

APPLIED ECONOMICS FOR MANAGERS SESSION 19—

I. REVIEW: COMPLEMENTARY AND VERTICAL RELATIONS

A. GAINS FROM INTEGRATION:

1. QUALITY CONTROL
2. ELIMINATES HOLD-UP PROBLEM OF FIRM SPECIFIC ASSETS
3. REMOVES DOUBLE-MARGINALIZATION PROBLEM
4. POTENTIAL FOR PRICE DISCRIMINATION

B. COSTS OF INTEGRATION

1. LOSS OF COMPETITIVE PRESSURE
2. LOSS OF SUPPLIER SCALE ECONOMIES
3. LOSS OF SPECIALIZATION GAINS

C. CONTRACTS AND CONTRACT COSTS

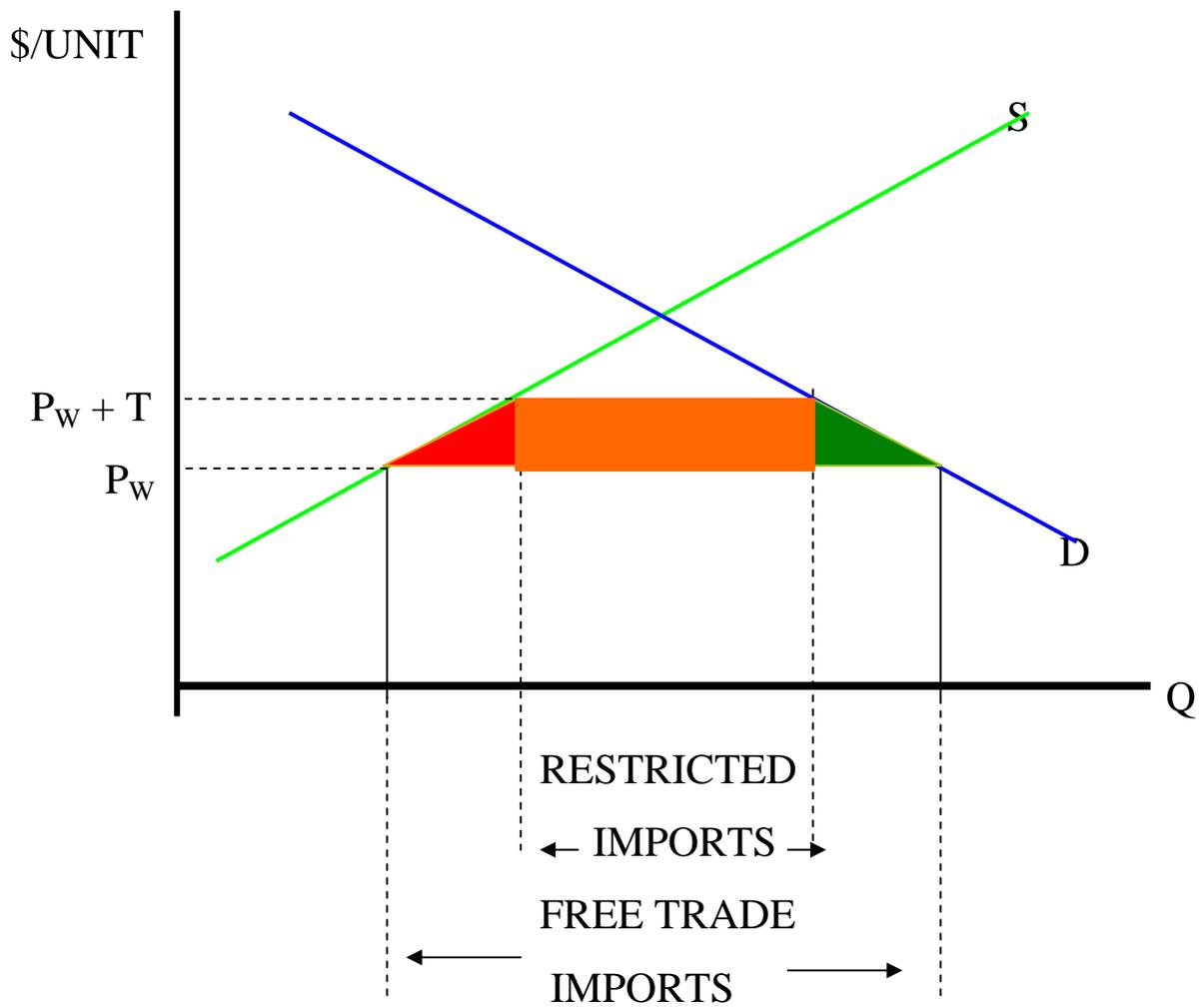
II. INTERNATIONAL TRADE—A PRIMER

A. A LESSON FROM THE GARDEN

1. TRADE BASED ON *COMPARATIVE* ADVANTAGE NOT ON *ABSOLUTE* ADVANTAGE
2. SOURCES OF COMPARATIVE ADVANTAGE
 - a. RESOURCE ENDOWMENTS
 - b. HISTORY—PATH DEPENDENCE
3. TRADE ADJUSTMENT IN ADAMLAND AND EVELAND

B. THE SIMPLE ECONOMICS OF PROTECTIONIST POLICIES

1. TOO MANY DOMESTIC RESOURCES ALLOCATED TO PROTECTED INDUSTRY
 2. TOO LITTLE OF THE PROTECTED COMMODITY CONSUMED
- STANDARD ANALYSIS OF TRADE PROTECTION



C. OTHER ISSUES

1. VARIETY
2. DOWNSTREAM USERS
3. COMPLEMENTARY PRODUCTS

III. INTERNATIONAL TRADE AND FINANCE

A. THE TRADE BALANCE & THE TRADE DEFICIT

1. NATIONAL INCOME = PRODUCTION = Y

a. INCOME CONSUMED, SAVED OR TAXED:

b. $Y = C + S_H + T$

2. PRODUCTION:

a. FOR DOMESTIC CONSUMERS, C

b. FOR NEW CAPITAL, I

c. FOR PUBLIC GOODS, G

d. PLUS FOREIGN DEMAND FOR DOMESTIC GOODS, X

e. LESS DOMESTIC DEMAND FOR FOREIGN GOODS, M

f. $Y = C + I + G + X - M$

B. THE FUNDAMENTAL EQUATION OF THE CURRENT ACCOUNT

1. $C + S_H + T = C + I + G + X - M$

2. $S_H + (T - G) - I = X - M$

3. CURRENT ACCOUNT EQUAL TO:

a. THE DIFFERENCE BETWEEN TOTAL DOMESTIC PRODUCTION AND DOMESTIC SPENDING

b. THE DIFFERENCE BETWEEN TOTAL DOMESTIC SAVINGS (PRIVATE & PUBLIC) AND DOMESTIC INVESTMENT