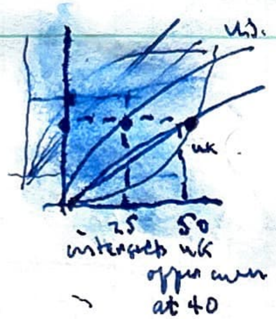
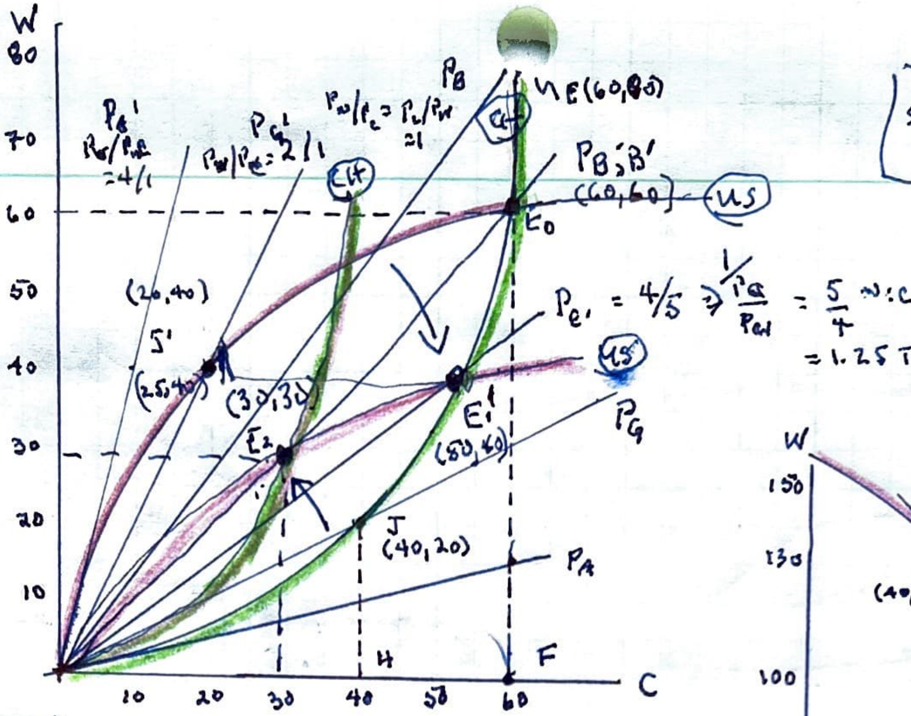




SCENARIO: US 100% M tariff C

⇒ US wants 100% more C

= 2x C/W

⇒ Rotate ↓ to US' at E_1'

60C → 50C

60W → 40W

Then CH Retaliates by shifting UP

⇒ CH wants 100% more W = 2xW/C

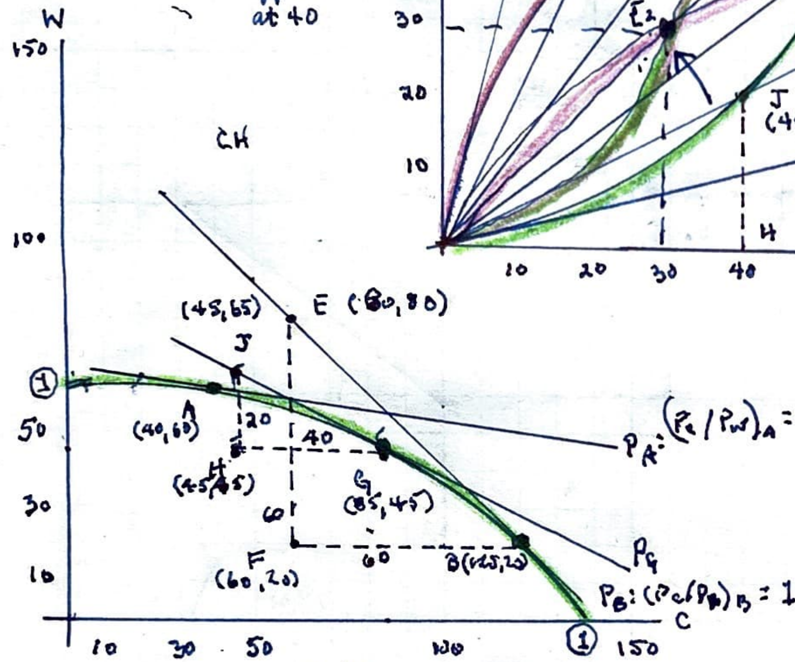
→ Move to E_2'

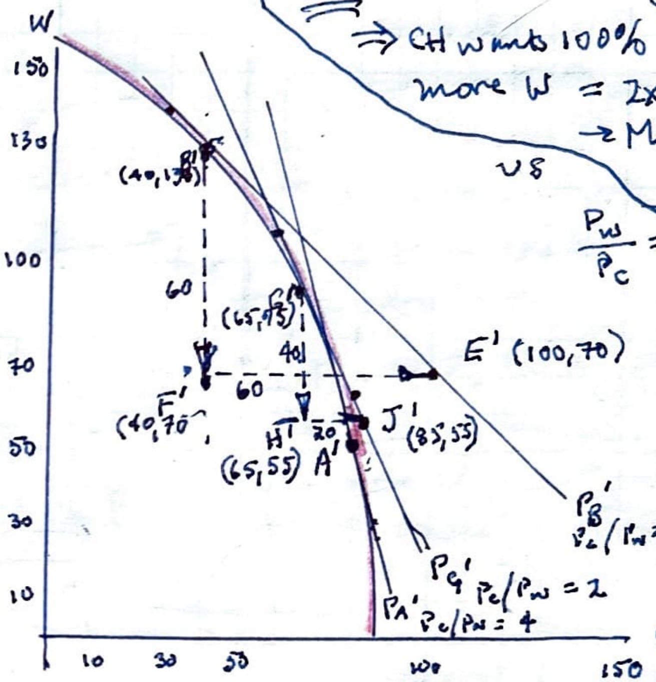
US

$\frac{P_W}{P_C} =$

↓

Both Suffer

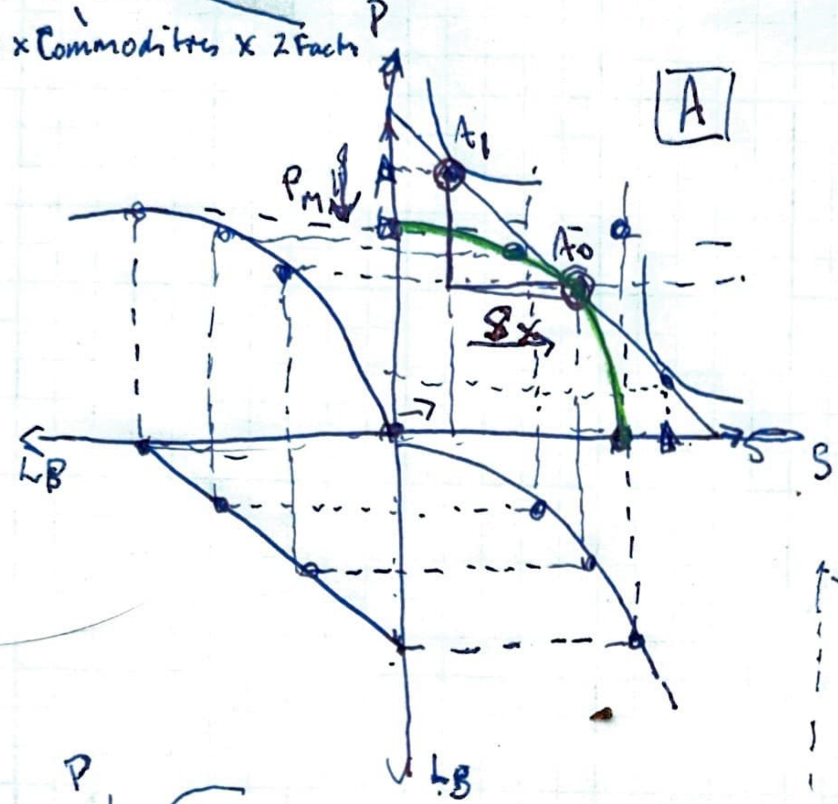


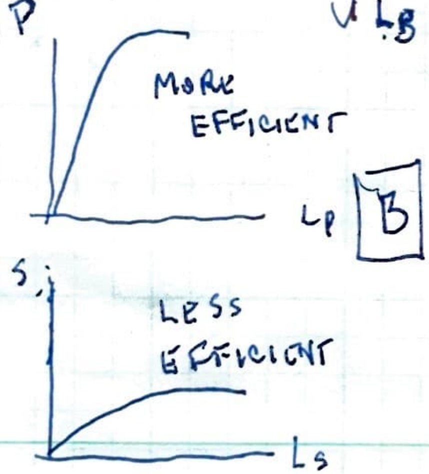


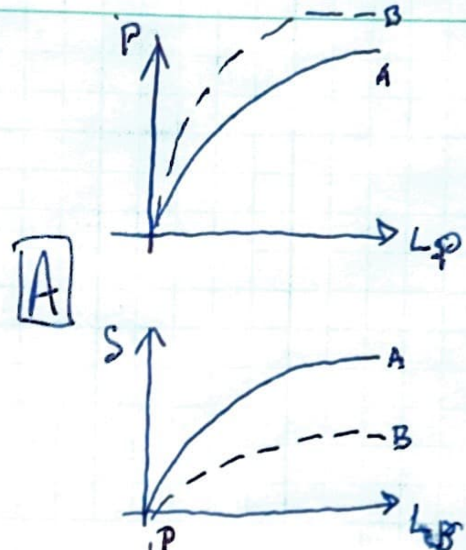
		P_C/P_W		X, M
PRETRADE	A	1/4	A	0C, 0W
TRADE	B	1	E	60C, 60W
on this	G	1/2	J	40C, 40W

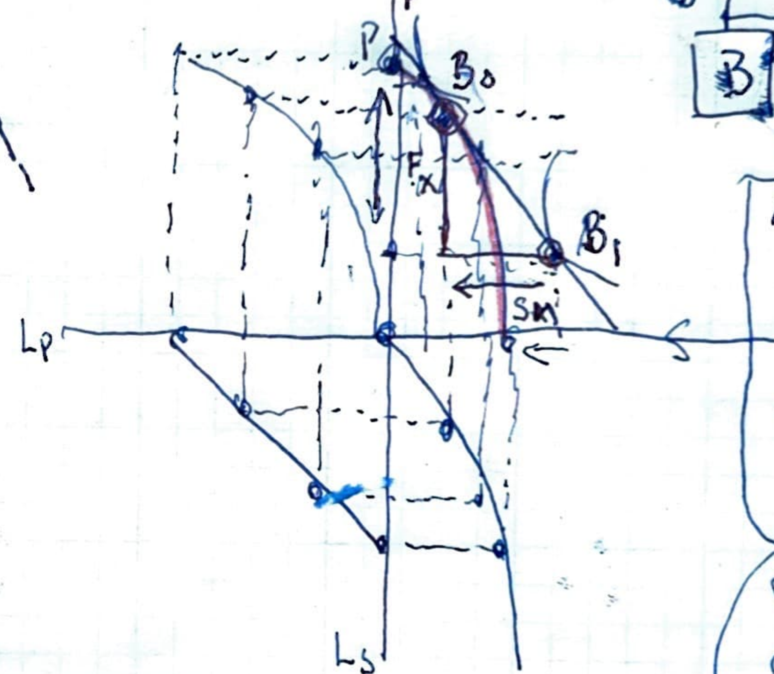
[SEE FACTOR ENDOWMENT DERIVATION OF PPF ON NEXT PAGE]

2 x 2 x 2
Actors x Commodities x 2 Factors









Why trade?

A requires more P than can be produced

$A_0 \to A_1 \to P_M, S_X$

B requires more S than can be provided

B

$B_0 \to B_1 \to P_X, S_M$

A more efficient producing S than B

B more efficient producing P than B

Factor-based Comparative Advantage

FACTOR DEPENDENT TRADE