

College of Social Studies
Junior Economics Tutorial
Elements of Latin American Economic Development

Spring 2003

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Week I: Comparative Advantage I

Readings

- Bulmer-Thomas, Victor, *The economic history of Latin America since independence*, 1st edition, Cambridge University Press, Ch. 4
- Myint, Hla (1958), "The 'classical theory' of international trade and the underdeveloped countries," *Economic Journal* 68, Num. 270, pp. 317-37 [JSTOR]
- Ricardo, David (1815), *An Essay on the Influence of a Low Price of Corn on the Profits of Stock showing the inexpediency of Restrictions on Importation; with remarks on Mr Malthus' two last Publications*, 1815 [David Ricardo web site]
- Smith, Adam (1776), *An inquiry into the nature and causes of the wealth of nations*, Indianapolis: Liberty Fund, 1981, Vol. 1, pp. 446-51 and paragraphs 15-16 pp. 458-9

Discussion

David Ricardo is widely regarded as the father of modern trade theory. Both his concepts of comparative advantage and gains from trade and his abstract method of analysis lie at the core of subsequent developments, ranging from the Heckscher-Ohlin model to the new trade theories of the last twenty years. Yet, in his appraisal of how the economy works, Ricardo also emphasized political and class interests. His essay on profits, which precedes his *Principles* by two years, makes it clear that behind the abstract demonstration of the gains from trade presented in the famous chapter 7 of the *Principles* lie political and class considerations. The essay makes it clear that free trade produces both winners and losers.

While Ricardo's essay clarifies who wins from free-trade from the perspective of England, Hla Myint's rendition of Adam Smith's vent-for-surplus theory of trade discusses the benefits of free trade for developing countries during the export boom of the last part of the XIX century. Bulmer-Thomas is a useful source to evaluate how trade theories were actually applied in Latin America. He presents a comprehensive review of the facts of export-led development in the region between 1870 and 1914.

Assignment

This week's essay will not be graded, but will start paving the ground for next week's essay. You have two options. (a) Compare and contrast the views of Ricardo and Myint concerning the advantages of free trade, in the first case to industrial and in the second case to developing countries. (b) Explain the difference between Ricardo's and Smith theories of comparative advantage according to Myint, and then take selected elements of Bulmer-Thomas to assess which of these theories seem more appropriate to Latin America. In either case, the essay can be fairly short, of around 3 pages.