Course Outline and Reading List

The Course Outline given below lists the major topics we will deal with in this course. Attached to each topic is a list of the major references. You will be expected to know the text (MMKM) very well, but you will not be expected to read many journal articles. The supplemental textbook is BHV. In addition, you are assigned “The Lexus and the Olive Tree” by Thomas Friedman. Other references are a resource for you for future study and work.

Assessment in the course will consist of two problem sets (15% each) a mid-term (20%) and a final exam (30%). In addition, you will be asked to write a critical essay relating Friedman’s book to economic theory (20%). I will give more details about this in class.

MAJOR REFERENCES


Friedman, Michael, *The Lexus and the Olive Tree*.

APPLIED BOOKS


**PART I: TECHNICAL CONCEPTS**

1. **The Production Frontier**
   
   MMKM, Chapter 2

3. **Demand**
   
   MMKM, Chapter 3

5. **Equilibrium in the Closed versus Open Economy**
   
   MMKM, Chapter 4

6. **Offer Curves, Stability of Trading Equilibria**
   
   MMKM, appendix

**PART II: THE GAINS FROM TRADE**

1. **Sources of Gains from Trade, Comparative and Absolute Advantage**
   
   MMKM, Chapter 5.
   Corden, "The Normative Theory of International Trade", in Jones and Kenen.
   Kemp, Chapter 11, Sections 1-6.
2. **The Gains from Trade Theorem**

   MMKM, Chapter 5.
   Corden, "The Normative Theory of International Trade", in Jones and Kenen.
   Kemp, Chapter 11, Sections 7, 11.

3. **Failure of the GFT Theorem: Non-Tangencies, Non-Convexities**

   MMKM, Chapter 5.
   Markussen and Melvin, "The Gains From Trade Theorem with Increasing Returns to Scale", in Kierzkowski, Chapter 2.
   Corden, "The Normative Theory of International Trade", in Jones and Kenen.

4. **The Distribution of Gains Among Individuals**

   MMKM, Chapter 5.

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**PART III: BASES FOR TRADE**

1. **Technology and the Ricardian Trade Model**

   MMKM, Chapters 6, 7.
   BHV, Chapter 3
   Jones and Neary, "The Positive Theory of International Trade", in Jones and Kenen.

2. **Factor Endowments**

   MMKM, Chapters 8, 9.
   BHV, Chapter 4
   Jones and Neary, "The Positive Theory of International Trade", in Jones and Kenen.
   Kemp, Chapter 1.
   Dixit and Norman, Chapter 4.
   Woodland, Chapters 4, 7.
Ethier, "Higher Dimensional Trade Theory," in Jones and Kenen.
Samuelson, "International Trade and the Equalization of Factor Prices", 
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

MMKM, Chapter 10
Melvin, "Commodity Taxation as a Determinant of Trade," Canadian Journal 

4. Imperfect Competition

MMKM, Chapter 11
BHV, Chapter 9
Markusen, "Trade and the Gains from Trade with Imperfect Competition," Journal 
Brander and Krugman, "A Reciprocal Dumping Model of International Trade", in 
Grossman, Readings.
Grossman, Reading, All.

5. Increasing Returns to Scale

MMKM, Chapter 12.
Helpman and Krugman, All
Krugman, "Increasing Returns, Monopolistic Competition and International Trade," 
Krugman, "Scale Economies, Product Differentiation, and the Pattern of Trade", American 
Helpman, "International Trade in the Presence of Product Differentiation, Economies 
of Scale and Monopolistic Competition: A Chamberlinian-Heckscher-Ohlin 
Readings.
Lancaster, "Intra-Industry Trade under Perfect Monopolistic Competition," 
Journal of International Economics, 1908, 151-175.
Markusen and Melvin, "Trade, Factor Prices and The Gains from Trade with 
Ethier, "Internationally Decreasing Costs and International Trade", Journal of 
Ethier, "National and International Returns to Scale in the Modern Theory of 
Readings.
Kemp, Chapter 8.

6. Factor Market Distortions

MMKM, Chapter 10.
Jones and Neary, "The Positive Theory of International Trade", in Jones and Kenen.
Bhagwati and Srinivasan, Chapters 20-22.

7. Demand, the Product Cycle

MMKM, Chapter 13.

8. Empirical Test of Trade Theories

MMKM, Chapter 14.
BHV, Chapter 8

PART IV: THE THEORY OF PROTECTION

1. Tariffs

MMKM Chapter 15.
BHV, Chapter 5
Corden, "The Normative Theory", in Jones and Kenen, Chapter 2.
Dixit and Norman, Chapters 4, 5.
Woodland, Chapters 10, 11.
Bhagwati and Srinivasan, Chapter 9.

2. Effective Protection

MMKM, Chapter 15.
Woodland, Chapter 10.
Bhagwati and Srinivasan, Chapter 11.
Corden, "The Normative Theory", in Jones and Kenen, Chapter 2.
3. Quotas

MMKM, Chapter 16.
BHV, Chapter 5
Corden, "The Normative Theory", in Jones and Kenen, Chapter 2.
Woodland, Chapter 11.
Bhagwati and Srinivasan, Chapter 10.
4. **Strategic Trade Policy**

MMKM, Chapter 17.
BHV, Chapter 10.
Krugman, "Import Protection as Export Promotion", in Kierzkowski (editor). In Grossman, Readings.

5. **Political Economy of Trade Policy**

MMKM, Chapter 18.

6. **New Protectionism**

MMKM, Chapter 19.
PART V: THE THEORY OF PREFERENTIAL TRADING

1. Preferential Trade and Economic Integration

MMKM, Chapter 21.
BMV, Chapter 12.
Corden, "The Normative Theory", in Jones and Kenen, Chapter 2.
Bhagwati and Srinivasan, Chapter 27.
Ethier and Horn, "Aspects of Economic Integration, in Kierzkowski (editor).
Harris, Trade, Industrial Policy and Canadian Manufacturing, University of Toronto Press, 1984.

PART VI: WELFARE AND COMMERCIAL POLICY IN THE PRESENCE OF EXTERNALITIES, TAXES, AND NON-TARIFF DISTORTIONS

1. Distortions and the Theory of the Second Best

Bhagwati and Srinivasan, Chapters 23, 24, 30 and 32.
Corden, "The Normative Theory", in Jones and Kenen, Chapter 2.
MMKM, Chapter 23.
In Bhagwati Readings.
PART VII: FACTOR MOVEMENTS

1. Factor Mobility in Factor-Proportions Models

MMKM, Chapter 21.
Jones and Neary, "The Positive Theory of International Trade", in Jones and Kenen
Bhagwati and Srinivasan, Chapters 28, 29.
Mundell, "International Trade and Factor Mobility," American Economic Review
Brecher and Dias Alejandro, "Tariffs, Foreign Capital, and Immiserizing Growth,"
Jones, "International Capital Movements and the Theory of Tariffs," Quarterly
Svensson, "Factor Trade and Goods Trade", Journal of International Economics,
1985.
Jones, Coelho, and Easton, "The Theorems of International Trade with Factor
Ethier and Svensson, "The Theorems of International Trade with Factor Mobility,
Markusen and Melvin, "Tariffs, Capital Mobility and Foreign Ownership," Journal
Brecher and Bhagwati, "Foreign Ownership and the Theory of Trade and Welfare,"
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.

2. Factor Movements in Non-Factor Proportions Models

MMKM, Chapter 21.
Markusen, "Factor Movements and Commodity Trade as Complements," Journal of
Wong, "Are International Trade and Factor Mobility Substitutes," Journal of
Markusen and Svensson, "Trade in Goods and Factors with International Differences

PART VIII: THE THEORY OF DIRECT FOREIGN INVESTMENT

MMKM, Chapter 21.
BHV, Chapter 11
Helpman and Krugman, Chapters 12, 13.
Markusen, "The Multinationals, Multi-Plant Economies, and the Gains from Trade",


PART IX: GROWTH AND DYNAMIC ADJUSTMENT

MMKM, Chapter 23.
BHV, Chapter 14
Grossman and Helpman, all.
Woodland, Chapters 13-15.
Bhagwati and Srinivasan, Chapters 25, 31.
Findlay, in Jones and Kenen.
Smith, in Jones and Kenen.