

The Impact of International Trade and Finance through Education

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Abstract

This study examines the impact of international trade and finance through individuals' educational choice on aggregate consumption (production) and welfare. I separate international finance from international trade and compare “trade with financial integration” to “trade without financial integration”. The results are as follows. Both in the closed and small open economy, the amount of skilled labor (individuals getting education) is too small to maximize the aggregate production. Financial integration increases (decreases) the positive effect of trade on welfare in a country which has comparative advantage in skilled (unskilled)-labor-intensive sector. These results are derived from the dynamic effect of education on production.

Keywords: educational choice, international trade, financial integration, dynamics

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