

A Ricardian model of trade and growth with endogenous trade status

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Abstract

We formulate a two-country, continuum-good Ricardian model of trade and endogenous growth with endogenous trade status. After establishing the existence, uniqueness, and global stability of a balanced growth path, we show that, compared with the old balanced growth path, a permanent fall in the trade cost in any one country: (i) raises the growth rates of capital in all countries for all periods; (ii) increases both the range of the imported varieties and that of the exported varieties in all countries for all periods; and (iii) raises welfare in all countries. Our theoretical predictions fit well with the empirical evidence.

JEL classification: F13; F43

Keywords: Ricardian model; Endogenous growth; Endogenous trade status; Unilateral trade liberalization; Terms of trade

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