What is International Trade
The theory of international trade is an application microeconomic theory. This course will rely heavily on micro economics, so Econ 3070 is strongly recommended as a pre-requisite course. International trade theory seeks to explain the pattern of trade and the gains from trade. It also attempts to determine the terms of trade in order to explain the division of the gains from trade between nations. All of this relies on the theories of consumption, production, pricing, and factor demand. Trade policy issues are also an important part of understanding the economic relations of nations. The policy institutions that have evolved to manage trade and the political economy behind those institutions will be fully explored in the course.

Materials
Instruction in the course will depend upon lectures and text readings. The text, unfortunately, is still in the process of development. We will use a new and fully revised version of The Theory of International Trade by Jim Markusen, Jim Melvin, Bill Kaempfer and Keith Maskus. The Table of Contents of this book is attached.

This approach of using the instructor's own manuscript carries with it some advantages and some pitfalls. First, as we are still working on a finished version of the text, there is no fully available book for you at this time. Instead, I have asked Kinko's to prepare packets for distribution to you, as we prepare to study them. My suggestion here is that you also purchase a three-ring binder to store text material.

The advantages to you are, first, that the first edition of this book carried a price tag of $55.00, five years ago! Even Kinko's can't charge that much for copies of the manuscript pages. Second, as work on the text is still in progress, any significant contribution on your part (e.g. pointing out embarrassing errors that we don't wish to make) will be noted in the acknowledgements of the book when it is published by McGraw-Hill next year.

Evaluation
Your grade will be determined by three components. First, I will give frequent short quizzes over the course of the semester, probably about 12. Your ten best scored will be compiled into a grade worth 50% of your course grade. Second, group homework projects will be assigned. Students will be asked to form small (3 to 5 student) study groups in order to prepare answers collectively to assigned homework questions. Homework grades will count for 10% of your course grade. The final exam (which will be comprehensive) will count for 40% of your grade.
INTERNATIONAL TRADE: THEORY AND EVIDENCE

Jim Markusen
Jim Melvin
Bill Kaempfer
Keith Maskus

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Part One
TECHNICAL CONCEPTS AND THE GAINS FROM TRADE

1. INTRODUCTION
   1. What Is the "Theory of International Trade"?
   2. Why "International" Trade?
   3. The Importance of International Trade
   4. The Underlying Causes of International Trade
   5. The Importance of Price Differences
   6. Plan of the Book
      References
      Tables

2. SUPPLY AND PRODUCTION POSSIBILITIES
   1. Production Functions
   2. Returns to Scale
   3. Equilibrium for a Single Producer
   4. The Two-Good, Two-Factor Model
   5. The Shape of the Production Possibility Frontier
   6. Increasing Returns to Scale
   7. Concluding Remarks
      Problems
      References

3. PREFERENCES, DEMAND, AND WELFARE
   1. The Utility Function
   2. Characteristics of Indifference curves
   3. The Maximization of Utility
   4. Aggregating Individual Preferences
   5. Interpreting Community Indifference Curves: Aggregate Demand versus Individual Welfare
   6. Concluding Remarks
      Problems
      References
4. GENERAL EQUILIBRIUM IN OPEN AND CLOSED ECONOMIES

1. General Equilibrium in the Closed (Autarky) Economy
2. General Equilibrium in the Open (Trading) Economy
3. The Excess Demand Function
4. International General Equilibrium
5. Concluding Remarks
   Problems
   References

5. THE GAINS FROM TRADE

1. Gains from Trade
2. The Gains-from-Trade Theorem
3. The Gains from Exchange
4. The Gains from Specialization
5. The Distribution of Gains with Heterogeneous Tastes
6. The Distribution of Gains with Heterogeneous Endowments
7. Concluding Remarks
   Problems
   References

Part Two:
CAUSES AND CONSEQUENCES OF TRADE

6. THE CAUSES OF INTERNATIONAL TRADE

1. The No-trade Model
2. Some Methodological Considerations

7. THE CLASSICAL MODEL

1. A Simple Model of Production Function Differences
2. The Laws of Absolute and Comparative Advantage
3. The Production Possibility Curve
4. The International Equilibrium
5. The Determinants of the Equilibrium Price
   Problems
   References
8. THE FACTOR ENDOWMENTS MODEL
   1. The Effects of Endowment Differences
   2. The Heckscher-Ohlin Model
   3. The Factor-Price-Equalization Theorem
   4. The Rybczynski Theorem
   5. The Stolper-Samuelson Theorem
   6. Endowments, Outputs, and Prices
   7. Concluding Remarks
   Problems Note References

9. THE SPECIFIC FACTORS MODEL
   1. Introduction
   2. The Specific Factor Model
   3. Commodity Prices and Factor Prices
   4. Endowment Changes and Factor Price Equalization
   5. The Pattern of Trade
   6. Concluding Remarks
   Problems References

10. GOVERNMENT POLICIES AS DETERMINANTS OF TRADE
    1. Introduction
    2. Commodity Taxes
    3. Factor Market Distortions
    4. Concluding Remarks
    Problems References

11. IMPERFECT COMPETITION
    1. Imperfect Competition
    2. Pro-competitive Gains from Trade
    3. Cournot-Nash Competition
    4. Concluding Remarks
    Problems References
12. INCREASING RETURNS TO SCALE
   1. Introduction
   2. External Economies
   3. Internal Economies of Scale
   4. Product Differentiation and Monopolistic Competition
   5. Sources of "Non-Comparative Advantage" Gains from Trade
   6. Implications for Traditional Results
   Problems  References

13. TASTES AND PER CAPITA INCOME AS DETERMINANTS OF TRADE
   1. International Taste Differences
   2. Per Capita Income and Nonhomogeneous Demand
   3. The Linder Hypothesis
   4. Combining Linder, Nonhomogeneous Tastes, Scale Economies, and Product Differentiation
   5. The Product Cycle
   6. Per Capita Income and Technology
   7. Cycle Models and Comparative Advantage
   8. North-South Models and Technology Transfer
   9. Concluding Remarks
   Problems  References

14. EMPIRICAL TESTS OF TRADE MODELS
   1. Introduction
   2. Tests of the Ricardian Model
   3. The Leontief Paradox and Methodological Shortcoming
   4. Alternative Approaches
   5. Tastes, Technology, and Scale Economies: the Empirical Relevance of Intra-Industry Trade
   6. Concluding Remarks
   Notes  References
Part Three:
ALTERNATIVES TO FREE TRADE

15. TARIFFS

1. The Welfare Loss from Tariffs
2. Arguments in Favor of Tariffs
3. Tariffs, Taxes, and Distortions
4. The Infant-Industry Argument
5. Monopoly Power
6. Tariffs and Retaliation
7. Empirical Studies of Protection
8. Concluding Remarks
   Problems Notes References

16. QUOTAS AND OTHER NON-TARIFF BARRIERS

1. Quotas
2. The Relationship Between Tariffs and Quotas
3. Other Non-tariff Barriers
4. Concluding Remarks
   Problems Notes References

17. IMPERFECT COMPETITION, INCREASING RETURNS, AND STRATEGIC TRADE POLICY

1. Introduction
2. Increasing Returns and Imperfect Competition
3. Rent Shifting
4. Free Entry
5. Import Protection as Export Promotion
6. Empirical Evidence
7. Concluding Remarks
   Problems Note References
18. NEW PROTECTIONISM

1. Introduction
2. Contingent protection
   (A) Anti-Dumping
   (B) Safeguards
   (C) Countervail
3. Managed Trade
4. Industrial Policy
5. Intellectual Property

19. THE POLITICAL ECONOMY OF TRADE POLICY

1. Causes of Optimal Policy Failure
   (A) Prisoner's Dilemma Outcomes
   (B) Non-Transitive Aggregate Preferences
   (C) Free-Rider Problems
   (D) Other Public Choice Failures
2. Special Interest Models of Protection - Tariff Reallocations
   (A) Passive Government
   (B) Active Government - Policy Maker's Utility Function
   (C) Evidence of Endogenous Protection
3. Instruments of Protection
   (A) Hypothesis of Efficient Reallocation
   (B) Political Economy of Tariffs vs. Quotas
   (C) Why Government's Prefer Quotas

20. EFFECTIVE PROTECTION

1. The Concept of Effective Protection
2. The Assumptions of the Model
3. The Formal Model
4. Empirical Calculations of Effective Protection Rates
5. Concluding Remarks
Problems Notes References
21. CUSTOMS UNIONS

1. Introduction
2. Trade Creation and Trade Diversion
3. Dynamic Benefits and Costs
4. Quotas as the Instrument of Protection
5. Empirical Estimates of a North American Free Trade Area
6. Concluding Remarks
Problems References

Part Four
FACTOR MOVEMENTS, GROWTH, AND THE THEORY OF DIRECT FOREIGN INVESTMENT

22. TRADE IN FACTORS OF PRODUCTION

1. Effects on Production
2. Welfare Effects of Factor Movements
3. Cases of Welfare Gains or Losses
4. Terms-of-Trade Effects, the Transfer Problem, and World Welfare
5. Factor Movements and Commodity Trade As Substitutes
6. Factor Movements and Commodity Trade As Complements
7. Concluding Remarks
Problems Notes References

23. DIRECT FOREIGN INVESTMENT

1. Direct Foreign Investment Versus Portfolio Investment
2. Technology Transfer
3. Multi-plant Economies of Scale
4. Appropriability and Preemptive Entry
5. Vertical Integration and International Specialization
6. The Welfare Effects of MNE on Host Countries
7. Taxation Issues
8. Concluding Remarks
Problems Notes References