Course outline

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 core models (part one) and firms (part two). The prerequisites are first-year graduate courses in microeconomics, macroeconomics and econometrics. Students from other departments are welcome subject to instructor’s approval. You will find below a tentative schedule (note: 1 lecture = 1h15). This schedule remains flexible depending on the speed of advancement and students’ interests:

First part: General theories (about 10 lectures)

- 1 lecture: introduction, motivation, data availability
- 3 lectures on Heckscher Ohlin (review, empirical tests)
- 3 lectures on recent Ricardian models (Eaton Kortum 2002 and related developments)
- 3 lectures on gravity equations, home market effect and gains from trade

Second part: Firms in Trade (about 6 lectures)

- 3 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).
- Note: topics related to multinational firms will be covered in the Spring Trade course.

Third part: Other topics

- 1 lecture on Trade in intermediate goods
- 1 lecture on quality, Linder hypothesis.
- 2 lectures on Trade and Institutions, Trade and financial constraints
- 2 lectures on Trade Policy (tariffs, FTA), political economy of trade policy

Other topics could 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.
Contact information

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

Please come to visit my office at least once before the midterm. I would like to hear your suggestions and check how you feel about the course. This is important for me and for you.

Course requirements and grading

After each lecture, 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 a dozen 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 Sunday by 4pm if the comment is due on Monday. Please include “8413” in the title of your email.

These comments should take about 15 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), whether you are convinced by the results and whether you would have done things differently, 4) and your questions (if any). The comments should be precise and clear (clarity 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. I will try to answer your questions during the following lecture (keeping your questions anonymous).

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 you 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 one week after Thanksgiving.

Class participation counts for another 20% of the grade. This includes the presentation of one paper (distinct from the one with the referee report) in class towards the end of the semester (35 min presentation). You will need to contact me for the choice of the paper to present in order to coordinate and cover distinct subjects. This part of the grade also refers to participation during regular lectures. Please be on time and feel free to ask questions during the course: I welcome comments and debates during the lectures. Also, attendance at the Department seminar is required when a trade paper is presented.
There will be two written exams: a midterm (15%) and a final (35%). The midterm will be on October 31st and the final will be on December 18th at 7.30pm (time imposed by the registrar’s office). Please let me know as soon as possible if there is any incompatibility.

**Reading list**

Double asterisks (**) refer to key readings (mandatory). Asterisks (*) signal strongly recommended 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**

**Factor content of trade**
- **Feenstra, 2003, chapter 2, 3 and 4**
Ricardian theory and tests

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

Product varieties, gravity equation, gains from trade

- ** Feenstra, 2003, chapter 5
- Fally, T. “Structural Gravity and Fixed Effects”, mimeo Colorado
Second part: Firms in trade

Firm heterogeneity: theory


Empirics on firm heterogeneity

Multi-product firms:


Third part: Other topics potentially covered

Offshoring, intermediate goods trade

- Johnson, R. and G. Noguera, “Fragmentation and Trade in Value Added Over Four Decades”, mimeo
- Fally, T. “Production Staging: Measurement and Evidence”, mimeo

Trade, demand-side and quality


Trade and wage inequalities


Institutions and trade

Financial constraints and trade
• * Carluccio J. and T. Fally (2008) “Global Sourcing under Imperfect Capital Markets”

Trade and the 2008 global crisis
• The Great Trade Collapse: Causes, Consequences, and Prospects”, ed. by R. Baldwin,. VoxEU.org. In particular: chapters 8, 9, 11
• 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 (probably not covered):

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

Labor markets and trade

Trade and Networks:
• * Chaney, Thomas, "The Network Structure of International Trade".
**References on multinational firms (not to be covered in Fall)**

**Horizontal FDI**

**Offshoring, vertical FDI,**
Incomplete contracts and multinational production


Host economy effect of FDI


University policies

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