

Economics 4413 International Trade
Spring, 2015
Education 155
TU, TH 9:30-10:45

Professor Keith Maskus
Office: Economics 107; 303-492-7588
Hours: TU 4:00-5:00; W 1:00-3:00

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Course D2L site: <https://learn.colorado.edu/d2l/home/83194>

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).

There are a number of interesting books on globalization and trade. 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); David Dollar and Paul Collier, *Globalization, Growth and Poverty: Building an Inclusive World Economy* (World Bank Press). Spirited defenses of global trade are Jagdish Bhagwati, *In Defense of Globalization* (Oxford University Press) and Martin Wolf, *Why Globalization Works* (Yale University Press). If you are interested in a detailed description of the WTO, consult Narlikar, Daunton and Stern *The Oxford Handbook on The World Trade Organization* (Oxford University Press).

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 January 13-15

Reading: *Globalization, Growth and Poverty*, Ch. 1

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

February 19

Covers Chapters 1 - 9 and Policy Discussion A.

4. Distortions and Policies as Determinants of Trade

MM, Chapter 10

February 24

No class February 26

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

March 17

Covers Chapters 10-12 and 14 and Policy Discussion B

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

April 14

Additional notes provided

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

April 21-23

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?"

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