

**Economics 521-B1
International Economics I
Winter 2008**

Course Outline

Instructor: Prof. Loretta Fung

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Office: 7-20 Tory

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Office Hours: Mondays 5 to 6pm, Thursdays 11-12am, or by appointment

Class Meets: MW 3:00 to 4:20 pm

Location: TB-100

Website: <http://www.arts.ualberta.ca/~econweb/fung/courses/ecn521/ecn521.html>

Course Description:

This course covers international trade theories and policies. The discussion begins with trade models under the assumptions of perfect competition and constant returns to scale. We then move on to relax these assumptions and discuss about the models of monopolistic competition, increasing returns to scale, and international trade developed in the 1980s. When covering these models, we will address their different implications on the motivation to trade, pattern of trade, and the gains from trade. We then cover topics in the theories of trade policies, endogenous growth, and multinational corporations. Although this course will focus on theories, we will also explore related policy issues and empirical works. Students have to be familiar with advanced microeconomic tools such as consumer and producer theories, basic game theories, partial equilibrium models with perfectly and imperfectly competitive markets, and general equilibrium models.

Prerequisites: Economics 481 and 482.

Required Textbook:

Feenstra, R. C., *Advanced International Trade: Theory and Evidence*. Princeton University Press, 2004. (Feenstra hereafter)

The textbook is available at the bookstore. It is highly recommended that you buy a copy of this textbook since the course materials will be mainly based on it. A copy of this book is on reserve at the Rutherford Library. I will assign related papers as the class progresses.

Other Useful Books:

Surveys

Leamer, E. E. (ed.), *International Economics. Worth Series in Outstanding Contributions*. Worth Publishers, 2001. (Leamer hereafter)

Grossman, G. M. (ed.), *Imperfect Competition and International Trade*. MIT Press, 1992. (Grossman hereafter)

Monographs

Helpman, E. and P. R. Krugman, *Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition, and International Economy*. MIT Press, 1985.

Helpman, E. and P. R. Krugman, *Trade Policy and Market Structure*. MIT Press, 1989.

Evaluation:

The course grade is based on three elements: 5-6 assignments, a midterm, and a final. Assignments will be given when we approach the end of each major topic and they will consist of both technical questions and/or article reviews. You have seven or ten days to work on each of them. The midterm will be scheduled in class on February 25. The final will be given according to the exam schedule and it is *not* cumulative. The grades will be assigned on a curve according to the following formula:

- 20% Assignments
- 35% Midterm **on February 25 (Monday) in class**
- 45% Final **on April 23 (Wednesday) at 2:00pm**

*Please make sure that you do not have schedule conflict for the final exam. Please refer to the *University calendar §23.5.6* regarding regulations on absence from exams.

Final course grades are determined according to the *University calendar §23.4*:
 Grades reflect judgments of student achievement made by instructors. These judgments are based on a combination of absolute achievement **and** relative performance in a class.

| Grading In Graduate Courses | | |
|--|-------------------------|------------------------|
| <i>Descriptor</i> | <i>Letter Grade</i> | <i>Point Value</i> |
| Excellent | A+ | 4.0 |
| | A | 4.0 |
| | A- | 3.7 |
| Good | B+ | 3.3 |
| | B | 3.0 |
| | B- | 2.7 |
| Satisfactory | C+ | 2.3 |
| | C | 2.0 |
| Failure | C- | 1.7 |
| | D+ | 1.3 |
| | D | 1.0 |
| | F | 0 |

The University of Alberta is committed to the highest standards of academic integrity and honesty. Students are expected to be familiar with these standards regarding academic honesty and to uphold the policies of the University in this respect. Students are particularly urged to familiarize themselves with the provisions of the Code of Student Behaviour (online at www.ualberta.ca/secretariat/appeals.htm) and avoid any behaviour which could potentially result in suspicions of cheating, plagiarism, misrepresentation of facts and/or participation in an offence. Academic dishonesty is a serious offence and can result in suspension or expulsion from the University.

Topics:

Note: * denotes required readings.

1. Preliminary: The Two-Sector Model
 - *Feenstra, chapter 1.
 - Leamer, E. E., *Sources of International Comparative Advantage: Theory and Evidence*, Chapter 1. MIT Press, 1984.
 - Jones, R. W. (1965). "The Structure of Simple General Equilibrium Models," *Journal of Political Economy*, December, 557-572. Reprinted in Leamer, 34-54.

Part I. Trade Models

2. The Heckscher-Ohlin Model
 - *Feenstra, chapter 2.
 - *Leamer, E. E. (1980). "Leontief Paradox Reconsidered," *Journal of Political Economy*, 88(3), 495-503. Reprinted in Leamer, 142-149.
 - Brecher, R. A. and E. U. Choudhri (1982). "The Leontief Paradox, Continued," *Journal of Political Economy*, 90(4), 820-823.
 - Leamer, E. E., *Sources of International Comparative Advantage: Theory and Evidence*, Chapter 2. MIT Press, 1984.
 - Bowen, H. P., E. E. Leamer, and L. Svekauskas (1987). "Multicountry, Multifactor Tests of the Factor Abundance Theory," *American Economic Review*, 77(5) 791-809. Reprinted in Leamer, 113-141.
 - Trefler, D. (1993). "International Factor Price Differences: Leontief was Right!" *Journal of Political Economy*, 101(6), 961-987.
 - *Trefler, D. (1995). "The Case of Missing Trade and Other Mysteries," *American Economic Review*, 85(5), 1029 -1046. Reprinted in Leamer, 151-175.
 - Davis, D. R. and D. E. Weinstein (2001). "An Account of Global Factor Trade." *American Economic Review* 91(5): 1423-53.
3. Many Goods and Factors (Specific Factors Model)
 - *Feenstra, Chapter 3.
 - Jones, R. W. (1971). "A Three-Factor Model in Theory, Trade and History," in Jagdish Bhagwati, et al., eds, *Trade, Balance of Payments and Growth: Papers in International Economics in Honor of Charles P. Kindleberger*. North-Holland.
4. The Impact of Trade on Wages
 - *Feenstra, chapter 4.
 - Feenstra, R. C. and G. H. Hanson (1996). "Foreign Investment, Outsourcing, and Wage Inequality," in Robert C. Feenstra, Gene M Grossman, and Douglas A. Irwin, eds., *The Political Economy of Trade Policy: Papers in Honor of Jagdish Bhagwati*. MIT Press.
 - Feenstra, R. C., and G. H. Hanson (2003). "Global Production Sharing and Rising Inequality: A Survey of Trade and Wages," Chapter 6 in E. Kwan Choi and J. Harrigan eds. *Handbook of International Trade*. Blackwell.
 - Lawrence, R. Z. and M. J. Slaughter (1993). "International Trade on American Wages: Giant Sucking Sound or Small Hiccup?" *Brookings Papers on Economic Activity: Microeconomics*, 1993(2), 161-226. Reprinted in Leamer, 177-202.
 - Berman, E., J. Bound, and Z. Griliches. (1994). "Changes in the Demand for Skilled Labor within U.S. Manufacturing: Evidence from the Annual Survey of Manufacturers." *Quarterly Journal of Economics* 109(2): 367-397.
 - Bernard, A. B. and J. B. Jensen (1997). "Exporters, skill upgrading, and the wage gap." *Journal of International Economics* 42(1-2): 3-31.

5. Intra-Industry Trade

- *Feenstra, chapter 5.
- *Krugman, P. R. (1979). "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics*, 9, 469-479. Reprinted in Leamer, 255-265.
- Melitz, M. J. (2003). "The Impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity." *Econometrica*, 71(6), 1695-1725.
- Melitz, M. J. and G. I. P. Ottaviano (forthcoming). "Market Size, Trade, and Productivity." *Review of Economic Studies*.
- Bernard, A. B., J. Eaton, J. B. Jensen and S. Kortum (2003). "Plants and Productivity in International Trade." *American Economic Review* 93(4): 1268-1290.
- Yeaple, S. R. (2005). "A Simple Model of Firm Heterogeneity, International Trade, and Wages." *Journal of International Economics* 65(1): 1-20.
- *Trefler, D. (2004). "The Long and Short of the Canada-US Free Trade Agreement." *American Economic Review*, 94(4): 870-895.
- Head, C. K. and J. Ries (1999). "Rationalization Effects of Tariff Reductions." *Journal of International Economics* 47(2): 295-320.
- *Helpman, E. (1987). "Imperfect Competition and International Trade: Evidence from Fourteen Industrial Countries," *Journal of the Japanese and International Economics*, 1, 62-81.
- Hummels, D. and J. Levinsohn (1995). "Monopolistic Competition and International Trade: Reconsidering the Evidence," *Quarterly Journal of Economics*, 110, 799-836. Reprinted in Leamer, 339-359.
- Debaere, P. (2005). "Monopolistic Competition and Trade, Revisited: Testing the Model without Testing for Gravity." *Journal of International Economics* 66(1): 249-66.
- McCallum, J. (1995). "National Borders Matter: Canada-U.S. Regional Trade Patterns", *American Economic Review*, 85 (3), 615-623.
- Engel, C. and J. H. Rogers (1996). "How Wide Is the Border?" *American Economic Review* 86(5): 1112-1125.
- Anderson, J. E. and E. van Wincoop (2003). "Gravity with Gravitas: A Solution to the Border Puzzle." *American Economic Review* 93(1): 170-192.
- Redding, S. and A. J. Venables (2004). "Economic Geography and International Inequality." *Journal of International Economics* 62(1): 53-82.

Part II, Trade Policies

6. Pareto Gains from Trade

- *Feenstra, chapter 6
- *Dixit, A. K. and V. Norman. *The Theory of International Trade*, Chapter 3. Cambridge University Press, 1980.

7. Import Tariffs and Dumping

- *Feenstra, chapter 7
- Brander, J. A. and B. J. Spencer (1984). "Trade Warfare: Tariffs and Cartel," *Journal of International Economics*, 16, 227-242.
- Feenstra, R. C. (1989). "Symmetric Pass-Through of Tariffs and Exchange Rates under Imperfect Competition: An Empirical Test," *Journal of International Economics*, 27(1/2), 25-45.
- Brander, J. A. and P. R. Krugman (1983). "A 'Reciprocal Dumping' Model of International Trade," *Journal of International Economics*, 15, 313-323. Reprinted as chapter 1 in Grossman.
- Blonigen, B. A. and S. E. Haynes (2002). "Antidumping Investigations and the Pass-Through of Antidumping Duties and Exchange Rates." *American Economic Review* 92(4): 1044-1061.

8. Import Quotas
 - *Feenstra, chapter 8
 - Bhagwati, J. N. (1965). "On the Equivalence of Tariffs and Quotas," in R. Baldwin et al., *Trade, Growth and the Balance of Payments: Essays in Honor of Gottfried Harberler*. Rand McNally.
 - Harris, R. (1985). "Why Voluntary Export Restraints are 'Voluntary'?" *Canadian Journal of Economics*, 18(4), 799-809.
 - Feenstra, R. C. (1988). "Quality Change under Trade Restraints: Theory and Evidence from Japanese Autos," *Quarterly Journal of Economics*, 103(1), 131-146.
 - Harrigan, J. and G. Barrows (2007). "Testing the Theory of Trade Policy: Evidence from the Abrupt End of the Multifibre Arrangement," NBER working paper 12579.

9. Export Subsidy
 - *Feenstra, chapter 8
 - Eaton, J. and G. M. Grossman (1986). "Optimal Trade and Industrial Policy under Oligopoly," *Quarterly Journal of Economics*, 101(2), 383-406
 - *Brander, J. A. and B. J. Spencer (1985). "Export Subsidies and International Market Share Rivalry," *Journal of International Economics*, 18, 83-100.

10. Endogenous Growth[§]
 - *Feenstra, chapter 10
 - Bhagwati, J. N. (1958). "Immiserizing Growth: A Geometrical Note," *Review of Economic Studies*, 25(3), 201-205.
 - *Harrison, A. E. (1994). "Productivity, Imperfect Competition and Trade Reform: Theory and Evidence," *Journal of International Economics*, 36(1/2), 53-73.
 - Levinsohn, J. (1993). "Testing the Imports-as-Market-Discipline Hypothesis," *Journal of International Economics*, 35 (1/2), 1-22.

Part III. Foreign Direct Investment, Multinationals, and Growth

11. Static Models[§]
 - *Feenstra, chapter 11
 - *Helpman and Krugman (1985). *Market Structure and Foreign Trade*, MIT Press. Chapter 12, Single Product Firms, Chapter 13, Vertical Integration.
 - Helpman, E. (1984). "A Simple Theory of International Trade with Multinational Corporations," *Journal of Political Economy*, 92(3). 451-471.
 - Markusen, J. R. (1984). "Multinationals, Multi-Plant Economies, and the Gains from Trade," *Journal of International Economics*, 16, 205-226. Reprinted in Leamer, 361-382.
 - Markusen, J. R. and A. J. Venables (1998). "Multinational Firms and the New Trade Theory," *Journal of International Economics*, 46 (2), 183-203.

[§] Topics 10 or 11 will be covered if time permits.

Papers listed on the syllabus are either available on the internet or reserved in the reading room. Further readings can be found in the references at the end of the textbook. You are encouraged to explore further into the topics that you are interested in. Hope that you will enjoy this class.