Countries have long traded with one another. Some trade primary products, some intermediate goods and others fully manufactured commodities. Some countries trade factors of production—labor and capital—, while others trade in services—insurance and transportation. This course in international trade asks some basic questions. Why do countries trade? Who gains if countries trade, who loses? What happens if tariffs or quotas are imposed? Theoretical concepts and techniques will be used to derive answers to questions. Economics 3070 (intermediate microeconomics) is therefore a prerequisite for this course. Attempts will be made throughout the course to discuss trade policy options important to the U.S. economy.


A list of readings is given below for those students who wish to read beyond the textbook or who seek a different presentation of the theoretical material.

There are two in-class examinations and a final examination. Each in-class examination accounts for 30%, and the final 40%. There are NO MAKE-UP EXAMINATIONS FOR MISSED EXAMS. Pre-excused absences are possible for in-class examination only; in such cases the final accounts for 60% and the other in-class examination for 40%. Those students taking the course at the 5413 level have to write a paper. Such student should see me during the first week of classes.

READINGS:


OECD, "Cost and Benefits of Protection" in Baldwin and Richardson.

COURSE OUTLINE:

1. Historical Perspective and Introduction.
   - Markusen and Melvin, Ch. 1 (MM)
   - Ellsworth and Leith, Chs. 1-3

2. Basic Tools of International Trade.
   This section presents a revision of basic microeconomic concepts and their expansion into international trade.
   
   - Chapter 3 MM: (i) Utility Function
     (ii) Characteristics of Indifference Curves
     (iii) Maximization of Utility
   
   - Chapter 2 MM: (i) Production Functions
     (ii) Returns to Scale
     (iii) Equilibrium for a Single Producer
     (iv) Two-Good, Two Factor Model
     (v) Shape of the Production Possibility Curve; Non-Constant Returns to Scale

   - Chapter 4 MM: (i) Autarky Equilibrium
     (ii) Offer Curve: Fixed Production and Variable Production
     (iii) Equilibrium with Two Countries

3. Gains from Trade.
   This section explores the circumstances under which countries gain from trade. It also asks if all in a country will gain through trade.

   - Chapter 5 MM: (i) The Closed (Autarky) Economy Equilibrium
     (ii) The Open (Trading) Economy Equilibrium
     (iii) The Gains from Exchange
     (iv) The Gains from Specialization
     (v) The Distribution of Gains with Heterogeneous Tastes
     (vi) The Distribution of Gains with Heterogeneous Endowments
4. **Causes and Consequences of Trade.**
Having seen that countries can gain through trade, we now examine the ways in which autarky price ratios differ between countries, creating a basis of trade. We also examine in each case the distribution of those gains across factors of production.

(A) Ricardian Model:
- Chapter 7 MM: (i) A Simple Model of Production Function Differences
  (ii) The Laws of Absolute and Comparative Advantage
  (iii) The Production Possibility Curve
  (iv) The International Equilibrium

(B) Endowment Model:
- Chapter 8 MM: (i) The Effects of Endowment Differences
  (ii) The Heckscher-Ohlin Model
  (iii) The Factor-Price-Equalization Theorem
  (iv) The Rybczynski Theorem
  (v) The Stolper-Samuelson Theorem

*IN-CLASS EXAMINATION 30% February 22*

(C) Specific Factor Model:
- Chapter 9 MM: (i) Specific Factor Model
  (ii) Commodity Prices and Factor Prices
  (iii) Endowment Changes and Factor Price Equalization
  (iv) Pattern of Trade

(D) Imperfect Competition and Distortions:
- Chapter 10 MM: (i) Commodity Taxes
  (ii) Factor Market Distortions
  (iii) Imperfect Competition
  (iv) Pro-competitive Gains

(E) Returns to Scale:
- Chapter 11 MM: (i) External Economies
  (ii) Internal Economies of Scale
  (iii) Sources of Gains and Implications

(F) Dynamic Considerations:
- Chapter 12 MM: (i) Taste Differences and Per Capital Income
  (ii) The Linder Hypothesis
  (iii) The Product Cycle
  (iv) The Technology Cycle
  (v) Relationship to Static Models
5. **Trade Distortions and Welfare.**
Although we have shown that in many cases countries can gain from trade, historically countries have imposed tariffs, quotas and other non-tariff barriers. How do these distortions affect the pattern of trade? Who stands to gain or lose from such practices?

(A) Tariffs:
- Chapter 14 MM: (i) The Welfare Loss from Tariffs
  (ii) Arguments in Favor of Tariffs
  (iii) The Infant-Industry Argument
  (iv) Tariffs, Taxes, and Distortions
  (v) Monopoly Power

(B) Quotas and Other Non-Tariff Barriers:
- Chapter 15 MM: (i) Quotas
  (ii) The Relationship Between Tariffs and Quotas
  (iii) Other Non-Tariff Barriers

7. **Factor Movements, Foreign Investment and Growth.**
To this point in the course, we have assumed that factors of production were immobile internationally. This is historically untrue. Millions of people have migrated and billions of dollars move from country to country annually. What are the consequences of such movements?

(A) Factor Movements:
- Chapter 17 MM: (i) Effects on Production
  (ii) Welfare Effects of Factor Movements
  (iii) Factors Movements and Commodity Trade as Substitutes; Cases of Welfare Gains or Losses
  (iv) Transfer Problem
  (v) Factor Movements and Commodity Trade as Complements
(B) Direct Foreign Investment:

- Chapter 18 MM: (i) Direct Foreign Investment versus Portfolio Investment
  (ii) Technology Transfer
  (iii) Multi-Plant Economies of Scale
  (iv) Appropriability and Pre-Emptive Entry
  (v) The Welfare Effects of MNE on Host Countries

*FINAL EXAMINATION 40% Fri, May 10, 7:30pm*