Course outline (subject to marginal changes)

Economics 8413 is a course on International Trade designed for Ph.D. students in the Economics Department. It will cover theoretical as well as empirical issues, with an emphasis on firms. The prerequisites are first-year graduate courses in microeconomics, macroeconomics and econometrics. Students from other departments are welcome subject to instructor’s approval.

First part: General theories (8 lectures)

• 1 lecture: introduction, motivation, data availability
• 3 lectures on traditional models: Ricardo, Heckscher Ohlin (review, empirical tests)
• 2 lectures on recent Ricardian models (Eaton Kortum 2002 and related developments)
• 2 lectures on increasing returns to scale, gravity equations, home market effect

Second part: Firms in Trade (12 lectures)

• 4 lectures on firm heterogeneity and international trade (theory): preliminary evidence on firm heterogeneity (motivation), Melitz 2003 model, endogenous markup models.
• 3 lectures on the empirics of firm heterogeneity, firm-level evidence
• 5 lectures on Multinational Firms: classical models, incomplete contract models.

Third part: Policy (8 lectures)

• 2 lectures on Trade and Institutions, Trade and financial constraints
• 1 lecture on Trade and the 2008 global crisis
• 5 lectures on Trade Policy (tariffs, FTA), political economy of trade policy

Other topics can be discussed, time permitting:
Trade and growth, Technology transfers, Trade and wage inequalities, Networks, Trade and environmental issues, Culture and trade, Quality and product standards, Multi-product firms.

Note: 1 lecture = 1h15.
Contact information

Email: fally@colorado.edu
Office: 11
Office hours: Monday and Wednesday, 2.00 – 3.00 pm and by appointment.

Course requirements and grading

At the end of each class, I will tell you which article(s) or book chapter(s) to read before the following lecture.

As part of the grade (20%), I will ask you to write comments almost every week on one article. There will be about 13 comments due in total, and I will decide your grade based on your 10 best comments. These articles will be posted on the course website. I would like to receive these comments no later than Saturday if the comment is due on Monday. Please include “8413” in the title of your email.

These comments should take about 10 lines, and should include: 1) a brief summary using your own words, 2) the most important contribution(s) of the paper, 3) its main limitations (if you see any), 4) and your questions (if any). The comments should be precise and clear (this is an important part of the grade on these comments). Do not copy parts of the abstract or conclusion, but find your own way to write these comments. If you feel that you have not understood an important point of the paper, please say it in the comments. That way, I can put an emphasis on those points during the lectures (your questions will remain confidential).

I will also ask you to comment one article more in details (15% of the grade). These comments may take the form of a referee report (approx. 5 pages) or a class presentation. Please choose an article (preferably an article that has not been covered in class in details) and send me an email with your preferences before I give my approval. I may ask you to choose another article. If you want to make a presentation instead of a referee report, you should ask me soon enough such that I can coordinate with the course content (e.g. before the midterm). Referee reports are due on December 3rd.

Class participation counts for another 15% of the grade. Please be on time and feel free to ask questions during the course. Attendance at the Department seminar is required when a trade paper is presented. Also, please come to visit my office at least once before the first midterm. I would like to hear your suggestions and check how you feel about the course.

There will be two exams: a midterm (15%) and a final (35%). The midterm will be on October 20th and the final will be on December 16th at 10.30am (registrar’s schedule).
Reading list

Asterisks (*) signal required readings. I won’t cover all required readings in class, but I may still ask some broad questions on those that I did not cover in detail. Double asterisks (**) refer to key readings. The reading list may be updated throughout the semester (and posted on the course website).

Main book:

Other recommended books:

First part: General theories

Ricardian theory and tests
- ** Feenstra, 2003, chapter 1
- * Donaldson, Dave, “Railroads of the Raj: Estimating the Economic Impact of Transportation Infrastructure”, LSE mimeo

Factor content of trade
- ** Feenstra, 2003, chapter 2, 3 and 4
• Deardorff, A.V., “Testing Trade Theories and Predicting Trade Flows”, in Jones and Kenen, 1984

Product varieties, increasing returns, gravity equation
• ** Feenstra, 2003, chapter 5
Second part: Firms in trade

Firm heterogeneity: theory

Empirics on firm heterogeneity


… and particularly about sunk costs


** Horizontal FDI


Offshoring, vertical FDI,


Incomplete contracts and multinational production

Host economy effect of FDI


Third part: Policy

Institutions and trade


Financial constraints and trade

Trade and the 2008 global crisis

- Manova, K. and D. Chor, "Off the Cliff and Back: Credit Conditions and International Trade during the Global Financial Crisis", mimeo

Trade policy

- ** Feenstra, 2003, chapters 7 and 9

Other topics:

Trade and wage inequalities


Multi-product firms:

Trade, Innovation and Growth:
• Grossman, G.M. and E. Helpman, 1991
• Feenstra, 2003, Chapter 10.

Labor markets and trade

Trade and Networks:
University policies

- All policies: http://www.colorado.edu/policies/
- Class behavior: http://www.colorado.edu/policies/classbehavior.html
  http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code
- Honor code: http://www.colorado.edu/academics/honorcode/
  http://www.colorado.edu/policies/honor.html
- Disabilities: http://www.colorado.edu/disabilityservices/
- Religious practices: http://www.colorado.edu/policies/fac_relig.html
- Sexual harassment: http://www.colorado.edu/odh/