

Name _____

ECON 136, Spring 2016

Homework #5

Due Oct. 26, 2016

Read the short article by Paul Krugman, "What Do Undergrads Need to Know About Trade?" (www.gibson2.com/econ136/KrugmanUndergradTrade.pdf). It discusses a number of fallacies about international trade which he summarizes as "pop internationalism." Krugman won a Nobel Prize for his work in international economics, and in my opinion he richly deserved it, notwithstanding some of the nonsense that he writes for the New York Times these days.

Preview: in the third paragraph he says "most of what a student is likely to read or hear about international economics is nonsense ... the most important thing to teach our undergrads about trade is how to detect that nonsense." This is totally in line with the mission of the SJSU Economics Department which is to teach you to think critically.

Krugman lists several assertions which he summarizes as "pop internationalism." Please write a page or so (*typed* if at all possible, with your name at the top). Summarize Krugman's arguments on the following points, and feel free to add your own opinion.

1. Contrary to pop internationalism, "competitiveness" is a concept that applies to business firms, not nations, says Krugman. Against whom do companies primarily compete, if not their foreign rivals? Krugman says they not deserve government support against foreign competitors? Or more accurately, no more support they might deserve in a closed (no-trade) economy. Who would bear the expense of such support, according to Krugman?
2. The central issue in trade matters is employment, according to pop internationalists. "Jobs, jobs, jobs," said President Bush (41). That's wrong, says Krugman: tariffs and other trade restrictions have very little effect on levels of employment. What are the primary short-run and long-run determinants of levels of employment?
3. International competition is a struggle over who gets the "high-value" sectors according to pop internationalists. Contrast this with what we learned in our study of Ricardian comparative advantage. Suppose the U.S. has a comparative advantage in producing computers while Burkina Faso has a comparative advantage in growing cotton. Is Burkina Faso worse off if they focus on cotton

production and trade some away for U.S. computers? Should the Burkina Faso government adopt an industrial policy that promotes the development of their very own national computer company? (Brazil tried this and it was a bust.)

4. According to pop internationalists, or mercantilists, exports are the purpose of international trade. Wrong, says Krugman: the basic purpose of international trade is ____ (fill in the blank). Elaborate on this point. Do you agree?
5. Feel free to comment on any of Krugman's other points.