Date: 04.01.02

Question and Definition:

Q: Why does the depreciation of currency stimulate inflation?

A:

1. Increases price of imported goods directly
2. Raises costs and thus raises other prices

Definition: Tariff-Quota

- A hybrid of a tariff and quota, featuring two levels of tariffs, one for low levels of imports and one for high levels (e.g. first 100 units of a good face one tariff, all other units face another).

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Lecture: International Policies for Economic Development: Trade

I. Issues

A. Should LDCs be open to international trade?
B. Should LDCs be open to international capital flows?
IMF and WB say yes to both questions.

II. The Washington Consensus

See slide "Washington Consensus"
-This is what the IMF & WB want a country to have in order to receive help.
Tax Reform: improve the tax system to lessen distortion in the economy
Financial Liberalization: permit free flow of capital
Trade Liberalization: "free trade"
-however, remember that developed countries often have their highest tariffs on imports from LDCs.

III. Special Problems of Developing Countries

Name: LDCs: Less Developed Countries

Problem: Low percapita GDP
Don't have:

- Physical capital
- Technology
- Human Capital
- Infrastructure
- Markets (especially capital markets)
- "Economic Freedoms"

-Eberstadt: rule of law
sound money (money that you can trust value of)
open markets
transparent & accountable government regulations

They often have:

- Overpopulation
- Poor health and sanitation
- Corruption

See Chart on web detailing distribution of percapita national income

IV. Pros and Cons of Free Trade for LDCs

Pros: same as for Developed Countries

- Efficiency gains from comparative advantage
- Improved competition, variety, scale economies, and quality
- Promotes growth through exports

Cons:

A. Infant Industry Argument: industries are too new and do not have enough experience to compete with more firms from abroad. They must be protected so they can produce and learn. Note that if there were perfect capital markets this problem would not exist because companies would be able to borrow money to survive the period of losses in the beginning until they made profits. However, in LDCs firms may not even be able to get loans, even if they will be successful in the future. This is the classic argument for protection, but in last half century the policy does not seem very successful and may have made some nations worse off.

(continued on 04.03.02)