

UNIVERSITY OF COLORADO  
BOULDER, COLORADO

Economics 4413  
International Trade

James R. Markusen

Phone: 492-0748

Office: 216, e-mail: james.markusen@colorado.edu

**Office Hours:** Tuesday, Thursday 9-10, 2-3

August, 2008

**Course Outline and Reading List**

The Course Outline given below lists the major topics we will deal with in this course. Markusen et.al. is the textbook. This textbook is currently out of print pending a revision. You can download the chapters for free from my website:

<http://spot.colorado.edu/~markusen>. Click on textbook on the left-hand selection list. The files are scanned, so they are pretty big require a highspeed connection to download and print.

Markusen, Melvin, Kaempfer, and Maskus, *International Trade: Theory and Applications*, McGraw Hill, 1995.

Bhagwati, *In Defense of Globalization*, Oxford, 2004.

Also, the notes I use in class are also posted on the same web site, click on teaching and then on 4413. These are large font slides, so I suggest that you print two (or even four) to a page.

Assessment in the course will consist of:

1st mid-term exam	25%	Tuesday September 30
2nd mid-term exam ( <i>date subject to change</i> )	25%	Thursday October 23
Take home on <i>Globalization</i>	25%	Thursday December 4 at <i>latest</i> <i>Bonus marks for Thur Nov 20</i>
Final Exam	25%	Set by registrar

Late penalty on take home: 5% of total essay marks per day

The exams will be analytical-essay type exams in which you will be asked, for example, to analyzed the relationship between two variables or assess the likely effects of some policy.

The book *Globalization* gives you a chance to learn about the practical links between economics and the globalization controversies currently debated around the world. The take-home exam will give you a set of essay questions which you will answer. The final exam and/or mid-terms will include some fill-in-the-blanks questions about the book to help insure that you actually read it!

In the lectures, I will try to present theory in the first half of the class period, and applications in the second half.

## **PART I: TECHNICAL TOOLS AND THE GAINS FROM TRADE**

In this part of the course, we develop and review basic tools of microeconomic theory that we will use throughout the course.

1. Supply and Production Possibilities  
MMKM, Chapters 1 and 2.
2. Preferences, Demand, and Welfare  
MMKM, Chapter 3.
3. General Equilibrium in Open and Closed Economics  
MMKM, Chapter 4.
4. The Gains from Trade  
MMKM, Chapter 5.

## **PART II: DETERMINANTS OF TRADE**

This section analyzes the different underlying causes of international trade and the gains from trade.

1. Differences in Technology between Countries.  
MMKM, Chapters 6 and 7.  
Skip section 5, chapter 7.
2. Differences in Factor Endowments between Countries.  
MMKM, Chapters 8 and 9.  
Skip section 6, chapter 8.
3. Government Policies as Determinants of Trade.  
MMKM, Chapter 10.  
Skip sections 4 and 5.
4. Imperfect Competition as a Determinant of Trade.  
MMKM, Chapter 11.  
Skip section 4.
5. Increasing Returns to Scale.  
MMKM, Chapter 12.  
Skip sections 5 and 6.
6. Preferences and Income as Determinants of Trade.  
MMKM, Chapter 13.

### **PART III: TRADE POLICY**

This part of the course analyzes the principal tools that governments use to influence trade. We analyzed the effects of the policies and try to understand the reasons that governments choose the policies they do.

1. Tariffs  
MMKM, Chapter 15.  
Skip section 7.
2. Quotas  
MMKM, Chapter 16.  
Skip section 5.
3. Imperfect Competition, Increasing Returns, and Strategic Trade Policy.  
MMKM, Chapter 17.  
Skip section 4.
4. Preferential Trade Areas  
MMKM, Chapter 18.  
Sections 1 and 2 only.
5. The Political Economy of Trade Policy  
MMKM, Chapter 19.

### **PART IV: FACTOR TRADE AND DIRECT FOREIGN INVESTMENT**

The final section of the course looks at trade in factors of production and direct foreign investment by multinational firms.

1. Trade in Factors of Production  
MMKM, Chapter 21.  
Skip sections 2 and 5.
2. Direct Foreign Investment  
MMKM, Chapter 22.  
Skip section 4.
3. Intertemporal Trade  
MMKM, Chapter 23.  
Section 1 only.

**International Trade - Review/Sample Questions**

1. Suppose that there are two goods, X and Y, and only one factor of production L. Assume that Y is produced with constant returns and X is produced with increasing returns. Explain the shape of the production possibilities frontier. What the significance of this shape for trade?
  2. The balance-of-trade condition is equivalent to the condition that the value of a country's production equals the value of its consumption. True/false, explain.
  3. Two countries can gain from trade even if one country has an absolute advantage in the production of all goods. True/false, explain.
  4. Construct one careful example to show how one individual can lose from trade even if the country as a whole gains from trade relative to autarky. Does this help us understand controversies over trade liberalization?
  5. The free-trade price ratio must lie between the autarky price ratios of the two countries. True/False, explain.
  6. State the factor-price equalization theorem. What is its implications for the wage of unskilled labor in the US following trade liberalization?
- 
1. Government policies can induce trade or reverse the direction of trade, but such trade is not necessarily beneficial. True, False, explain.
  2. Production and consumption taxes tend to have opposite effects on the direction of trade. True, False, explain.
  3. Define the concept of pro-competitive gains from trade and give an example of when they might arise.
  4. "Gains from trade in the presence of scale economies can be taken either in the form of the same number of products at lower prices, or more products at the same prices." Explain this statement.
  5. State the "Linder Hypothesis". What empirical facts are this theory suppose to explain? Why can't the Heckscher-Ohlin model explain these facts?

1. Under what circumstance is the effect of an import quota the same as the effects of an import tariff?
2. What is "quota rent" and how is it distributed in a quota that is auctioned off versus a voluntary export restraint?
3. Analyze the effect of an export subsidy (assume perfect competition, no distortions).
4. Discuss briefly the intuition behind the argument that a country's welfare may be improved by a production or export subsidy for an industry producing with increasing returns and imperfect competition.
5. Present alternative assumptions to those in question 3 such that we arrive at the conclusion that a subsidy is welfare worsening.
6. What is the argument underlying "import protection as export promotion"? What is assumed about production?
7. State the "theory of the second best". In what way does it underlay the concept of strategic trade policy?
8. Explain "trade creation" and "trade diversion". How was this relevant to Mexico in evaluating NAFTA?
9. Discuss in what sense trading goods and trading factors are equivalent.
10. Present a situation in which trading goods and factors are in some sense complements.
11. Outline the OLI view of multinational firms. What are the principal sources of ownership advantages for multinational firms?
12. Discuss the reasons why multinational firms are closely associated with knowledge capital or knowledge based assets.

Students: here are a list of comments that we are urged to put on our syllabus. I personally find some of this juvenile, offensive, and patronizing. The most annoying thing is that the University of Colorado actually pays people good salaries to make up this drivel. No wonder folks in the "real world" mock our "ivory tower". You may, if you prefer, choose to be adults and ignore much of the following. I think we all know the standards for behavior and professional conduct without being lectured by bureaucrats.

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 be addressed. Disability Services determines accommodations based on documented disabilities. Contact: 303-492-8671, Willard 322, and [www.Colorado.EDU/disabilityservices](http://www.Colorado.EDU/disabilityservices) Disability Services' letters for students with disabilities indicate legally mandated reasonable accommodations. The syllabus statements and

answers to Frequently Asked Questions can be found at [www.colorado.edu/disabilityservices](http://www.colorado.edu/disabilityservices)

Campus policy regarding religious observances requires that faculty make every effort to deal reasonably and fairly with all students who, because of religious obligations, have conflicts with scheduled exams, assignments or required attendance. In this class, { {insert your procedures here} } See full details at [http://www.colorado.edu/policies/fac\\_relig.html](http://www.colorado.edu/policies/fac_relig.html)

Students and faculty each have responsibility for maintaining an appropriate learning environment. Those who fail to adhere to such behavioral standards may be subject to discipline. Professional courtesy and sensitivity are especially important with respect to individuals and topics dealing with differences of race, culture, religion, politics, sexual orientation, gender, gender variance, and nationalities. Class rosters are provided to the instructor with the student's legal name. I will gladly honor your request to address you by an alternate name or gender pronoun. Please advise me of this preference early in the semester so that I may make appropriate changes to my records. See policies at <http://www.colorado.edu/policies/classbehavior.html> and at [http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student\\_code](http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code)

The University of Colorado at Boulder policy on Discrimination and Harassment, the University of Colorado policy on Sexual Harassment and the University of Colorado policy on Amorous Relationships apply to all students, staff and faculty. Any student, staff or faculty member who believes s/he has been the subject of discrimination or harassment based upon race, color, national origin, sex, age, disability, religion, sexual orientation, or veteran status should contact the Office of Discrimination and Harassment (ODH) at 303-492-2127 or the Office of Judicial Affairs at 303-492-5550. Information about the ODH, the above referenced policies and the campus resources available to assist individuals regarding discrimination or harassment can be obtained at <http://www.colorado.edu/odh>

All students of the University of Colorado at Boulder are responsible for knowing and adhering to the academic integrity policy of this institution. Violations of this policy may include: cheating, plagiarism, aid of academic dishonesty, fabrication, lying, bribery, and threatening behavior. All incidents of academic misconduct shall be reported to the Honor Code Council ([honor@colorado.edu](mailto:honor@colorado.edu); 303-725-2273). Students who are found to be in violation of the academic integrity policy will be subject to both academic sanctions from the faculty member and non-academic sanctions (including but not limited to university probation, suspension, or expulsion). Other information on the Honor Code can be found at <http://www.colorado.edu/policies/honor.html> and at <http://www.colorado.edu/academics/honorcode/>

Four-grand-parent policy: students are not allowed to petition for missing exams and so forth for the death of a fifth or more grandparent. Four is the limit.