
International Trade and Investment

Economics 8413-001

Fall 2006 Monday & Wednesday 9:00 – 10:15 am, Econ 5.

Professor Wolfgang Keller, email Wolfgang.Keller@colorado.edu, Econ 222, office hours M 3:00 – 4:30 and by appointment

Class webpage: <http://spot.colorado.edu/~kellerw/courses/8413f06/>

Course Outline and Reading List

Overview

Economics 8413 is a course on the real side of International Economics designed for Ph.D. students in the Economics Department. The course gives an introduction to theory and empirical work on International Trade and Investment, with an emphasis on positive and relatively recent developments.

Classes are held as a mixture of lecture, discussion, and student presentation. This course presumes knowledge of the first-year graduate sequences in microeconomics, macroeconomics, and econometrics. Students from other departments are welcome subject to instructor's approval.

Requirements

1. Read the papers for each week, prepare a one-page summary for each required paper (indicated with a * below), and be prepared to participate in class discussions. This counts for 10% of the grade.
2. In a team with one other student, present and discuss a paper on the syllabus in class (about 35 minutes). This counts for 10% of the grade.
3. A 15-page research proposal of a research question that is motivated by this class. The proposal should be more than a literature review. Rather, you should place your question in the context of the existing literature, explain what you would do to go about answering the question better—you could do this, for example, by providing a sketch of the theoretical framework behind your hypothesis, identifying the data sources that provides the necessary evidence, and describing your empirical strategy and methodology. Note that you are not asked to actually produce the final results. However, you must be able to show (1) why your proposal is important and (2) the general outline of your approach, and (3) how it will be feasible to execute. Each student will present their proposal at the end of the semester in class. The proposal and presentation counts 40% in the course grade.
4. A mid-term and a final exam. Both are in-class, closed books. You may use your one-page paper summaries for these exams. Each exam is 20% of the course grade.

I will also distribute a number of problem sets in form of empirical exercises. These will not be graded, but they are useful for anybody planning to do empirical work in international trade.

The presentation of course papers will take place in classes from Oct 16 to Oct 30, and the research proposal presentations will be from Nov 29 to Dec 13 (this is subject to change).

The textbook for this class is

Feenstra, Robert, *Advanced International Trade: Theory and Evidence*, Princeton University Press, 2004.

Other useful books are:

Dixit, A., and V. Norman, 1980, *Theory of International Trade*, Cambridge University Press.

Helpman, E., and P. Krugman, 1985, *Market Structure and Foreign Trade*, MIT Press 1985.

Grossman, G., and E. Helpman, 1991, *Innovation and Growth in the Global Economy*, MIT Press.

Grossman, G., and K. Rogoff (eds.), 1995, *Handbook of International Economics*, Vol.3, North- Holland.

Grossman, G. (ed.), 1992, *Imperfect Competition and International Trade*, MIT Press.

Krugman, P. 1990, *Rethinking International Trade*, MIT Press.

Markusen, J., *Multinationals and the Theory of International Trade*, MIT Press 2002.

Fujita, M., P. Krugman, and A. Venables 1999, *The Spatial Economy*, MIT Press.

Reading List Outline

This list will be updated as appropriate

Background readings are indicated by (B). Required readings are indicated with a *. Most are available online.

1. Comparative Advantage and the Gains from Trade

(*) Deardorff, A., "[The General Validity of the Law of Comparative Advantage](#)", JPE 1980.

(*) Bernhofen, D., and J. Brown, "[A Direct Test of the Theory of Comparative Advantage](#)", JPE 2004.

(B) Dixit and Norman, Chapters 1-3.

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2. The Ricardian Trade Model

(*) Dornbusch, R., S. Fischer, and P. Samuelson, "[Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods](#)", AER 1977.

Ethier, W., "[Decreasing Costs in International Trade and Frank Graham's Argument for Protection](#)", Eca 1982.

Eaton, J., and S. Kortum, "[Technology, Geography, and Trade](#)", Eca 2002.

Feenstra pp.1-4

3. Factor Endowment Models

(*) Jones, R., "[The Structure of Simple General Equilibrium Models](#)", JPE 1965.

Neary, P., "[Short-run Capital Specificity and the Pure Theory of International Trade](#)", EJ 1978.

Feenstra, Chapters 1-3

Dixit and Norman, Chapter 4

Helpman and Krugman, Chapter 1

(B) Ethier, W., "Higher Dimensional Issues in Trade Theory", in Jones, R., and P. Kenen (eds.), 1984, *Handbook of International Economics*, Vol.1, North- Holland.

- (*) Trefler, D., "[The Case of the Missing Trade and Other HOV Mysteries](#)", AER 1995.
- (*) Davis, D., and D. Weinstein, "[An Account of Global Factor Trade](#)", AER 2001.
- (*) Estevadoreal, A., and A. M. Taylor, "[A Century of Missing Trade? Factor Abundance Trade in Ohlin's Time](#)", AER 2002.
- Romalis, J., "[Factor proportions and the structure of commodity trade](#)", AER 2004.
- Harrigan, J., "[Technology, Factor Supplies, and International Specialization: Estimating the Neoclassical Model](#)", AER 1997.
- (*) Choi, Y-S, and P. Krishna, "[The Factor Content of Bilateral Trade: An Empirical Test](#)", JPE 2004.
- Trefler, D., and Zhu, S., "The Structure of Factor Content Predictions", NBER Working Paper # 11221.
- Bowen, H., E. Leamer, and L. Sveikauskas, "[Multicountry, Multifactor Tests of the Factor Abundance Theory](#)", AER 1987.
- Trefler, D., and S. Zhu, "Beyond the Algebra of Explanation: HOV for the Technology Age", AER PP 2000.
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- (B) Helpman, E., "[The Structure of Foreign Trade](#)", NBER WP 6752.
- (B) Leamer, E., and J. Levinsohn, "International Trade Theory: The Evidence", Grossman and Rogoff (eds.), Handbook of International Economics V.3, chapter 26.

4. Scale Economies, Product Differentiation, and the Gravity Equation

- (*) Krugman, P., "Increasing Returns, Monopolistic Competition, and International Trade", JIE 1979.
- Ethier, W., "[National and International Returns to Scale in the Modern Theory of International Trade](#)", AER 1982.
- (*) Hummels, D., and J. Levinsohn, "Monopolistic [Competition and International Trade: Reconsidering the Evidence](#)", QJE 1995.
- (*) Antweiler, W., and D. Trefler, "[Increasing Returns and all That: A View from Trade](#)", AER 2002.
- (*) Evenett, S., and W. Keller, "[On Theories Explaining the Success of the Gravity Equation](#)", JPE 2002.
- (*) Debaere, P., "[Testing 'new' trade theory without testing for gravity: Reinterpreting the evidence](#)", JIE 2006.
- Helpman and Krugman, Chapters 6-8.
- Feenstra, Chapter 5.
- (B) Harrigan, J., "Specialization and the Volume of Trade: Do the Data Obey the Laws?", NBER Working Paper # 8675.

5. Transport Costs, Borders, and Geography

- (*) Krugman, P., "[Scale Economies, Product Differentiation and the Pattern of Trade](#)", AER 1980.
- (*) Anderson, J., and E. van Wincoop, "[Gravity with Gravitas: A Solution to the Border Puzzle](#)", AER 2003.
- (*) Trefler, D., "[The Long and the Short of the Canada-U.S. Free Trade Agreement](#)", AER 2004.
- (*) Krugman, P., and A. Venables, "[Globalization and the Inequality of Nations](#)", QJE 1995.
- Krugman, P., "[Increasing Returns and Economic Geography](#)", JPE 1991.

6. Firm Heterogeneity

- (*) Melitz, M., "[The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity](#)", Eca 2003.

- (*) Yeaple, S., “A Simple Model of Firm Heterogeneity, International Trade, and Wages”, JIE 2005.
- Bernard, A., J. Eaton, B. Jensen, and S. Kortum, “Plants and Productivity in International Trade”, AER 2003.
- Roberts, M., and J. Tybout, “[The Decision to Export in Colombia: An Empirical Model of Entry with Sunk Costs](#)”, AER 1997.
- Eaton, J., S. Kortum, and F. Kramerz, “[Dissecting Trade: Firms, Industries, and Export Destinations](#)”, NBER # 10344

7. Trade, Growth, and International Technology Diffusion

- (*) Frankel, J., and D. Romer, “[Does Trade Cause Growth?](#)”, AER 1999.
- (B) Rodriguez, F., and D. Rodrik, “Trade [Policy and Economic Growth: A Skeptic’s Guide to the Cross-National Evidence](#)”, NBER Macro Annual 2000.
- Krugman, P., “[The Narrow Moving Band, the Dutch Disease, and the Competitive Consequences of Mrs. Thatcher](#)”, JDE 1987.
- (*) Young, A., “[Learning by Doing and the Dynamic Effects of International Trade](#)”, QJE 1991.
- Grossman and Helpman, Chapters 6, 7.
- (*) Keller, W., « Geographic Localization of International Technology Diffusion », AER 2002.
- (*) Howitt, P. “Endogenous Growth and Cross-Country Income Differences”, AER 2000.
- (*) Klenow, P, and A. Rodriguez-Clare, « Externalities and Growth », Handbook of Economic Growth (eds. Aghion/Durlauf).
- Feenstra, Chapter 10.
- (B) Keller, W., “[International Technology Diffusion](#)”, JEL 2004.

8. Multinational Enterprises and International Production: Cause and Effect

- (*) Helpman, E., “[A Simple Theory of Trade with Multinational Corporations](#)”, JPE 1984.
- (*) Markusen, J., and A. Venables, “[The Theory of Endowment, Intra-Industry, and Multinational Trade](#)”, JIE 2001.
- (*) Carr, J. Markusen, and K. Maskus, “[Estimating the Knowledge-Capital Model of the Multinational Enterprise](#)”, AER 2001.
- (**) Brainard, S., “[An Empirical Assessment of the Proximity-Concentration Trade-off Between Multinational Sales and Trade](#)”, AER 1997.
- Brainard, S., “[An Empirical Assessment of the Factor Proportions Explanation of Multinational Sales](#)”, 1993, NBER WP 4583.
- (*) Helpman, E., M. Melitz, and S. Yeaple, “[Exports versus FDI with Heterogeneous Firms](#)”, AER 2004.
- Rauch, J., and V. Trindade, “[Information, Substitutability, and Globalization](#)”, AER 2003.
- (*) Antras, P., “[Trade, Contracts, and Trade Structure](#)”, QJE 2003.
- (*) Antras, P., and E. Helpman, “[Global Sourcing](#)”, JPE 2004.
- (*) Hanson, G., and R. Feenstra, “[Ownership and Control in Outsourcing to China: Estimating the Property Rights Theory of the Firm.](#)” *QJE* 2005
- (*) Keller, W., and S. Yeaple, “Multinational Enterprises, International Trade, and Productivity: Evidence from US Firms”, mimeo, 2006.
- Javorcik, B., [Vertical FDI Spillovers in Lithuania], AER 2004.

Helpman and Krugman, Chapters 12 and 13.

Feenstra, Chapter 11.

(B) Helpman, E., "Trade, FDI, and the Organization of the Firm", NBER # 12091

(B) Markusen, J., *Multinationals and the Theory of International Trade*, MIT Press 2002.

(B) Blonigen, B., "A Review of the Empirical Literature on FDI Determinants", NBER # 11299.

9. Trade Policy

(*) Grossman, G., and E. Helpman, "[Protection for Sale](#)", AER 1994.

Romer, P., "[New Goods, Old Theory, and the Welfare Costs of Trade Restrictions](#)", JDE 1994.

Maggi, G., "[Strategic Trade Policies with Endogenous Mode of Competition](#)", AER 1996.

Eaton, J., and G. Grossman, "Optimal [Trade and Industrial Policy under Oligopoly](#)", QJE 1986.

General equilibrium tariff analysis, Chapter 13 in Bhagwati, J., and T.N. Srinivasan, *Lectures on International Trade*, MIT Press, 1983.

Dixit and Norman, Chapter 5 (pp.149-163), chapter 6.

(B) Staiger, R., "International Rules and Institutions for Trade Policy", Grossman and Rogoff (eds.), *Handbook of International Economics V.3*, chapter 29

(B) Rodrik, D., "Political Economy of Trade Policy", Grossman and Rogoff (eds.), *Handbook of International Economics V.3*, chapter 28.

(B) Leamer, E., "The Heckscher-Ohlin Model in Theory and Practice", *Princeton Studies in International Finance No.77*, 1995.

(B) Feenstra, R., "Estimating the Effects of Trade Policy", Grossman and Rogoff (eds.), *Handbook of International Economics V.3*.