QUALITY LADDERS IN A RICARDIAN MODEL OF TRADE WITH NONHOMOTHETIC PREFERENCES

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Abstract
The North-South trade literature has traditionally explored conditions under which international trade might further magnify income disparities between the advanced North and the backward South. We show that even when no single country is initially more advanced than any other one and productivity changes are uniform and identical in all countries, trade may still be a source of income divergence when nonhomothetic preferences and quality ladders are jointly taken into account. Income divergence will be experienced when comparative advantages induce patterns of specialisation that, although initially optimal for all countries, do not offer the same scope for quality upgrading of final products. (JEL: F11, F43, O40)