ABSTRACT

This study aims to incorporate trade theory into an overlapping-generation model to see the general equilibrium model with the effects of trade. The first part of this study uses small countries in an integrated economy approach while the second part investigates in two-economy environment. The study also describes the effect of changing over time in saving rate and population growth – in other perspective, the dependency ratio –on the capital accumulation and trade in the small economy model, but on the price at the steady state in a two-economy model.

Many trade and growth studies in a small economy model use Ramsey model with tradable intermediate goods and nontradable final good following Ventura (1997). Unlike those studies, this thesis uses overlapping generations model with tradable intermediate and final goods in order to capture the real world. However, an integrated economy approach to see the equilibrium prices and dynamic economy is adopted similarly to the previous studies. With the integrated economy, all demands and supplies also depend on the world prices and eventually the world's capital-labor ratio. Hence, the dynamic economy of a particular country to the world economy is also the relative specific rate of saving and dependency ratio of that country to the world average's.

In the case of two-country, in contrast to the small economy model, each economy's characteristics can influence the price of the world market since the prices are solved from market clearing conditions. Most studies in the context of overlapping generations and trade in two-country model usually accompany with two goods. Distinctively, this study is comprised of two intermediate goods and one final good. All of them are tradable. Unfortunately, there is no closed form solution for a steady state of price. Thus, numerical examples are selected to investigate the effects of country's specific parameters.

Since both models assume constant returns to scale on production and no factor intensity reversal, Stolper-Samuelson and Rybczynski is also satisfied. However, as a result of different solving methods, the results on explanation the world are also distinguished. The small economy model can describe the convergence in an open economy through trade and capital accumulation by comparable to the world resources and dynamics. On the other hand, the two-economy can describe the interaction between country's specific parameters on price at steady state.