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, more advanced textbook is the Feenstra book. This is currently in draft form, and Feenstra is making it available on the web free in pdf format.

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: Tuesday, October 15
Final exam: To be announced

MAJOR REFERENCES


Dixit and Norman, Theory of International Trade, Cambridge.

OTHER REFERENCES


PART I: TECHNICAL CONCEPTS

This section of the course will occupy approximately 2-3 lectures. It is basic background "microfoundations" 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
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.
Markusen and Melvin, "The Gains From Trade Theorem with Increasing Returns to Scale", in Kierzkowski, Chapter 2.
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.

2. Factor Endowments

MMKM, Chapters 8, 9.
Feenstra, Chapters 2, 3.
BHV, Chapters 4, 6.
Dixit and Norman, Chapter 4.
Jones and Neary, "The Positive Theory of International Trade", in Jones and Kenen.
Jones, "A Three Factor Model in Trade, Theory and History", in Bhagwati et. al. (editors), Trade, Balance of Payments and Growth, North Holland, 1971.
Ehri, "Higher Dimensional Trade Theory," in Jones and Kenen.
Ohlin, International and Interregional Trade, Harvard.
3. **Commodity Market Distortions**

MMKM, Chapter 10, 11
BHV, Chapter 9

4. **Increasing Returns to Scale**

MMKM, Chapter 12.
Feenstra, Chapter 5.
BHV, Chapter 9.

5. **Factor Market Distortions**

MMKM, Chapter 10.
Jones and Neary, "The Positive Theory of International Trade", in Jones and Kenen.
Corden, "The Normative Theory of International Trade", in Jones and Kenen.
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.

2. Factor Movements in Non-Factor Proportions Models
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
BHV, Chapter 11
Helpman and Krugman, Chapters 12, 13.
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
   Krugman, "Import Protection as Export Promotion", in Kierzkowski (editor). In Grossman, Readings.
   Venables, "Trade and Trade Policy with Imperfect Competition: The Case of
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
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

5. Political Economy of Trade Policy

MMKM, Chapter 17
Feenstra, Chapter 9.
BHV, Chapter 2
Bhagwati, Brecher, and Srinivasan "DUP Activities and Economic Theory", in Bhagwati
Readings.
Brock and Magee, "The Economics Special Interest Politics: The Case of the
Bohara and Kaempfer, "A Test of Tariff Endogeneity in the United States", *American
Trefler, "Trade Liberalization and the Theory of Endogenous Protection: An Econometric Study

6. Contingent Protection

MMKM, Chapter 20
BHV, Chapter 2
Fernandez and Rodrik, "Resistance to Reform: Status Quo Bias in the Presence of Regulation",
Prusa, "Why Are so Many Antidumping Petitions Withdrawn?", *Journal of International

7. Preferential Trade Areas

MMKM, Chapter 18.
Feenstra, Chapter 6.
BHV, Chapter 12
Corden, "The Normative Theory", in Jones and Kenen, Chapter 2.