

## **A Ricardian Model of Multicountry Multicommodity Trade**

Topic: International Trade 3

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Abstract:

Modern multidimensional trade models that follow the tradition of Eaton and Kortum are based on the assumption that intercountry productivities are random variables. Moreover these models postulate the existence of aggregative summary statistics applicable across goods that can be used to rank countries by absolute and comparative advantages. In so doing the model completely bypass the problems of determining the pattern of comparative advantage in a multicountry situation and the complex interactions between the comparative advantage and the terms of trade that are characteristic of multi country multicommodity trade situation. Also in spite of their sweeping postulates they nevertheless end up with very special conclusions, eg. that each good is purchased by a given importing country only from one exporting country. Analytical formworks of the Eaton-Kortum type are in striking contrast with the multidimensional trade models of Graham, McKenzie and Jones which are based on the assumption of given productivity and demand conditions in different countries and seek to determine the equilibrium trade pattern, intercountry trade volumes and the terms of trade. Even though they are based on simpler assumptions they offer more general conclusions. In this paper we have developed a Ricardian multicountry multicommodity trade model and have illustrated some of its applications.

Key words: Multilateral trade, Multicountry Comparative Advantage, International Ration of Country Exchange.

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