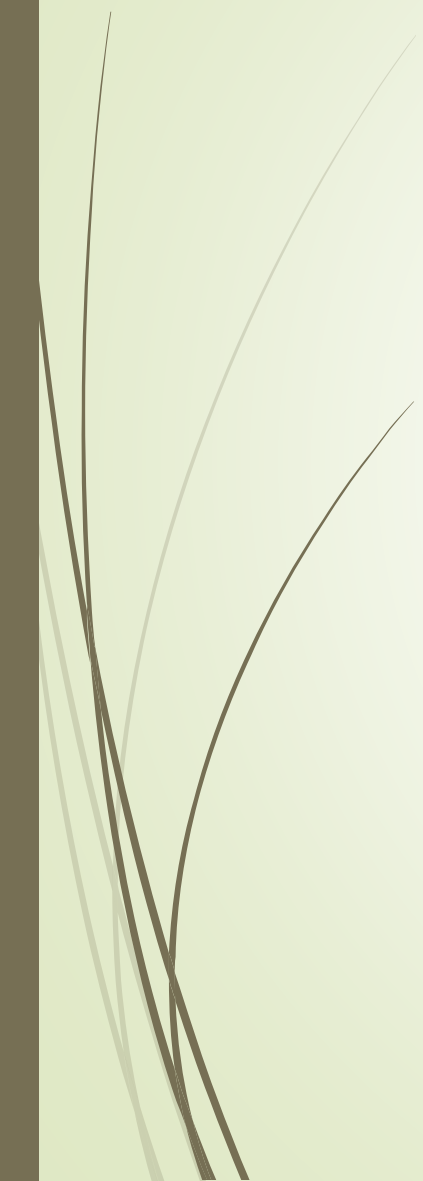


Types of Scare Resources

- *Natural resources*: Gifts of nature
- *Physical capital*: Produced goods used as fixed resources to produce other goods
- *Human capital*: Persons with their education, training, and skills
- *Knowledge capital*: Scientific, technical, and market knowledge residing in organizations
- *Social capital*: Relationships used to obtain information and knowledge and to develop trust
- *Cultural capital*: Identity-oriented assets that give rise to cultural value

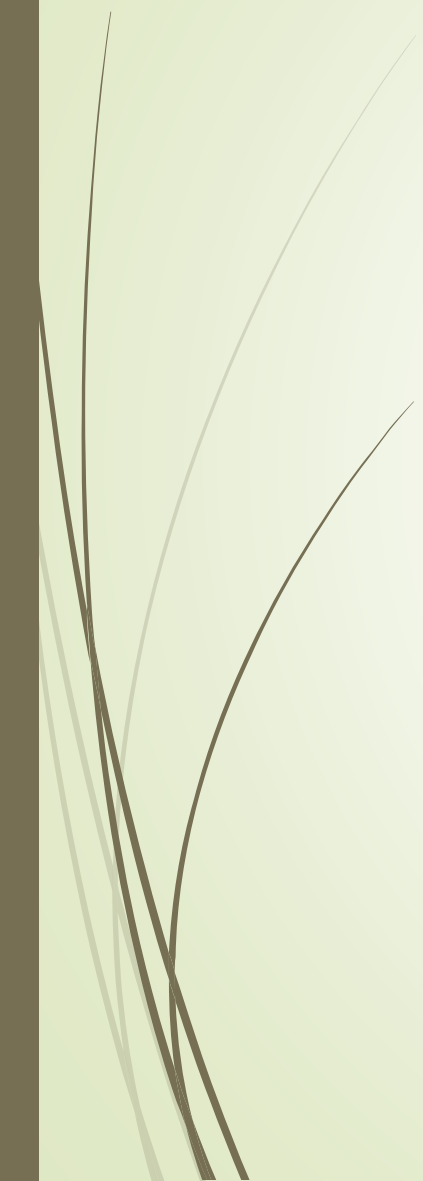


Types of Economic Decisions

- *Ownership Decision*: who owns what scarce resource
 - *Resource Allocation Decision*: how scarce productive resources are allocated among productive units (firms)
 - *Product Output and Mix Decisions*: what and how much productive units (firms) will produce
 - *Product Distribution Decision*: distributing produced goods and services among households
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Perspectives of GCP 504

- Microeconomics (mainstream)
 - Standard measure of economic welfare in terms of consumption
 - Quantitative
 - Analytical regarding the appropriate role of government
 - Multilateral (despite its current reduced state)
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Thoughts from Tirole (2017)



“Economics is not in the service of private property and individual interest, nor does it serve those who would like to use the state to impose their own values or to ensure that their own interests prevail. It does not justify economies based entirely on the market nor economies wholly under state control. Economics works toward the common good; its goal is to make the world a better place.”