Course Outline and Reading List

The Course Outline given below lists the major topics we will deal with in this course. Markusen et. al. is the textbook. The Reich and Tyson books are available in the bookstore.


Assessment in the course will consist of:

- In-class, mid-term exam 30% 
  - Wednesday, October 23
- Critical review of Reich, Tyson, Krugman 30% 
  - Due Friday, December 5
- Final Exam 40% 
  - Monday, December 15 (no exceptions!!)

The exams will be analytical-essay type exams in which you will be asked, for example, to analyze the relationship between two variables or assess the likely effects of some policy. In the book review, I will ask you to critical evaluate and compare the positions of the two authors in light of the trade theory in the textbook.

In the lectures, I will try to present theory in the first half of the class period, and applications in the second half.
PART I: TECHNICAL TOOLS AND THE GAINS FROM TRADE

In this part of the course, we develop and review basic tools of microeconomic theory that we will use throughout the course.

1. Supply and Production Possibilities
   MMKM, Chapters 1 and 2.

2. Preferences, Demand, and Welfare
   MMKM, Chapter 3.

3. General Equilibrium in Open and Closed Economics
   MMKM, Chapter 4.

4. The Gains from Trade
   MMKM, Chapter 5.

PART II: DETERMINANTS OF TRADE

This section analyzes the different underlying causes of international trade and the gains from trade.

1. Differences in Technology between Countries.
   MMKM, Chapters 6 and 7.
   Skip section 5, chapter 7.

2. Differences in Factor Endowments between Countries.
   MMKM, Chapters 8 and 9.
   Skip section 6, chapter 8.

   MMKM, Chapter 10.
   Skip sections 4 and 5.

4. Imperfect Competition as a Determinant of Trade.
   MMKM, Chapter 11.
   Skip section 4.

5. Increasing Returns to Scale.
   MMKM, Chapter 12.
   Skip sections 5 and 6.

6. Preferences and Income as Determinants of Trade.
   MMKM, Chapter 13.

   MMKM, Chapter 14.
PART III: TRADE POLICY

This part of the course analyzes the principal tools that governments use to influence trade. We analyzed the effects of the policies and try to understand the reasons that governments choose the policies they do.

1. Tariffs  
   MMKM, Chapter 15.  
   Skip section 7.

2. Quotas  
   MMKM, Chapter 16.  
   Skip section 5.

3. Imperfect Competition, Increasing Returns, and Strategic Trade Policy  
   MMKM, Chapter 17.  
   Skip section 4.

4. Preferential Trade Areas  
   MMKM, Chapter 18.  
   Sections 1 and 2 only.

5. The Political Economy of Trade Policy  
   MMKM, Chapter 19.

6. Administered Protection  
   MMKM, Chapter 20.

PART IV: FACTOR TRADE AND DIRECT FOREIGN INVESTMENT

The final section of the course looks at trade in factors of production and direct foreign investment by multinational firms.

1. Trade in Factors of Production  
   MMKM, Chapter 21.  
   Skip sections 2 and 5.

2. Direct Foreign Investment  
   MMKM, Chapter 22.  
   Skip section 4.

3. Intertemporal Trade  
   MMKM, Chapter 23.  
   Section 1 only.
Lecture 1, 2: Review of Production Theory: Chapter 2

1. The production possibility frontier

   Position:
   (1) factor endowments
   (2) real factor productivities

   Slope:
   (1) relative factor productivities
   (2) factor endowments

   Curvature:
   (1) constant returns to scale
   (2) factor intensity effects
   (3) increasing returns to scale

2. Equilibrium for a single competitive producer

   Value of product = factor price

3. The Edgeworth Box

   Define
   Contract curve, efficient allocations
   Contract curve maps into PPF
   Competitive equilibrium implies production efficiency (production point is on the PPF)

4. Competitive equilibrium

   Establish that a competitive equilibrium is a tangency between the PPF and equilibrium prices.

1. Maximizing utility subject to a budget constraint. 
   \[ \frac{p_x}{p_y} = MRS. \]

2. Competitive equilibrium in product markets, Pareto optimality.

3. Skip section 3.4 on aggregating preference.

4. Interpreting community indifference curves: positive description of demand versus normative description of welfare (section 3.5).

5. General Equilibrium in the closed economy.
   
   Producer optimization
   Consumer optimization
   Market clearly
   Pareto optimality of competitive equilibrium.