

UNIVERSITY OF COLORADO
BOULDER, COLORADO

Economics 4413
International Trade

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August, 2009

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Office Hours: Monday, Wednesday 2:00-3:30

Course Outline and Reading List

The Course Outline given below lists the major topics we will deal with in this course.

Professor Markusen and I are currently completely rewriting a 1995 textbook of ours: Markusen, Melvin, Kaempfer, and Markusen, *International Trade: Theory and Applications*, McGraw Hill, 1995.

The CU bookstore has duplicated and bound chapters 2-12 which are on sale there. Chapter 1 will be posted on the course website and also on my personal website. It will hopefully be up on the weekend.

<http://spot.colorado.edu/~markusen>. I will let you know exactly where to find this and further chapters as we produce them.

We have been working hard all summer on this, and I do not have a revised version of my classroom notes yet. However, last year's notes (which were written pending the revision) are quite up to date and may also be found on my website. Click on "teaching" on the left 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	30%	Friday October 2
2nd mid-term exam (<i>date subject to change</i>)	30%	Wednesday November 4
Final Exam	40%	Set by registrar

Sample questions from past exams will be circulated.

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

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

The topics and readings follow. **Many sections of the new book are advanced and written more for master's and MBA students. Which sections to skip will be announced in class. Students are responsible for all announcements made in class. I will not be continually updating the website with announcements, etc.**

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
MM chapter 2
2. Preferences, Demand, and Welfare
MM chapter 3
3. General Equilibrium in Open and Closed Economics
M chapter 4.
4. The Gains from Trade
MM 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.
MM, chapters 6 and 7.
2. Differences in Factor Endowments between Countries.
MM chapters 8 and 9.
3. Distortions and Policies as Determinants of Trade.
MM chapter 10.
4. Imperfect Competition and Increasing Returns I: oligopoly
MM chapter 11.
5. Imperfect Competition and Increasing Returns to Scale II: monopolistic competition
MM chapter 12.
6. Trade Costs
MM chapter 13.
7. Demand Determinants of Trade
MM chapter 14

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
MM chapter 14
2. Direct Foreign Investment
MM chapter 16
3. Migration
MM chapter 17

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
MM Chapter 18
2. Quotas
MM chapter 19
3. Imperfect Competition, Increasing Returns, and Strategic Trade Policy.
MM chapter 20
4. Preferential Trade Areas
MM chapter 21
5. The Political Economy of Trade Policy
MM chapter 22.

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?
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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 stuff. 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 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

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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.