

UNIVERSITY OF COLORADO
DEPARTMENT OF ECONOMICS

Economics 8413
International Trade

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Course Outline

The Course Outline given below lists the major topics we will deal with in this course. The focus of the course will be on positive theory, with frequent references to normative and policy analysis and to empirical investigations.

For background, especially if you have not had a course in international trade before, you need to begin with the Markusen et. al. textbook. The other required text, is the Feenstra book. Begin a topic by working through the Markusen book and then going to the Feenstra book.

Also, my course notes can be found on the course web site. I suggest that you might print these *before* each lecture, and then handwrite you own notes onto the course slides. This will allow you to concentrate more on *thinking* rather than furiously trying to take notes, drawing diagrams, copying equations, etc.

Assessment in the course will consist of two problem sets (15% each) a mid-term exam (35%) and a final exam (35%).

Mid-Term exam: Wednesday, October 19
Final exam: Friday, December 9

MAJOR TEXTS

Markusen, Melvin, Kaempfer and Maskus, *International Trade: Theory and Evidence*, McGraw Hill, 1995

Feenstra, *Advanced International Trade: Theory and Evidence*, Princeton University Press, 2003.

OTHER REFERENCES

Dixit and Norman, *Theory of International Trade*, Cambridge.

Bowen, Hollander, and Viaene, *Applied International Trade Analysis*, Michigan.

Bhagwati (ed.), *International Trade: Selected Readings*, MIT Press, second edition.

Grossman (ed.), *Imperfect Competition and International Trade*, MIT Press.

Jones and Kenen (ed.), *Handbook of International Economics*, Volume I, North-Holland.

Helpman and Krugman, *Market Structure and Foreign Trade*, MIT Press.

Neary (ed), *International Library of Critical Writings in Economics: International Trade*, Edward Elgar.

Markusen, *Multinational Firms and the Theory of International Trade*, MIT Press, 2002.

Fujita, Krugman and Venables, *The Spatial Economy*, MIT Press 1999.

Choi and Harrigan, *Handbook of International Trade*, Blackwell, 2003.

PART I: TECHNICAL CONCEPTS

This section of the course will occupy approximately 2-3 lectures. It is basic background "micro-foundations" for studying trade theory. We will rely heavily on basic textbook material, since this is a basic foundation.

1. Review of Relevant Production Theory
2. Review of Relevant Utility and Demand Theory, Preference Aggregation
3. General Equilibrium in the Closed (Autarky) Economy
4. Balance of Trade Constraint and General Equilibrium in the Open Economy
5. National Product (Revenue) Function, Expenditure Functions
6. Excess Demand Functions, Offer Functions, International Equilibrium

Markusen, Melvin, Kaempfer and Maskus, Chapters 2-4, Appendices 1-2
 Feenstra, Chapter 1, 3
 Dixit and Norman, Chapters 1-3

PART II: THE GAINS FROM TRADE

This section of the course will occupy 1-2 lectures. There is not a really good source for this material, so I will make up detailed notes that you can copy.

1. Sources of Gains from Trade, Comparative and Absolute Advantage
2. The Gains from Trade Theorem
3. Failure of the GFT Theorem: "Non-Tangencies, Non-Convexities"
4. The Distribution of Gains Among Individuals

Markusen, Melvin, Kaempfer, and Maskus, Chapter 5
 Feenstra, Chapter 6
 Corden, "The Normative Theory of International Trade", in Jones and Kenen.
 Dixit and Norman, Chapter 3, parts 2-4.

PART III: BASES FOR TRADE

This is the major section of the course. This will occupy about 8-10 lectures. It is the heart of the positive theory of international Trade.

1. Technology and the Ricardian Trade Model

MMKM, Chapters 6, 7.

Feenstra, Chapter 1

BHV, Chapter 3

Jones and Neary, "The Positive Theory of International Trade", in Jones and Kenen.

Dornbusch, Fischer, and Samuelson, "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods", *American Economic Review*, December 1977.

Ruffin, "The Missing Link: The Ricardian Approach to the Factor Endowments Theory of Trade", *American Economic Review*, September 1988.

2. Factor Endowments

MMKM, Chapters 8, 9.

Feenstra, Chapters 1-3.

BHV, Chapters 4,6.

Dixit and Norman, Chapter 4.

Jones and Neary, "The Positive Theory of International Trade", in Jones and Kenen.

Jones, "The Structure of Simple General-Equilibrium Models," *Journal of Political Economy*, 1965.

Jones, "A Three Factor Model in Trade, Theory and History", in Bhagwati et. al. (editors), *Trade, Balance of Payments and Growth*, North Holland, 1971.

Neary, "Short-Run Capital Specificity and the Pure Theory of International Trade", *Economic Journal*, 1978, pp. 488-510.

Mayer, "Short-Run and Long-Run Equilibrium for a Small Open Economy," *Journal of Political Economy*, 1974, 955-968.

Mussa, "Tariffs and the Distribution of Income: the Importance of Factor Substitutability, and Intensity in the Short and Long Run", *Journal of Political Economy*, 1974, pp. 1191-1214.

Ethier, "Higher Dimensional Trade Theory," in Jones and Kenen.

Samuelson, "International Trade and the Equalization of Factor Prices", *Economic Journal*, June 1948.

Samuelson, "International Factor Price Equalization Once Again," *Economic Journal*, June 1949.

Stolper and Samuelson, "Protection and Real Wages," *Review of Economic Studies*, 1941, 58-73.

Rybczynski, "Factor Proportions and the Heckscher-Ohlin Theorem", *Economica*, 1955, 336-41.

Ohlin, *International and Interregional Trade*, Harvard.

3. Commodity Market Distortions, Imperfect competition

MMKM, Chapter 10, 11

BHV, Chapter 9

Brander and Krugman, "A Reciprocal Dumping Model of International Trade", in Grossman, Readings.

Markusen, "Trade and the Gains from Trade with Imperfect Competition," *Journal of International Economics*, 1981, 117-134, in Grossman, Readings.

Melvin, "Commodity Taxation as a Determinant of Trade," *Canadian Journal of Economics*, February 1970.

4. Increasing Returns to Scale

MMKM, Chapter 12.

Feenstra, Chapter 5.

BHV, Chapter 9.

Krugman, "Increasing Returns, Monopolistic Competition and International Trade," *Journal of International Economics*, 1979, 469-479. In Bhagwati, Readings.

Helpman, "International Trade in the Presence of Product Differentiation, Economies of Scale Monopolistic Competition: A Chamberlinian-Heckscher-Ohlin approach," *Journal of International Economics*, 1981, 304-340. In Grossman, Readings.

Ethier, "National and International Returns to Scale in the Modern Theory of International Trade", *American Economic Review*, 1982, 389-405. In Grossman, Readings.

Horstmann and Markusen, "Endogenous Market Structures in International Trade", *Journal of International Economics* 1992, in Neary Readings.

Krugman, "Scale Economies, Product Differentiation, and the Pattern of Trade", *American Economic Review* 1980, 950-959. In Grossman, Readings.

Helpman and Krugman, Market Structure and Foreign Trade.

5. Factor Market Distortions

MMKM, Chapter 10.

Jones and Neary, "The Positive Theory of International Trade", in Jones and Kenen.

Magee, "Factor Market Distortions, Production, Distribution, and the Pure Theory of International Trade," *Quarterly Journal of Economics*, 1971, 623-643.

Neary, "Dynamic Stability and the Theory of Factor Market Distortions", *American Economic Review*, 1978, 671-682.

Corden, "The Normative Theory of International Trade", in Jones and Kenen.

6. Demand, the Product Cycle

MMKM, Chapter 13.

Linder, *An Essay on Trade and Transformation*, Almqvist and Wiksell, 1961.

Markusen, "Explaining the Volume of Trade: An Eclectic Approach", *American Economic Review*, December 1986.

Bergstrand, "The Heckscher-Ohlin Theorem, the Linder Hypothesis, and the Volume and Pattern of International Trade", *Economic Journal*, December 1990.

Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics*, May 1966.

Hunter and Markusen, "Per-Capita Income as a Determinant of Trade", in Feenstra (editor), *Empirical Methods for International Trade*, MIT Press, 1987 forthcoming.

PART IV: FACTOR TRADE

Factor trade is becoming an increasingly important issue in a more integrated world economy. The first section looks at Heckscher-Ohlin types models, while the second section looks at non-factor proportions models.

1. Factor Mobility in Factor-Proportions Models

MMKM Chapter 21.

Feenstra, Chapter 4.

BVH, Chapter 6.

Jones and Neary, "The Positive Theory of International Trade", in Jones and Kenen Mundell, "International Trade and Factor Mobility," *American Economic Review* 1957, 321-335. In Bhagwati Readings.

Brecher and Dias Alejandro, "Tariffs, Foreign Capital, and Immiserizing Growth," *Journal of International Economics*, 1977, 317-322. In Bhagwati Readings.

Jones, Coelho, and Easton, "The Theorems of International Trade with Factor Mobility," *Journal of International Economics*, 1986, 313-328.

Ethier and Svensson, "The Theorems of International Trade with Factor Mobility," *Journal of International Economics*, 1986, 43-64.

Brecher and Bhagwati, "Foreign Ownership and the Theory of Trade and Welfare," *Journal of Political Economy*, 1981, 497-511.

Bhagwati and Brecher, "National Welfare in the Open Economy in the Presence of Foreign Owned Factors of Production," *Journal of International Economics*, 1980, 103-115.

Neary, "Factor Mobility and International Trade", *Canadian Journal of Economics* 28, 1995, S4-S23.

2. Factor Movements in Non-Factor Proportions Models

MMKM, Chapter 21.

Markusen, "Factor Movements and Commodity Trade as Complements," *Journal of International Economics*, 1983, 341-356, in Neary Readings.

- Wong, "Are International Trade and Factor Mobility Substitutes," *Journal of International Economics*, 1986, 25-44. In Bhagwati Readings.
- Markusen and Svensson, "Trade in Goods and Factors with International Differences in Technology," *International Economic Review*, 1985, 175-192.

PART V: THE THEORY OF DIRECT FOREIGN INVESTMENT

This is another topic that is becoming more important, as multinational firms dominate a larger and larger share of international economic activity.

- MMKM, Chapter 22.
- Feenstra, Chapter 10
- Markusen, MIT press book.
- BHV, Chapter 11
- Markusen and Venables, "The General Theory of Inter-Industry-, Intra-Industry-, and Multinational Trade", *Journal of International Economics* 52 (2000), 209-234.
- Markusen and Venables, "Multinational Firms and the New Trade Theory", *Journal of International Economics* 46 (1998), 183-204.
- Helpman and Krugman, Chapters 12, 13.
- Ethier, "The Multinational Firm," *Quarterly Journal of Economics*, 1987, 805-834. In Grossman Readings.
- Markusen, "The Multinationals, Multi-Plant Economies, and the Gains from Trade", *Journal of International Economics*, 1984, 205-226. In Bhagwati Readings.
- Horstmann and Markusen, "Strategic Investments and the Development of Multinationals", *International Economic Review*, 1987.
- Horstmann and Markusen, "Licensing versus Direct Investment: A Model of Internalization by the Multinational Enterprise," *Canadian Journal of Economics*, 1987.
- Horstmann and Markusen, "Endogenous Market Structures in International Trade", *Journal of International Economics* 1992, 109-129, in Neary Readings.
- Helpman, "A Simple Theory of International Trade with Multinational Corporations," *Journal of Political Economy*, 1984, 451-471.
- Motta, Massimo, "Multinational Firms and the Tariff-Jumping Argument", *European Economic Review*, 1992, 36, 1557-1571.
- Motta, Massimo and George Norman (1996), "Does Economic Integration Cause Foreign Direct Investment?", *International Economic Review* 37, 757-783.

PART VI: THE THEORY OF PROTECTION

This section of the course is the theory of commercial policy. Most of the time will be spent on the effects of various policies, with a smaller amount of time spent on why various policies are actually adopted (political economy).

1. Tariffs

MMKM, Chapter 15.
 Feenstra, Chapter 7
 BHV, Chapter 5.
 Dixit and Norman, Chapters 4, 5.
 Corden, "The Normative Theory", in Jones and Kenen, Chapter 2.

2. Effective Protection

MMKM, Chapter 15.
 Corden, "The Normative Theory", in Jones and Kenen, Chapter 2.

3. Quotas

MMKM, Chapter 16.
 Feenstra, Chapter 8.
 BHV, Chapter 5.
 Corden, "The Normative Theory", in Jones and Kenen, Chapter 2.

4. Strategic Trade Policy

MMKM, Chapter 17.
 Feenstra, Chapter 8.
 BHV, Chapter 10
 Dixit, "International Trade Policy for Oligopolistic Industries," *Economic Journal Supplement*, 1984, 1-16.
 Eaton and Grossman, "Optimal Trade and Industrial Policy under Oligopoly", *Quarterly Journal of Economics*, 1985, 383-406. In Grossman, Readings.
 Harris, "Why Voluntary Export Restraints are Voluntary", *Canadian Journal of Economics*, 1985, 799-809.
 Horstmann and Markusen, "Up the Average Cost Curve: Inefficient Entry and the New Protectionism", *Journal of International Economics*, 1986, 225-248, in Neary Readings.
 Krugman, "Import Protection as Export Promotion", in Kierzkowski (editor). In Grossman, Readings.
 Spencer and Brander, "International R&D Rivalry and Industrial Strategy," *Review of Economic Studies*, 1983, 707-722.
 Venables, "Trade and Trade Policy with Imperfect Competition: The Case of identical Products and Free Entry," *Journal of International Economics*, 1985, 1-20.
 Markusen and Venables, "Trade Policy with Increasing Returns and Imperfect Competition: Contradictory Results from Competing Assumptions",

Journal of International Economics 24, 1988, 299-316. In Grossman, Readings.

Dixit and Grossman, "Targeted Export Promotion with Several Oligopolistic Industries", *Journal of International Economics*, 1986, 233-250.

Dixit, "Optimal Trade and Industrial Policies for the US Automobile Industry", in Grossman, Readings and Feenstra (ed).

Baldwin and Krugman, "Market Access and International Competition: A Simulation Study of 16K Random Access Memories, In Grossman Readings, Feenstra (ed).

5. Political Economy of Trade Policy

MMKM, Chapter 17

Feenstra, Chapter 9.

BHV, Chapter 2

Krueger, "The Political Economy of the Rent-Seeking Society", in Bhagwati Readings.

Bhagwati, Brecher, and Srinivasan "DUP Activities and Economic Theory", in Bhagwati Readings.

Hillman, *The Political Economy of Protection*, Harwood, 1989.

Brock and Magee, "The Economics Special Interest Politics: The Case of the Tariff", *American Economic Review*, 1978, 246-250.

Bohara and Kaempfer, "A Test of Tariff Endogeneity in the United States", *American Economic Review*, 1991.

Trefler, "Trade Liberalization and the Theory of Endogenous Protection: An Econometric Study of U.S. Import Policy", *Journal of Political Economy* 101, 1993, 138-160.

6. Contingent Protection

MMKM, Chapter 20

BVH, Chapter 2

Bagwell and Staiger, "A Theory of Managed Trade", *American Economic Review*, 1990.

Fernandez and Rodrik, "Resistance to Reform: Status Quo Bias in the Presence of Regulation", *American Economic Review*, 1991.

Prusa, "Why Are so Many Antidumping Petitions Withdrawn?", *Journal of International Economics*, August 1992.

7. Preferential Trade Areas

MMKM, Chapter 18.

Feenstra, Chapter 6.

BHV, Chapter 12

Corden, "The Normative Theory", in Jones and Kenen, Chapter 2.

Baldwin and Venables, "Regional Economic Integration", in Gene Grossman and Kenneth Rogoff (editors), *Handbook of International Economics*, Amsterdam: North Holland, 1995.