Syllabus and Reading List

This course covers advanced topics in international trade, including classical comparative advantage, the theory of heterogeneous firms in trade, basics of trade policy, empirical work in international trade, and factor mobility. While an attempt is made to be comprehensive, time pressures dictate a judicious choice of materials to cover. However, the reading list provides a wide range of supplementary materials to consult on specific applications, which should be useful in thinking about research topics. The objectives of the course are to expose students deeply to frontier issues in international trade and to provide an analytical framework within which to pursue professional research.

There are no required texts for the course; readings will be emailed to you or I will provide an active link to where you can get them. Unlinked readings are also posted to the D2L site. However, the following books are very useful sources for particular issues in trade theory and policy and are worth having in your personal library.

- J. Markusen and K Maskus, *International Trade: Theory and Evidence*, manuscript 2014 (MM); I will email this text to you.
The following older books are useful resources for foundational material. They are listed here solely for your reference. I have marked particularly important volumes with an asterisk.


Finally, while this course emphasizes theory and frontier empirical work, some students may want a foundation in the practical issues of trade policy and international economic relations. Here are some useful qualitative and policy-oriented books on the WTO, preferential trade, etc.


**ASSIGNMENTS:**
There will be two examinations (September 30 and December 2), three problem sets, and a research paper (details discussed below). I also anticipate classroom participation: ask questions, bring up issues, offer insights on the material, etc. These tasks will be assigned the following weights in the overall grade:

- Examination 1 30%
- Examination 2 30%
- Problem Sets 15%
The research paper should be an up-to-date, critical review of the frontier literature on a particular aspect of trade theory or trade policy (consult with me for likely topics), not exceeding 15 double-spaced pages. The paper should conclude with a description of a research project you think would be fruitful. The goal of the paper is to move you into a research topic that could lead to a journal submission and/or a start on your dissertation.

**READINGS:**
Required readings are marked with an (R). Very useful background readings, which are highly recommended though not required, are marked with (B) and often provide material for lectures. Additional readings are listed are for those wanting deeper and fuller treatments. In nearly all sections I have incorporated both theoretical and empirical papers.

*Note: Abbreviations used for journals:*
- AER: American Economic Review
- ECA: Econometrica
- EJ: Economic Journal
- IER: International Economic Review
- JIE: Journal of International Economics
- JPE: Journal of Political Economy
- QJE: Quarterly Journal of Economics
- REStat: Review of Economics and Statistics
- REStud: Review of Economic Studies

**SUBJECTS AND READINGS**

1. **Introductory Material on Trade and FDI:** August 24
   - (R) BHV, Ch. 1
   - (R) MM, Ch. 1

2. **The Gains from Trade in Competitive Models:** August 24-26
   - (R) DN, Ch. 3
   - (B) MM, Ch. 5
3. **Technology Differences and Trade**: Aug 26 - Sept 2
   (R) BHV, Ch. 3
   (B) MM, Ch. 7
   (B) Trefler, “International Factor Price Differences: Leontief was Right!” JPE 1993, 961-987, secs. II and III
   (B) Trefler, “International Factor Price Differences: Leontief was Right!” JPE 1993, 961-987, secs. II and III

4. **The Factor-Proportions Model**: September 9-21
   (R) F, Ch. 1 and 2
   (R) HK, Ch. 1
   (R) Trefler, “The Case of the Missing Trade and Other HOV Mysteries,” AER 1995, 1029-1046
   [http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.91.5.1423](http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.91.5.1423)
   (R) Romalis, “Factor Proportions and the Structure of Commodity Trade,” AER 2004
   (B) F, Ch. 3
   (B) MM, Ch. 8
   (B) Harrigan, “Specialization and the Volume of Trade: Do the Data Obey the Laws?” in CH, Ch 4
   (B) Davis and Weinstein, “The Factor Content of Trade,” in CH, Ch. 5
   Deardorff, “Weak Links in the Chain of Comparative Advantage,” JIE 1979
   Deardorff, “The General Validity of the Heckscher-Ohlin Theorem,” AER 1982
   Melvin, “Production and Trade with Two Factors and Three Goods,” AER 1968
   Leamer, *Sources of International Comparative Advantage*, MIT Press, 1985
   Costinot and Vogel, “Matching and Inequality in the World Economy,” JPE 2009, 747-786
   Schott, “One Size Fits All? Heckscher-Ohlin Specialization in Global Production,” AER 2003
5. **The Specific-Factors Model**: September 21-23
   (B) MM, Ch.9
   DN, Chapter 4 and Chapter 5, parts 2 and 3
   Kohli, “US Technology and the Specific-Factors Model,” JIE 1993

**PROBLEM SET ONE DUE SEPTEMBER 23**

6. **Basic Oligopoly Models**: September 28
   (R) BHV, Ch. 8.1
   (B) MM, Ch. 11
   (B) HK, Ch. 5
   Levinsohn, “Testing Imports as Market Discipline Hypothesis,” JIE 1993
   Markusen, “Trade and the Gains from Trade with Imperfect Competition,” JIE 1981
   Neary, “International Trade in General Oligopolistic Equilibrium,” manuscript.

**EXAMINATION ONE: SEPTEMBER 30 (covers sections 1 through 5)**

7. **Monopolistic Competition**: October 5-7
   (R) BHV, Ch. 8.2-8.4
   (R) F, Ch. 5
   (R) Krugman, “Increasing Returns, Monopolistic Competition, and International Trade,” JIE 1979, 469-479
   (B) MM, Ch. 12
   (B) Krugman, “Scale Economics, Product Differentiation, and the Pattern of Trade,” AER 1980, 950-959
HK, Ch. 6-9
Lancaster, “Intra-Industry Trade under Perfect Monopolistic Competition,” JIE 1980

http://pubs.aeaweb.org/doi/pdfplus/10.1257/000282803321455214
(R) Head and Mayer, “Gravity Equations: Workhorse, Toolkit, and Cookbook,” in GHR, Ch. 3
http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.98.5.1766
http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.21.3.131

9. Heterogeneous Firms and Trade: Background and Theory: October 19-26
(R) Bernard, Jensen, Redding and Schott, “Firms in International Trade,” Journal of Economic Perspectives 2007, 105-30
http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.21.3.105
(R) Melitz and Redding, “Heterogeneous Firms and Trade,” in GHR, Ch. 1
(R) Bernard, Redding, and Schott, “Comparative Advantage and Heterogeneous Firms,” RESThud 2007, 31-66
http://restud.oxfordjournals.org/content/74/1/31.full.pdf+html
http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.98.4.1707
(B) Arkolakis, Costinot and Rodriguez-Clare, “New Trade Models, Same Old Gains?” AER 2012, 94-130
http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.102.1.94
(B) Demidova and Rodriguez-Clare, “The Simple Analytics of the Melitz Model in a
Small Open Economy,” JIE 2013, 266-72
http://www.sciencedirect.com/science/journal/00221996/90
Bernard, Redding, and Schott “Multiproduct Firms and Trade Liberalization,” QJE 2011

http://qje.oxfordjournals.org/content/123/2/441.full.pdf+html
http://restud.oxfordjournals.org/content/69/1/245.full.pdf+html
(B) Tybout, “Plant- and Firm-Level Evidence on ‘New’ Trade Theories,” in CH, Ch. 13
(B) Das, Roberts and Tybout, “Market Entry Costs, Producer Heterogeneity, and Export Dynamics,” ECA 2007, 837-73
http://qje.oxfordjournals.org/content/125/3/1051.full.pdf
Roberts and Tybout, “The Decision to Export in Colombia: An Empirical Model of Entry with Sunk Costs,” AER 1997
Balistreri, Hillberry and Rutherford, "Structural Estimation and Solution of International Trade Models with Heterogeneous Firms," JIE 2011

11. Demand Patterns and Trade: November 2
(R) Markusen, “Putting Per-Capita Income Back into Trade Theory,” JIE 2013, 255-65
http://www.sciencedirect.com/science/journal/00221996/90
http://spot.colorado.edu/~markusen/publications_files/Published/0314_CFM_QJE.pdf
(B) Markusen, “Explaining the Volume of Trade: an Eclectic Approach,” AER 1986, 1002-1011
(B) MM, Ch. 14
Hunter, “The Contribution of Nonhomothetic Preferences to Trade,” JIE 1991
Bergstrand, “The Heckscher-Ohlin Theorem, the Linder Hypothesis, and the Volume and Pattern of International Trade,” EJ 1990

PROBLEM SET TWO DUE NOVEMBER 4

12. Foreign Direct Investment and the Multinational Firm: November 4-9
13. Offshoring, Fragmentation and Technology Diffusion: November 11-16

http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.98.5.1978

(R) Antrás, “Firms, Contracts and Trade Structure, QJE 2003, 1375-1418
http://qje.oxfordjournals.org/content/118/4/1375.full.pdf+html

(R) Keller and Yeaple, “The Gravity of Knowledge,” AER 2013, 1414-1444
http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.103.4.1414

(B) Antras, “Incomplete Contracts and the Product Cycle,” AER 2005, 1054-73
http://pubs.aeaweb.org/doi/pdfplus/10.1257/0002828054825600

(B) Antras and Rossi-Hansberg “Organizations and Trade,” Annual Review of Economics 2009, 43-64


Coe, Helpman and Hoffmaister, “North-South R&D Spillovers,” EJ 1997


14. Trade and Institutions: November 18


(B) Nunn, “Relationship Specificity, Incomplete Contracts and the Pattern of Trade,” QJE 2007, 569-600 http://qje.oxfordjournals.org/content/122/2/569.full.pdf+html

(B) Rauch, “Business and Social Networks in International Trade,” Journal of Economic Literature 2001, 1177-1203

NOVEMBER 23-25 NO CLASSES; FALL BREAK

15. Trade Policy: Competitive and Imperfectly Competitive Markets: November 30
PROBLEM SET THREE DUE NOVEMBER 30

EXAMINATION TWO: DECEMBER 2 (covers sections 7-14)

16. Economic Theories of Trade Agreements: Dec 7
   (R) BS, Ch. 2
   (R) Horn, Maggi and Staiger, “Trade Agreements as Endogenously Incomplete Contracts,” AER 2010, 394-419
   http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.100.1.394
   (B) Grossman and Horn, “Why the WTO? An Introduction to the Economics of Trade Agreements,” manuscript 2012
   (B) MM, Ch. 21-22
   Ethier, “Political Externalities, Non-Discrimination, and a Multilateral World,” Review of International Economics 2004

17. Political Economy of Protection: December 9
   Magee, Brock and Young, Black Hole Tariffs and Endogenous Policy Theory: Political Economy in General Equilibrium Cambridge U Press, 1989

PART V: OTHER TOPICS

It is unfortunate but we will not have time to cover the following areas, though elements of some were covered in the readings above. All of these subjects are actively being researched and are interesting and important. Feel free to read in these areas for a paper/dissertation topic or for your own interest.
18. Trade, Innovation and Endogenous Growth
Dollar, “Technological Innovation, Capital Mobility, and the Product Cycle in North-South Trade,” AER 1986

19. Trade, Labor Markets and Immigration
Costinot and Vogel, “Matching and Inequality in the World Economy,” JPE 2010
Davidson, Martin and Matusz, “Trade and Search-Generated Unemployment,” JIE 1999
Ottaviano, Peri and Wright, “Immigration, Offshoring and American Jobs,” AER 2014

20. Product Quality and Trade
Hallak, “Product Quality and the Direction of Trade,” JIE 2006
Hummels and Klenow, “The Variety and Quality of a Nation’s Exports,” AER 2005
Schott, “Across-Product versus Within-Product Specialization and Trade,” QJE 2004

21. Trade in Intermediates and Vertical Specialization
F, Ch.4
Kohler, “International Outsourcing and Factor Prices with Multistage Production,” EJ 2004
22. International Trade and the Environment
Copeland and Taylor, “Trade and Trans-boundary Pollution,” AER 1995
Copeland and Taylor, “Trade, Growth and the Environment,” Journal of Economic Literature 2004

23. “Behind the Border” Regulations and Trade
Chen and Mattoo, “Regionalism in Standards: Good or Bad for Trade?” Canadian Journal of Economics 2008

24. Empirics of WTO and Regional Trade Agreements
Rose, “Do We Really Know that the WTO Increases Trade?” AER 2004
Subramanian and Wei, “The WTO Promotes Trade, Strongly but Unevenly,” NBER working paper 10024, 2003
Baier and Bergstrand, “Economic Determinants of Free Trade Agreements,” JIE 2004
Chen and Joshi, “Third-Country Effects on the Formation of Free Trade Agreements,” JIE 2010

25. Exchange Rates, Pricing and Trade
Atkeson and Burstein, “Pricing to Market, Trade Costs, and International Relative Prices,” AER 2008