ECON 182 | SUMMER 2026

Trade Gains and Distributional Effects

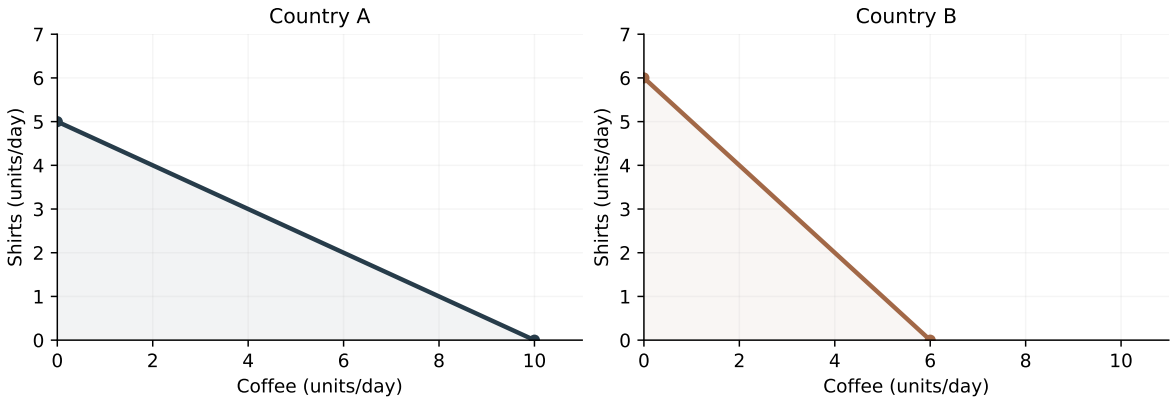
Selected lecture notes | Comparative advantage, labor-market adjustment, and policy

The gains from international trade and the distribution of those gains are different questions. We begin with a simple model of comparative advantage, then consider what happens when workers and firms cannot adjust immediately.

1. Comparative advantage: a two-country example

Suppose each country can devote its resources to producing coffee or shirts. The table reports daily output if all resources are devoted to one good.

	Coffee (units/day)	Shirts (units/day)
Country A	10	5
Country B	6	6



Opportunity costs. In Country A, one extra unit of coffee costs 0.5 shirts; in Country B it costs 1 shirt. A has comparative advantage in coffee, while B has comparative advantage in shirts.

If one coffee trades for 0.75 shirt, the price lies between the two countries' opportunity costs. A can obtain more shirts by exporting coffee than by producing additional shirts at home; B can obtain coffee at a lower cost by importing it.

Question. Country A also produces more coffee per day in absolute terms. Why is this not enough to determine the pattern of trade? *Answer:* Trade depends on relative, not absolute, production costs.

2. A national gain need not be a gain for every worker

Lower trade barriers can reduce consumer prices and expand markets for exporters. They can also increase competitive pressure on domestic firms that produce competing goods.

Group	Potential gain	Potential loss or adjustment
Consumers	Lower prices and more variety	Some may also lose labor income
Exporters	Wider markets and larger production scale	Greater exposure to foreign demand
Input-using firms	Cheaper imported materials or equipment	Supply-chain and trade-policy risks
Import-competing firms and workers	Access to some cheaper inputs	Lower output prices, job displacement, or wage pressure

Why adjustment takes time

Consider a town where much of the workforce is employed in an import-competing industry. A fall in the price of imported goods may benefit consumers, yet workers in this town may face reduced hours, job loss, or a costly move to another industry.

Import competition $\longrightarrow$ sectoral job losses $\longrightarrow$ costly adjustment

The adjustment cost can arise from industry-specific skills, moving expenses, housing markets, or a shortage of local vacancies. These frictions help explain why a policy that raises aggregate income may still face strong local opposition.

Two questions to keep separate

1. Does trade increase the total value of goods and services available to the economy?
2. Which workers, firms, and regions receive those gains, and who bears the costs of adjustment?

Answering the first question does not answer the second.

3. Evidence: import competition and local labor markets

Autor, Dorn, and Hanson (2013) study the effect of rising Chinese import competition on U.S. local labor markets. U.S. regions differed in their initial industrial composition, so they were differently exposed to subsequent import growth.

Empirical comparison
Regions with greater exposure to import competition experienced more adverse employment and earnings outcomes. These effects were concentrated in particular places and did not disappear immediately.

This evidence highlights a feature that a two-good trade model leaves out: workers cannot necessarily move from a contracting industry or region to an expanding one at low cost.

Reading the evidence carefully

1. What creates variation in exposure to import competition across local labor markets?
2. Why might the same trade shock have different effects in two regions?
3. Do negative effects in highly exposed regions, by themselves, establish that national gains from trade are negative?

Discussion. Local employment losses are an important policy outcome, but they are not a measure of the economy-wide welfare effect of trade. A complete assessment must also consider prices, consumers, exporters, and the costs of adjustment.

Selected references: Autor, D., Dorn, D., and Hanson, G. (2013), "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review* 103(6), 2121–2168; World Bank (2020), *World Development Report 2020: Trading for Development in the Age of Global Value Chains.*

4. Policy exercise

A region has lost manufacturing employment following increased import competition. Policymakers are considering either a tariff on the imported final good or assistance for displaced workers. Assume the tariff increases the domestic price of the good.

1. Who is likely to benefit from the tariff? Who is likely to bear its costs? Identify the price or employment mechanism in each case.
2. How might worker assistance (income support, training, or relocation support) address a different problem from a tariff? What problem might it leave unresolved?
3. What evidence would you need to evaluate each proposal? Consider employment, wages, consumer prices, fiscal costs, and the duration of adjustment.

Short written response. In about 150 words, recommend one policy. Explain who benefits, who bears the costs, and which observable outcome you would use to assess the policy.

Adapted from ECON 182 lecture materials taught in Summer 2026. Numerical production examples are simplified for classroom use; they are not estimates from observed national economies.