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## International Trade and Investment

### Economics 8413-001

Fall 2008 Tuesday & Thursday 2:00 – 3:15 in Econ 5.

Professor Wolfgang Keller, email [Wolfgang.Keller@colorado.edu](mailto:Wolfgang.Keller@colorado.edu), Econ 206, Tu 3:30 – 5:00 and by appointment

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## 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. We will strive to achieve a balance between theory, empirics, and current work on international trade and investment.

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. Preparation of a one-page summary for each required paper, and be prepared to participate in class discussions. Students may be asked to summarize a paper and give comments. Paper summaries and overall class participation are 10% in the course grade
2. One referee report on a current paper (20%)
3. Presentation of a current research paper (20%)
4. A research paper, due on final's day (50%)

The research paper may be theoretical or empirical in nature. We will discuss the paper requirements in the second week of class. I will supply the paper(s) to be refereed and provide instructions (point 2). Your presentation can be on a paper of your choice, subject to my approval (point 3). The best strategy is to pick a paper for presentation that is related to your research interests, leading to your research paper. Attendance at the International/Development seminars is required.

The textbook for this class is

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

Other books that we to some extent rely on or that may be useful include the following:

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.

Jones, R., and P. Kenen (eds.), 1984, *Handbook of International Economics*, Vol.1, North- Holland.

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

## Reading List Outline

This list will be updated as appropriate

Papers in each section are covered in varying detail. Background readings are indicated by (B).

### 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.

### 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.

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.

Dornbusch, R., S. Fischer, and P. Samuelson, "Heckscher-Ohlin Trade Theory with a Continuum of Goods, QJE 1980.

Feenstra, Chapters 1-3

Dixit and Norman, Chapter 4

Helpman and Krugman, Chapter 1

(B) Ethier, W., "Higher Dimensional Issues in Trade Theory", Jones and Kenen (eds.), Handbook of International Economics V.1, chapter 3.

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.

Choi, Y-S, and P. Krishna, "The Factor Content of Bilateral Trade: An Empirical Test", JPE 2004.

(B) Helpman, E., "The Structure of Foreign Trade", NBER WP.

(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.

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.  
Hummels, D. and P. Klenow, "The Variety and Quality of a Nation's Trade", AER 2005.  
Weinstein, D., and C. Broda, "Globalization and the Gains from Variety", QJE 2006.  
Anderson, James, and Eric Van Wincoop. "Gravity with Gravitas." AER 2003.  
Schott, P., "Do Rich and Poor Countries Specialize in a Different Mix of Goods? Evidence from Product-Level U.S. Trade Data." QJE 2004.  
Helpman and Krugman, Chapters 6-8.  
Feenstra, Chapter 5.

## **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.  
Keller, W., and C. Shiue, "Tariffs, Trains, and Trade: The Role of Institutions versus Technology in Market Expansion", NBER # 13913  
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.  
Melitz, M., and G. Ottaviano, "Market Size, Trade, and Productivity", ReStud 2008  
Chaney, T., "Distorted Gravity: Heterogeneous Firms, Market Structure and the Geography of International Trade", forthcoming, AER  
Helpman, E., M. J. Melitz, and Y. Rubinstein, 2007, "Estimating Trade Flows: Trading Partners and Trading Volumes," forthcoming, QJE  
Bernard, A., J. Eaton, B. Jensen, and S. Kortum, "Plants and Productivity in International Trade", AER 2003.  
Bernard, A., S. Redding, and P. Schott, "Comparative Advantage and Heterogeneous Firms", ReStud 2007.  
Roberts, M., and J. Tybout, "The Decision to Export in Colombia: An Empirical Model of Entry with Sunk Costs, AER 1997.  
Hanson, G., and C. Xiang, 2008, "Testing the Melitz Model of Trade: An Application to US Motion Picture Exports", working paper.  
Eaton, J., S. Kortum, and F. Kramerz, "Dissecting Trade: Firms, Industries, and Export Destinations", NBER # 10344  
(B) Helpman, E., "Trade, FDI, and the Organization of the Firm", JEL 2006.  
(B) Bernard, A., B. Jensen, S. Redding, and P. Schott, "Firms in International Trade", Journal of Economic Perspectives Summer 2007.

## **7. Trade, Growth, and International Technology Diffusion**

Grossman and Helpman, Chapter 6.  
Howitt, P. "Endogenous Growth and Cross-Country Income Differences", AER 2000.

Keller, W., « Geographic Localization of International Technology Diffusion » AER 2002.

Klenow, P, and A. Rodriguez-Clare, « Externalities and Growth », Handbook of Economic Growth (eds. Aghion/Durlauf).

Acharya, R., and W. Keller, “Estimating the Productivity Selection and Technology Spillovers Effects from Imports”, NBER # 14079.

Feenstra, Chapter 10.

(B) Keller, W., “International Technology Diffusion”, JEL 2004.

## **8. Multinational Enterprises, Offshoring, and Outsourcing**

Helpman, E., "A Simple Theory of Trade with Multinational Corporations", JPE 1984.

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.

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.

Grossman, G., and E. Rossi-Hansberg, “Trading Tasks: A Simple Theory of Offshoring”, AER, forthcoming

Hanson, G., and R. Feenstra, "Ownership and Control in Outsourcing to China: Estimating the Property Rights Theory of the Firm," QJE 2005

Nunn, N. and D. Trefler, “Incomplete Contracts and the Boundaries of the Multinational Firm”, 2008.

Keller, W., and S. Yeaple, “Multinational Enterprises, International Trade, and Productivity Growth: Firm-Level Evidence from the US”, forthcoming, ReSTAT.

Helpman and Krugman, Chapters 12 and 13.

Feenstra, Chapter 11.

(B) Helpman, E., “Trade, FDI, and the Organization of the Firm”, JEL 2006.

(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**

Feenstra, chapters 7-8.

Romer, P., "New Goods, Old Theory, and the Welfare Costs of Trade Restrictions", JDE 1994.

Feenstra, R. 1988. Quality Change under Trade Restraints in Japanese Autos. QJE 103: 131-146.

Levinsohn, J. 1993. Testing the Imports as Market Discipline Hypothesis. JIE 35: 1-22.

Koujianou, P. 1995. Product Differentiation and Oligopoly in International Markets: The Case of the U.S. Automobile Industry. EMA 63: 891-951.

Berry, S., J. Levinsohn, and A. Pakes. 1999. Voluntary Export Restraints on Automobiles: Evaluating a Strategic Trade Policy. AER 89(3): 400-430.

Grossman, G., and E. Helpman, "Protection for Sale", AER 1994.

Maggi, G., "Strategic Trade Policies with Endogenous Mode of Competition", AER 1996.

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

(B) Corden, M. 1984. "The Normative Theory of International Trade", in Jones and Kenen, eds., Handbook of International Economics, Vol. 1, North-Holland.