

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

Spring 2003

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Week II: Comparative Advantage II

Readings

- Heckscher, Eli F. (1919), "The effect of foreign trade on the distribution of income," in Harry Flam and M. June Flanders (eds.), *Heckscher-Ohlin trade theory*, Cambridge, MA: MIT Press, 1991, pp. 43-69
- Lebergott, Stanley (1980) "The Returns to U.S. Imperialism, 1890-1929," *Journal of Economic History* 40, Num. 2, pp. 229-252 [JSTOR]
- Lindert, Peter (1991), *International Economics*, 9th edition, Ch. 2 and Ch. 4, pp. 73-8
- Taussig, Frank W. (1915), *Some aspects of the tariff question*, Cambridge, MA: Harvard University Press [Internet]
- Wells, Allen (2001), "Did 1898 mark a fundamental transformation for the Cuban sugar industry?" [Internet]

Discussion

Ricardo's theory remained unchallenged for over a century, until the publication of the 1919 article of Eli Heckscher and the Ph.D. thesis of his disciple, Bertil Ohlin (in 1933). The Heckscher-Ohlin model follows Ricardo's footsteps in showing that countries benefit from free-trade, while addressing an important lacunae in their predecessor's model: Where do the differences in labor productivity across countries come from? To answer this question, the Heckscher-Ohlin model considers an economy with two, instead of one, factors of production, constant returns to scale, and most remarkably, identical technologies across countries. In this setting, comparative advantage emerges as a result of differences across countries in the relative abundance of factors.

Assignment

In your essay you will examine to what extent the Heckscher-Ohlin model matches the facts. For that purpose you will consider the effects of the opening of the US market for Cuban sugar after 1898. The main source about Cuba is Lebergott's article, but Wells and Taussig are very useful complements. In looking about the appropriateness of the Heckscher-Ohlin model to interpret the facts, look especially at changes in rents, profits, and wages in Cuba [and other countries discussed by Lebergott], variables about which this trade model has specific predictions. Your essay will have a length of approximately 7-8 pages.