I. REVIEW: TRADE AND COMMERCIAL POLICY

A. RICARDO’S ENDURING INSIGHT
   1. TRADE BASED ON *COMPARATIVE* ADVANTAGE NOT ON *ABSOLUTE* ADVANTAGE
   2. FREE MARKETS TEND TO EXPLOIT COMPARATIVE ADVANTAGE TO MUTUAL BENEFIT OF BOTH COUNTRIES
   3. SOURCES OF COMPARATIVE ADVANTAGE
      a. RESOURCE ENDOWMENTS
      b. HISTORY—PATH DEPENDENCE

B. THE SIMPLE ECONOMICS OF PROTECTIONIST POLICIES
   1. TOO MANY DOMESTIC RESOURCES ALLOCATED TO PROTECTED INDUSTRY
   2. TOO LITTLE OF THE PROTECTED COMMODITY CONSUMED
   3. LOSS OF VARIETY
   4. LOSS OF INNOVATIVE PRESSURE

C. INTERNATIONAL TRADE AND FINANCE ACCOUNTING
   1. THE FUNDAMENTAL EQUATION OF THE CURRENT ACCOUNT
      \[ S_H + (T - G) - I = X - M \]
   3. CURRENT ACCOUNT EQUAL TO:
      a. THE DIFFERENCE BETWEEN TOTAL DOMESTIC PRODUCTION AND DOMESTIC SPENDING
      b. THE DIFFERENCE BETWEEN TOTAL DOMESTIC SAVINGS (PRIVATE & PUBLIC) AND DOMESTIC INVESTMENT
II. THE ISSUE THAT DARE NOT SPEAK ITS NAME: EQUITY

A. MOVEMENT OVER TIME IN THE DISTRIBUTION OF INCOME AND WEALTH

B. THE FUNCTIONAL DISTRIBUTION OF INCOME

C. INCOME BY QUINTILE

D. THE MOBILITY ISSUE

III. EXPLAINING GROWING INEQUALITY

A. SATISFACTORY EXPLANATION MUST
   1. CAPTURE PERVASIVENESS OF THE CHANGE
      a. ACROSS GROUPS
      b. ACROSS REGIONS
   2. BE CONSISTENT WITH ECONOMIC THEORY

B. SOME ELEMENTS OF A MODEL
   1. INCREASED RETURN TO HUMAN CAPITAL
   2. INCREASED PREVALENCE OF “WINNER-TAKE-ALL MARKETS”—ATHLETES, MOVIE STARS, CEO’S

IV. DO WE CARE?
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## INCOME MOBILITY TRANSITION MATRIX, 1968-91

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Source: Gottschalk tabulations of the PSID, (1997).