This course investigates the theoretical basis for international trade and international trade policy. It develops several economic models that may be used to address a number of general questions about international commerce. For example, what influences explain the direction of trade among countries in goods and factors? Do countries benefit or lose from engaging in trade and how are these gains and losses distributed among people in each country? What are the effects of trade barriers, such as import taxes and quotas, and why do they exist? When is it advantageous for a group of countries to form a regional trading arrangement among themselves that discriminates against nonmembers? Again, the primary approach to understanding these issues will be through studying abstract theoretical models, which, though seemingly fairly removed from much practical relevance, in fact provide very powerful insights about underlying motivations for trade and trade policy. At times these models can become rather difficult, which is why this course has a prerequisite of intermediate microeconomic theory (Econ 3070).

The required textbook is James R. Markusen and James R. Melvin, The Theory of International Trade, Harper and Row, 1988 (MM). This book provides the most succinct treatment of trade theory that is still accessible to most undergraduates. Some of you may find it a bit rough going in spots, however. If so, you might wish to consult one or more of the following texts, which should be in either Norlin or the Business Library:


The one drawback of the MM book is that it's rather thin on explaining the relevance of trade theory to current international policy issues and institutions. Accordingly, I have added some extra readings to the list below to fill in the gaps. These readings will (eventually) be in a coursepack at Kinko's. Of course, any set of readings selected in advance cannot keep abreast of current events. Thus, students are encouraged also to read on a regular basis such periodicals as The Wall Street Journal, The
Economist, or The New York Times. All are available in the library and all offer reduced-rate student subscriptions (note that purchasing these is not required). Finally, I will prepare and circulate study guides before the exams and occasional handouts on additional material.

There will be 2 midterm exams, each worth 30% of the grade, and 1 final exam, worth 40%. No makeups will be given for a missed exam. One midterm may be missed if the student has a good reason for a pre-excused absence or, in the event of sudden illness, procures a written excuse from competent medical authorities. In these cases the other midterm exam will count for 40% and the final for 60%.

1. **Introduction**  
   Reading: Markusen and Melvin, Chapter 1

2. **Theories of International Specialization and Trade**
   a. Comparative Advantage and the Gains from Trade  
      Reading: MM, Chapters 6, 7, and 5
   b. Utility and Reciprocal Demand  
      Reading: MM, Chapters 3 and 4
   c. Basic General-Equilibrium Production Theory  
      Reading: MM, Chapter 2

   **MIDTERM EXAMINATION ONE**  
   Tuesday, October 1

   d. Factor-Endowments and Specific-Factor Trade Models  
      Reading: MM, Chapters 8 and 9
   e. Extensions and Newer Theories  
      Readings: MM, Chapters 10-12  
      R. Vernon, "International Investment and International Trade in the Product Cycle"  
      H. Grubel, "The Theory of Intra-Industry Trade"
   f. Empirical Examinations  
      MM, Chapter 13

   **MIDTERM EXAMINATION TWO**  
   Thursday, October 31

3. **Trade Policies and Economic Welfare**
   a. Tariffs and Basic Motivations for Protection  
      Reading: MM, Chapter 14
   b. Quotas and other Non-Tariff Barriers  
      Reading: MM, Chapter 15
c. Imperfect Competition and Strategic Trade Policy  
   Readings: MM, Chapter 16  
   P. Krugman, "Is Free Trade Passe?"

d. Effective Protection  
   Reading: MM, Chapter 17

e. Empirical Work on Trade Policies  
   Reading: To be assigned if there is time

4. Customs Unions and Free Trade Areas  
   Reading: MM, Chapter 18

5. Political Economy and Trade Institutions  
   Readings: R. Baldwin, "Trade Policies in Developed Countries"  
   J. Schott, "The Uruguay Round: What Can be Achieved?"

6. Other Topics
   a. International Factor Movements  
      Reading: MM, Chapter 19
   b. Direct Foreign Investment and Multinationals  
      Reading: MM, Chapter 20
   c. Trade and Economic Development  
      Reading: B. Yarbrough and R. Yarbrough, The World Economy: Trade and Finance, Chapter 10

FINAL EXAMINATION  Friday, December 13,  
                   7:30-10:30 PM