

Economics 4413-003 International Trade
Fall, 2009, MW 5:00-6:15
Guggenheim 225

Professor Keith Maskus
Office: Economics 107; 303-492-7588
Hours: M 3:00-4:30; W 9:00-10:00

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Course Outline

General

Welcome to my course, which is an advanced undergraduate treatment of international trade theory and policy. In this course we will study aspects of international trade at a fairly abstract and rigorous level. Although the analysis will be largely graphical in nature, the course materials and lectures will employ some mathematics. Among the issues that will be addressed are: (1) the fundamental determinants of the patterns of trade and the gains from trade; (2) the implications of imperfect competition for trade patterns and welfare; (3) how firms of different sizes and productivities engage in trade and investment; (4) justifications for policies that restrict trade; (5) the effects of trade and investment barriers; (6) the rationale for regional free-trade agreements and multilateral trade rules; and (7) the role of international capital and labor movements. We will also read about real-world areas of international trade, including trade institutions, trade liberalization and poverty, and interactions between trade policy and environmental regulation.

Thus, there are three goals in the course. First, we will develop a solid grounding in the analytical work of modern trade theory. Second, we will master some tools for use in practical trade analysis. Third, we will understand better the circumstances within which international trade policy is made. This is an ambitious agenda and will require sustained effort.

Readings

The required text is *International Trade: Theory and Evidence*, which is currently being drafted by my colleague, James Markusen, and myself (the text will be listed as MM below). Chapters 2- 12 of the text are available in bound form at the bookstore. Further, you can download each chapter (pdf format) from the teaching page of my website, which is <http://spot.colorado.edu/~maskus/teaching.html>. Go to the 4413 section. My webpage can easily be found through the Economics department website, which is <http://www.colorado.edu/Economics> (NOTE THE CAPITAL E). Click on people, then faculty and follow my name. You can also follow the department site link directly to courses, then click 4413. Be sure your machine can read PDF files and read (or convert) Word files.

It will be important to supplement the text with some recent and topical material as detailed below. These materials will also be available on the website or linked from there. Please consult the course webpage frequently for new materials. Finally, you will find it interesting to read about current international trade issues in *The Wall Street Journal*, *The New York Times*, *The Financial Times*, and *The Economist*, but this is not required.

We will attempt to complete most of the volume, as detailed below, though this will be a challenge. The textbook takes an abstract, general-equilibrium approach to international trade theory and can be rather rough going in spots. Thus, it is important that you understand the course prerequisite, which is successful completion of intermediate microeconomic theory. I will consider requests for exemptions from this prerequisite in individual consultations, but please be advised that micro theory is the foundation for this course.

There are a number of interesting books on globalization and trade that might interest you. Among the more popular are Thomas Friedman, *The World is Flat* (Farrar, Strauss and Giroux); Joseph Stiglitz and Andrew Charlton, *Fair Trade for All* (Oxford University Press); Dani Rodrik, *Has Globalization Gone Too Far?* (Institute for International Economics); David Dollar and Paul Collier, *Globalization, Growth and Poverty: Building an Inclusive World Economy* (World Bank Press). A spirited defense of global trade is Jagdish Bhagwati, *In Defense of Globalization* (Oxford University Press).

Lecture Content

Lectures will be held twice a week, except when in-class examinations are scheduled. While real-world examples will be used often to motivate the analysis, portions of a few class periods will be set aside for discussion of current international trade topics, such as trade and climate change. Before these discussions I will make available relevant policy papers that I have written on each subject.

Assessment

There will be two mid-term examinations, each worth 30% of your grade, and one final examination worth 40%. I will also provide you with problem sets in preparation for exams but their completion is up to you and they will not be graded. Answers will be available on the course website, as will examples of examinations from earlier classes so you can see the general format I use. Examinations will cover text materials and trade topics, as noted below.

Schedule

PART 1: TECHNICAL MICROECONOMIC CONCEPTS AND THE GAINS FROM TRADE

In this section we study the essential microeconomic tools needed to study modern international trade theory and apply them to understand why countries gain from engaging in trade.

1. Introduction

MM, Chapter 1 August 24

2. Supply and Production Possibilities

MM, Chapter 2 August 26 – 31

3. Preferences, Demand, and Welfare

MM, Chapter 3 August 31

4. General Equilibrium

MM, Chapter 4 September 2

LABOR DAY; NO CLASSES September 7

- 5. Gains from Trade**
 MM, Chapter 5
 Reading: Empirical Evidence on GFT: Japan
 September 9

PART 2: CAUSES OF INTERNATIONAL TRADE

We turn next to our essential theories and evidence about what actually determines the patterns and volumes of international trade. This will permit us also to say much more about the gains from trade and how those gains (and losses) are distributed among people and firms.

- 1. Basic Differences in Technology and Productivity: Ricardian Model**
 MM, Chapters 6 and 7
 Reading: Evidence on Productivity and Trade
 September 14 - 21

- 2. Differences in Factor Endowments: Heckscher-Ohlin Model**
 MM, Chapter 8
 Reading: Testing the HO Model
 September 23 - September 28

- 3. Short-Run Differences in Factor Endowments: Specific-Factors Model**
 MM, Chapter 9
 September 30

- Policy Discussion A: Trade Liberalization and Poverty**
 Readings:
 Maskus, "How Trade Liberalization Affects Poverty: Concepts"
 Dollar and Collier, *Globalization, Growth, and Poverty*, Chapter 1
 October 5

MIDTERM EXAMINATION ONE
 Covers Chapters 1 - 9 and Policy Discussion A.
 October 7

- 4. Distortions and Externalities as Determinants of Trade**
 MM, Chapter 10
 October 12

- 5. Increasing Returns, Oligopoly and Trade**
 MM, Chapter 11 (skip Section 4)
 October 14 - 19

- 6. Increasing Returns, Monopolistic Competition and Trade**
 MM, Chapter 12 (skip Section 3)
 October 19 - 21

- 7. Economic Geography and Heterogeneous Firm Behavior**
 MM, Chapter 13
 Reading: Evidence from the Gravity Model and Firm-level Studies
 October 26 – November 2

Skip Chapter 14

Part 3: International Trade in Capital and Labor

In this section we will study the role of movements of production factors across borders and the effects they have on welfare and income distribution. Of particular interest will be to understand the nature of the multinational enterprise.

1. Trade in Factors of Production: General Concepts November 4
MM, Chapter 15

MIDTERM EXAMINATION TWO November 9
Covers Chapters 10-13 and 15

Skip Chapter 16

2. Multinational Firms and Foreign Direct Investment November 4, 11
MM, Chapter 17
Reading: Maskus, "Theories of Foreign Direct Investment" (handout)

3. International Labor Migration November 16
MM, Chapter 18

PART 4: TRADE POLICY AND THE TRADING SYSTEM

1. Tariffs November 16 - 18
MM, Chapter 19

FALL BREAK; NO CLASSES November 23 - 27

2. Quotas and Non-Tariff Barriers November 30
MM, Chapter 20

Policy Discussion B: Trade and the Environment December 2
Reading: Maskus, "Trade and the Environment: What are the Issues and How Do Trade Economists Think About Them?"

Skip Chapter 21

3. Preferential Trade Areas
MM, Chapter 22

December 7

Skip Chapter 23

4. Trade Rules and the WTO
MM, Chapter 24

December 9

FINAL EXAMINATION 7:30 - 10:00 PM
Covers Chapters 17 – 20; 22, 24 and Policy Discussion B

Wednesday, Dec 16

SPECIAL NOTE

I am willing to accommodate the special needs of students with disabilities and particular needs for religious observations, but please contact me immediately if you have such concerns. Finally, you should be aware of the University's honor code, policy for student classroom behavior, and policy regarding discrimination and harassment. The campus policies for these and other issues may be found at <http://www.colorado.edu/Economics/courses/fall09-course-index.html>.