ABSTRACT

The present study deals with the theoretical and empirical aspects of the role and behaviour of the terms of trade in the context of the developing economies.

Chapter 1 of the study provides a brief introduction to this subject. In Chapter 2, a brief survey of the existing literature related to the role and behaviour of the terms of trade has been given.

In Chapter 3, a three-sector general equilibrium model has been considered with urban unemployment of unskilled labour. The unskilled workers migrate from the rural area to the urban area on the basis of the Harris-Todaro (1970) migration mechanism. Skilled labour is sector-specific and is used to produce an exportable urban manufacturing product. Our study shows that the impact of improvement in terms of trade on wage gap and urban unemployment rate of unskilled workers is not obvious. It depends upon the source of this improvement. The major results of the model remain unchanged even when open or disguised unemployment in the rural sector is introduced.

In Chapter 4 of the study, we have developed a four-sector general equilibrium model with urban unemployment of unskilled labour. There is Harris-Todaro (1970) type migration of unskilled workers from the rural area to the urban area. Foreign capital is sector-specific and is used to produce an exportable urban manufacturing product. Our study shows that the impact of a more liberalised investment regime and improvement in terms of trade, irrespective of its source, lead to reduction in the skilled-unskilled wage
gap and the rate of urban unemployment of unskilled workers. In this model, there is no ambiguity about the impact of the improvement in terms of trade upon the skilled-unskilled wage gap and the rate of urban unemployment of unskilled workers. Perfect mobility of skilled workers plays the key role in removing this ambiguity.

In Chapter 5, we have developed a three-good two-factor model to study the behaviour of terms of trade in the presence of nontraded goods. It is seen that the market for nontradeables plays an important role in influencing the equilibrium value of the terms of trade for the domestic country. If the process of development and the liberalisation of trade lead to a rise in the demand for nontradeables and domestic exports there will be an improvement in the terms of trade for the home country. Again a rise in the stock of capital will improve the terms of trade if importables are relatively more capital intensive than the exportables.

In Chapter 6, we have analysed a North-South trade model in which the Southern labour market is decomposed into skilled labour and unskilled labour. The skilled labour is an intermediate input produced with capital and unskilled labour. The South is a net receiver of foreign capital from the North. Terms of trade is endogenously determined and it plays an important role in influencing the stock of skilled labour and the inflow of foreign capital in the South. Our study shows that a policy of trade liberalisation in the South may deteriorate the terms of trade but it may increase the inflow of foreign capital and the supply of skilled labour. Moreover, we have also seen that a rise in the domestic capital formation may improve the terms of trade for the South.
Chapter 7 of this study analyses the behaviour of different aspects of terms of trade for India over the period 1970-71 to 2000-01. We have made this study in the context of growth in its trade openness and the share of manufactures in total exports. The trend rates of growth of the degree of trade orientation, the share of manufactured exports and different aspects of terms of trade have been estimated. It is found that terms of trade faced by India has improved over the years when the country has been able to improve her trade openness and the share of manufactured exports. The regression analysis of different terms of trade on the share of manufactures also gives statistically significant results. This Chapter also makes an exogeneity test to see whether ‘small country assumption’ can be applied to India. Our study shows that terms of trade for India is truly exogenous and thus ‘small country assumption’ can be applied to India in the analysis of its foreign trade.