

ECON-671

International Economics: Trade

American University
Department of Economics
Fall 2009
Class Time: Thur. 5:30-8:00 p.m.
Room: Ward 102

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Office Hours: M, Th 2-5 pm

Syllabus

This is a graduate course in international trade theory and policy analysis for M.A. and Ph.D. students in economics or other graduate students who have the required background. The **minimum prerequisites** for this course are ECON-500 or 703 (M.A. or Ph.D.-level micro theory), and ECON-505 or 705 (quantitative methods or mathematical economic analysis); ECON-603 or undergraduate micro does *not* count as a prerequisite. Graduate students with less technical background in math and microeconomics are advised to take other trade-related courses (e.g., ECON-670), or else to obtain the necessary prerequisites first and take this course later.

This is a rigorous and technically demanding course, which emphasizes both mathematical models and empirical studies of how well those models fit actual data. You will need to work on understanding the economic logic (intuition) behind the mathematical models, as well as thinking critically about the assumptions behind the theories and how well they do (or do not) fit the real world. We will cover a mix of “old” and “new” ideas in trade theory, as well as selected trade policy issues. Since it is not possible to cover all aspects of international trade in 14 weeks, the lectures will focus on a “core” of major theoretical models, policy analyses, and empirical studies in topics 1-5 on the reading list below (other topics will be covered only as time permits).

Class Website

A class website will be created using Blackboard (blackboard.american.edu). The website will contain this syllabus (and any updates) plus announcements, assignments, and other useful information (e.g., links to some required readings and related websites). The website will also be used for sending e-mail messages to class participants; I will use this feature extensively to make announcements. **You are responsible for accessing the class website and checking it (and your e-mail) regularly.** By default, the Blackboard system sends e-mail to your official @american.edu address; if you wish you may use my.american.edu to have messages forwarded to another e-mail address, or you may change the default e-mail address in your personal settings in Blackboard. *It is your responsibility to make sure you are enrolled in the Blackboard course website and to configure your e-mail so that you receive messages from the instructor.* This will be especially important if there are any university closures due to health or other emergencies (see notice on the last page).

Books and References

Books ordered at the Campus Store:

- Robert C. Feenstra, *Advanced International Trade: Theory and Evidence*, Princeton University Press, 2004. ISBN10: 0-691-11410-2 [Our **main text**—a graduate (doctoral) level book.]
- Edward Leamer, editor, *International Economics*, Worth Publishers, 2001. ISBN10: 1-57259-820-4. [A collection of important original articles on trade.]
- Josh Bivens, *Everybody Wins, Except for Most of Us: What Economics Teaches about Globalization*, Washington, DC: Economic Policy Institute, 2008. ISBN10: 1-932066-33-0. [A discussion of the literature on the distributional effects of trade especially in the U.S. economy.]
- Robert C. Feenstra & Alan M. Taylor, *International Trade*, Worth Publishers, 2008. ISBN13: 978-1-4292-0690-7. [An advanced undergraduate book; useful for background but *not graduate-level*. **If you had an undergraduate trade course, you do not need this.**]

Note: If you order books on-line, use the ISBN numbers to make sure you get the right editions.

Books on reserve at the library – all of the above, *plus* the following references:

- Jagdish N. Bhagwati, Arvind Panagariya, & T. N. Srinivasan, *Lectures on International Trade*, second edition (Cambridge, MA: MIT Press, 1998).
- Stephen D. Cohen, Robert A. Blecker, & Peter D. Whitney, *Fundamentals of U.S. Foreign Trade Policy: Economics, Politics, Laws, and Issues*, 2nd edition. (Boulder: Westview, 2003).
- Susan M. Collins, ed., *Imports, Exports, and the American Worker* (Washington, DC: Brookings Institution, 1998).
- Ralph E. Gomory & William J. Baumol, *Global Trade and Conflicting National Interests* (Cambridge, MA: MIT Press, 2000).
- Gene M. Grossman, ed., *Imperfect Competition and International Trade* (Cambridge, MA: MIT Press, 1992).
- Gene M. Grossman & Kenneth Rogoff, eds., *Handbook of International Economics*, vol. 3, (Amsterdam: North-Holland, 1995).
- Douglas A. Irwin, *Against the Tide: An Intellectual History of Free Trade* (Princeton: Princeton University Press, 1996).
- Ronald W. Jones & Peter B. Kenen, eds., *Handbook of International Economics*, vol. 1, *International Trade* (Amsterdam: North-Holland, 1984).
- Paul R. Krugman, *Rethinking International Trade* (Cambridge, MA: MIT Press, 1990).
- Paul R. Krugman, *Geography and Trade* (Cambridge, MA: MIT Press, 1991).
- Andrea Maneschi, *Comparative Advantage in International Trade: A Historical Perspective* (Edward Elgar, 1998)
- Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, DC: Institute for International Economics, 1997).

Work Requirements

There will be a **midterm** exam (*tentatively* scheduled for Thursday, October 15; *subject to change with advance notice*) and a **final** exam on **Thursday, December 10** (both at the regularly scheduled class time and place). *The final exam date cannot be changed except in case of a change in the university calendar due to an emergency situation.* Everyone must take the exams on the scheduled dates. The midterm and final will each count for 40% of the grade, but a higher weight will be placed on the final for students who do badly on the midterm *and* improve substantially on the final. Problem sets will be distributed to provide practice for the exams. The problem sets will be *checked* for completeness and effort, but not graded on an A-F scale, and are *essential* study guides for the tests; adequate effort on problem sets will count for 10% of the grade. There will also be a review essay assignment (details and due date TBA) that will count for the remaining 10%.

Reading List

***Denotes minimal required readings (subject to change).** [If you took undergraduate trade theory, readings in Feenstra & Taylor are optional; otherwise, they are required background.]
D = Blackboard-Course Documents; E = E-Reserves (also on Blackboard); R = book on reserve in the library.

1. Core Trade Models: Ricardian and Neoclassical

*Feenstra, *Advanced*, chap. 1.

Feenstra & Taylor, chap. 2.

*Cohen, Blecker, and Whitney, *Fundamentals of U.S. Foreign Trade Policy*, 2003, chap. 3 **R**
[non-technical overview of trade theory and policy analysis]

Leamer, Preface and readings by Samuelson (pp. 19-33) and Jones (pp. 24-55).

Rudiger Dornbusch, Stanley Fischer, & Paul Samuelson, "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review* 67 (1977): 823-39. **D**

Andrea Maneschi, *Comparative Advantage in International Trade: A Historical Perspective*.

Andrea Maneschi, "Dynamic Aspects of Ricardo's International Trade Theory," *Oxford Economic Papers* 35 (1983): 67-80.

Andrea Maneschi, "Ricardo's International Trade Theory: Beyond the Comparative Cost Example," *Cambridge Journal of Economics* 16 (1992): 421-37.

2. The Heckscher-Ohlin Model, Specific Factors Model, and Empirical Tests

*Feenstra, *Advanced*, chaps. 2-3 (only pages 71-75 of chapter 3 will be covered in class).

Feenstra & Taylor, chaps. 3-4 (but we will cover these in the reverse order—4 and then 3).

*Leamer, readings by Leamer (pp. 142-150) and Trefler (pp. 151-176) [Neary (pp. 3-17), Deardorff (pp. 55-71), and Bowen et al. (pp. 113-141) are recommended/optional].

*Catia Batista and Jacques Potin, "International Specialization and the Returns to Capital, 1976-2000," University of Oxford and ESSEC Business School, Paris, December 2007. **D**

Daniel Trefler, "International Factor Price Differences: Leontief Was Right!" *Journal of Political Economy* 101, no. 6 (December 1993): 961-87. **E**

3. Trade, Wages, and Outsourcing: Theoretical Perspectives and Empirical Studies

*Feenstra, *Advanced*, chap. 4.

Feenstra & Taylor, chap. 7.

*Leamer, readings by Lawrence & Slaughter (pp. 177-203) and Leamer (pp. 204-231) [Davis (pp. 72-95) is recommended].

*Paul Krugman, "Trade and Wages, Reconsidered," *Brookings Papers on Economic Activity*, (Spring 2008): 103-137 (see also "Comments and Discussion," 138-154). **E**

*Josh Bivens, *Everybody Wins, Except for Most of Us: What Economics Teaches about Globalization*, Washington, DC: Economic Policy Institute, 2008. **R**

*Paul Samuelson, "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Concerning Globalization," *Journal of Economic Perspectives* 18, no. 3 (Summer 2004): 135-46, and Appendix 1 (**complete** version available at **D**)

*G. E. Johnson & F. P. Stafford, "International Competition and Real Wages," *American Economic Review, Papers and Proceedings* 83 (May 1993): 127-30. **E**

*Henry Thompson, "Free Trade and Income Redistribution in a Three Factor Model of the U.S. Economy," *Southern Economic Journal* 63, no. 4 (April 1997): 1074-83. **E**

A. Brewer, "Trade with Fixed Real Wages and Mobile Capital," *Journal of International Economics* 18 (1985): 177-86. **E**

L. Josh Bivens, "Wages, Profits, and Rent-Sharing in an Open Economy," *International Review of Applied Economics*, vol. 20, no. 1 (January 2006): 69-83.

Susan M. Collins, ed., *Imports, Exports, and the American Worker*. **R**

Dani Rodrik, *Has Globalization Gone Too Far?* chaps. 1-3. **R**

William R. Cline, *Trade and Income Distribution*, Institute for International Economics, 1997.

4. Increasing Returns and Empirical Evidence on the Effects of Trade Liberalization

*Feenstra, chap. 5, *only* pp. 137-44 are required.

Feenstra & Taylor, chap. 6, *only* pp. 185-209 are recommended.

*Leamer (ed.), *only* the reading by Krugman (pp. 255-266) is required.

[Ethier (pp. 278-300), Krugman (pp. 301-316), Engel & Rogers (pp. 233-253) and Hummels & Levinsohn (pp. 339-359) are all optional].

*Daniel Trefler, "The Long and Short of the Canada-U.S. Free Trade Agreement," *American Economic Review*, vol. 94, no. 4 (September 2004). **E**

*Robert C. Feenstra, "New Evidence on the Gains from Trade," *Review of World Economics*, vol. 142, no. 4 (2006), pp. 617-641. **E**

*Thomas Palley, "Rethinking Trade and Trade Policy: Gomory, Baumol, and Samuelson on Comparative Advantage," Levy Economics Institute, Public Policy Brief No. 86, 2006. **D**

Ralph E. Gomory and William J. Baumol, "Globalization: Prospects, Promise, and Problems," Lecture Presented at the University of the West Indies (2004) [a short, intuitive summary of the following book]. **D**

R. E. Gomory and W. J. Baumol, *Global Trade and Conflicting National Interests*. **R**

Paul R. Krugman, *Rethinking International Trade and Geography and Trade*. (**both R**)

Bruce Elmslie & Antoine James, "The Renaissance of Adam Smith in Modern Theories of International Trade," in R.F. Hebert, ed., *Perspectives on the History of Economic Thought*, vol. IX (1993).

Robert A. Blecker, "The 'Unnatural and Retrograde Order': Adam Smith's Theories of Trade and Development Reconsidered," *Economica* 64 (August 1997): 527-37.

5. Trade Policies Under Alternative Assumptions: Perfect Competition, Imperfect Competition, and Market Failures

*Feenstra, chaps. 7 (pp. 209-224) and 8 (pp. 255-259, 282-296) are required. [Chaps. 7 (pp. 224-249) and 8 (pp. 259-370) are optional.]

Feenstra & Taylor, chaps. 8-10 (*very strongly recommended background* especially for M.A. students or those who have not taken undergraduate trade).

*Leamer (ed.), Eaton & Grossman (pp. 317-338) is required. [Bhagwati (pp. 96-112) and Brander & Krugman (pp. 267-277) are optional.]

Josh Bivens, "The Gains from Trade: How Big and Who Gets Them?" Economic Policy Institute, Working Paper # 280, December 2007. **D**

Bhagwati, Panagariya, and Srinivasan, *Lectures on International Trade*, second edition, chaps. 12-22, 28-29, 31. **R**

Handbook of International Economics, vol. 3, chaps. 28-31. **R**

Giovanni Maggi, "Strategic Trade Policies with Endogenous Mode of Competition," *American Economic Review* 86, no. 1 (March 1996): 237-58. **E**

Keith Cowling & Roger Sugden, "Strategic Trade Policy Reconsidered: National Rivalry vs. Free Trade vs. International Cooperation," *Kyklos* 51, No. 3 (1998): 339-57. **E**

Robert A. Blecker, "Stolper-Samuelson After Kalecki: International Trade and Income Distribution with Oligopolistic Mark-Ups and Partial Pass-Through," revised, March 2008 (I hope to have a still newer version later this semester). **D**

6. Political Economy of Trade Policy (Public Choice Models)

Feenstra, chap. 9.

Leamer, reading by Grossman & Helpman (pp. 407-430).

7. Trade and Growth

Feenstra, chap. 10.

Leamer, reading by Kremer (pp. 383-405).

8. International Factor Mobility and Multinational Corporations

Feenstra, chap. 11.

Feenstra & Taylor, chap. 5.

Leamer, reading by Markusen (pp. 361-382).

9. Preferential Trade Arrangements

Feenstra, chap. 6 (pp. 192-204 only).

Feenstra & Taylor, chap. 11.

I am required by the university to post the following notice:

EMERGENCY PREPAREDNESS

In the event of a declared pandemic (influenza or other communicable disease), American University will implement a plan for meeting the needs of all members of the university community. Should the university be required to close for a period of time, we are committed to ensuring that all aspects of our educational programs will be delivered to our students. These may include altering and extending the duration of the traditional term schedule to complete essential instruction in the traditional format and/or use of distance instructional methods. Specific strategies will vary from class to class, depending on the format of the course and the timing of the emergency. Faculty will communicate class-specific information to students via AU e-mail and Blackboard, while students must inform their faculty immediately of any absence due to illness. Students are responsible for checking their AU e-mail regularly and keeping themselves informed of emergencies. In the event of a declared pandemic or other emergency, students should refer to the AU Web site (www.prepared.american.edu) and the AU information line at (202) 885-1100 for general university-wide information, as well as contact their faculty and/or respective dean's office (or department) for course- and college/department-specific information.

The following notice is very important:

ACADEMIC DISHONESTY

The professor takes plagiarism and academic dishonesty very seriously, and is required to report suspected cases to the Dean of the College of Arts and Sciences, whose policy is usually to fail students for the course. Please read the university's *Academic Integrity Code* closely, and be sure to ask the professor if you have any questions. The code is available online at www.american.edu/academics/integrity/index.htm.

Giving *or* receiving *any* kind of help or assistance on any exam or take-home assignment is strictly prohibited, *except* when expressly allowed by the professor (for example, if you are allowed to work together on a problem set, in which case this will be announced in advance for a particular assignment and you will be required to name who you work with). In writing papers, you must properly cite all sources either directly quoted, paraphrased, or consulted in any fashion. Sources include all printed material as well as the Internet. It is also considered plagiarism if you merely rework source material, placing an author's thoughts in other words without contributing your own ideas. For that reason, you must include some kind of source note or discussion whenever drawing on someone else's interpretation. A source can be discussed in the text of your paper, or in a footnote. You should always clarify the extent to which your interpretation is indebted to your source, explaining both (1) what you use and (2) where you depart or differ from the source.