Economies of Scale, Imperfect Competition and Trade

The story so far

1. **The Gravity Model**

2. **The Ricardian Model**

   Driving force behind trade: comparative advantage; *i.e.* differences in technology (labor productivity)

   Focus: gains from trade; distributional problems ignored

3. **The Specific Factors Model**

   Driving force behind trade: differences in technology or factor abundance

   Focus: gains from trade; distributional issues

4. **The Heckscher-Ohlin Model**

   Driving force behind trade: the only driving force behind trade is differences in resources [*e.g.*, Canada exports forest products, Saudi Arabia oil, and the U.S. skill-intensive products such as software]

   Focus: income distribution still an issue even though both factors are used in both sectors, patterns of trade

5. **General Theory of International Trade**

   Driving force could be similar to 2 or 3 above.

   Focus: factors that might cause changes in terms of trade: growth, income transfers, tariffs and subsidies.

So, essentially, other than the Gravity Model, in all of the above models *differences* among countries (in a sense, some form of comparative advantage) lead to trade and specialization.