

SEMINAR

Modular Production and Endogenous Strength of Comparative Advantages

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ABSTRACT:

This paper complements the classical Ricardian-type international trade theories by proposing an endogenous approach to determine the strength of comparative advantages. We show that the size of production modules governs the strength of comparative advantages. Reduction of module size, or “module sharpening”, unleashes the comparative advantages that were previously trapped in bundled productions of larger modules, since submodules, where the country had comparative disadvantages, had to be bundled together with those of comparative advantages for international trade. As module sharpening strengthens the comparative advantages, it complements trade liberalization in generating welfare gains. Our theory, linking modular production with the strength of comparative advantages, is helpful to understand not only gains from trade in particular, but also how division of labor is achieved and comparative advantages are exploited more generally.

BIOGRAPHY:

Prof. LI Zhiyuan is Professor from School of Economics at Fudan University. He graduated from Tsinghua University in 2001 and received his Ph.D. from the University of California, Davis in 2010. He was the winner of An Zijie Award of International Trade Research (2018). His research interests include International Economics, Industrial Organization. Prof. LI's publications have appeared in top journals as Review of Economics and Statistics, Journal of International Economics, Journal of Economic Behavior & Organization and World Economy.

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