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 a draft text by my colleague, James Markusen, and myself (the text will be listed as MM below). A bound copy is available in the bookstore at cost (we receive no royalties). I will supplement the text with some recent and topical material as detailed below. These materials will be available on the D2L 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 (ECON 3070).

**Lectures**
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. In all classes you are encouraged to ask questions and raise points of your own.

**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 be 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**
We will be skipping some subsections of the text in order to save time and also because they may be more analytically advanced than necessary for this course. I will announce such changes as we go forward.

**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
   Reading: *Globalization, Growth and Poverty*, Ch. 1
   January 13-15

2. **Supply and Production Possibilities**
   MM, Chapter 2, except section 2.4.B
   January 15-20

3. **Preferences, Demand, and Welfare**
   MM, Chapter 3
   January 20

4. **General Equilibrium**
   MM, Chapter 4, except section 4.6
   January 20-22

5. **Gains from Trade**
   MM, Chapter 5, except sections 5.2-5.3
   January 22

**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
   January 27-29

2. **Differences in Factor Endowments: Heckscher-Ohlin Model**
   MM, Chapter 8, except section 8.6
   February 3-12

3. **Short-Run Differences in Factor Endowments: Specific-Factors Model**
   MM, Chapter 9
   February 17
Policy Discussion A: Trade Liberalization and Poverty
Reading: Maskus, "How Trade Liberalization Affects Poverty: Concepts"

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

4. Distortions and Policies as Determinants of Trade
   MM, Chapter 10
   No class February 26
February 24

5. Increasing Returns, Oligopoly and Trade
   MM, Chapter 11, except sections 11.3-11.4
   March 3

6. Increasing Returns, Monopolistic Competition and Trade
   MM, Chapter 12, except section 12.3 and 12.5
   March 5-10
   Policy Discussion B: Trade Costs and Heterogeneous Firm Behavior
   Reading: Maskus: “Firms, Exporting, and the Gravity Model”
   Skip Chapter 13

7. The Role of Demand in International Trade
   MM, Chapter 14, except 14.4
   March 12

MIDTERM EXAMINATION TWO
Covers Chapters 10-12 and 14 and Policy Discussion B
March 17

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
   MM, Chapter 15, except section 15.4
   March 19
   Policy Discussion C: Economics of Immigration
   Reading: Maskus, “Gains and Losses from Migration”

SPRING BREAK; NO CLASSES
March 23 –27

2. Multinational Firms and Foreign Direct Investment
   MM, Chapter 16, except sections 16.4 and 16.6
   March 31-April 2
   Policy Discussion D: The Multinational Enterprise
   Reading: Maskus, "Theories and Impacts of Foreign Direct Investment"
   Skip Chapter 17

PART 4: TRADE POLICY AND THE TRADING SYSTEM
This section of the course is devoted to understanding the nature of trade restrictions, what their effects are and why they exist. We will also consider the formation of global trade policy through the World Trade Organization and Free Trade Agreements.

1. Tariffs
   MM, Chapter 18, except sections 18.4 and 18.8
   April 7-9
   Additional notes provided
2. Quotas and Non-Tariff Barriers
   MM, Chapter 19
   Additional notes provided
   April 14

3. Imperfect Competition and Strategic Trade Policy
   MM, Chapter 20, except section 20.4
   April 16

4. Trade Rules and the WTO
   MM, Chapter 21
   Policy Discussion E: Trade and the Environment
   Reading: Maskus, "Trade and the Environment: What are the Issues and How
   Do Trade Economists Think About Them?"
   April 21-23

5. Preferential Trade Areas
   MM, Chapter 22
   April 28-30

FINAL EXAMINATION
   Sunday, May 3, 7:30-10:00 pm
   Covers Chapters 15–16; 18-22 and Policy Discussions C, D, and E

Students with Special Needs:
If you qualify for accommodations because of a disability, please submit to me a letter from Disability Services in a timely manner so that your needs may be addressed. Disability Services determines accommodations based on documented disabilities. Contact: 303-492-8671; Center for Community Building, Room N200; or by email at: dsinfo@colorado.edu.

Religious Observances:
Campus policy regarding religious observances requires that faculty make every effort to reasonably and fairly deal with all students who, because of religious obligations, have conflicts with scheduled exams, assignments or required attendance. In this class, please let me know in a timely manner if one of the exam dates falls on a religious holiday you intend to observe and I will arrange for you to take a make-up. See policy details at: http://www.colorado.edu/policies/fac_relig.html