

UNIVERSITY OF COLORADO  
BOULDER, COLORADO

Economics 4413  
International Trade

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Office: Economics Building 216,

**Office Hours:** Tuesday, Thursday 13:00-14:00, 15:30-16:30

### Course Outline and Reading List

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

Professor Maskus and I are currently completely rewriting a 1995 textbook of ours: the new version will be called something like: Markusen and Maskus, *International Trade: Theory and Applications*, Wiley Publishers, 2011.

The CU bookstore has duplicated and bound chapters 1-20 which are on sale there at cost: no fees or royalties are being collected by myself.

I have to make up a new set of slides for class, since the old ones use different notation from the new book. I'll try my best to have these ready a week in advance of each class. These are large font slides, so I suggest that you print two (or even four) to a page and bring them to class; this avoids you have to write down too much during class and frees the mind to think and question.

Assessment in the course will consist of:

Mid-Term Exam	30%	Tuesday, October 5
Group Essay	30%	Tuesday, November 30
Final Exam	40%	Tuesday Dec 14, 16:30-19:00

Sample questions from past exams will be circulated.

The essay will be based on

Bhagwati, Jagdish, *In Defense of Globalization*, Oxford University Press. Widely available from websites including a new Kindle edition, for around \$10.

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 15
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.

The essay requirement is from the book:

Bhagwati, Jagdish, *In Defense of Globalization*, Oxford University Press. Widely available from websites including a new Kindle edition, for around \$10.

Your assignment is to read the following chapters, pages 51-161:

Chapter 5:	Poverty: Enhanced or Diminished?
Chapter 6:	Child Labor: Increased or Reduced?
Chapter 7:	Women: Harmful or Helpful?
Chapter 8:	Democracy at Bay?
Chapter 9:	Culture Imperiled or Enriched?
Chapter 10:	Wage and Labor Standards at Stake?
Chapter 11:	Environment in Peril?

I will form you into groups to produce a group essay.

All members of the group should read all chapters. Then I want you to agree on a division of labor in which each member does some further readings as suggested by Bhagwati, particularly those he disagrees with. Then the group will produce a common essay.

The group essay must include the following.

- (1) What are the anti-globalists' arguments against trade and investment liberalization based around this topic? E.g., for the environment chapter, what are the anti-globalists' arguments as to why trade and investment are harmful to the environment, particularly in developing countries?
- (2) What are Bhagwati's arguments for or against these positions, and why. E.g., does Bhagwati deny that a problem even exists, does he feel that there is a problem but that it has nothing to do with trade, are there better tools for dealing with the problem, etc?
- (3) On the basis of further reading, does Bhagwati adequately present the views of others he dissents with? Are you more convinced by the original or by Bhagwati responses?
- (4) Your own views as judge and jury about the position of Bhagwati versus the anti-globalists.

**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](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)

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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.

**My mother bought me a plane ticket without asking policy:** no, don't even bother to ask. The final exam time and date is set by the registrar and is already known: Tuesday December 14, 4:30-7:00pm.

**Athletics, clubs events, religion, weddings, etc. policy:** all these things are known well ahead of time. If you have a conflict with an exam, tell me this week or forever hold your peace.

**Metric only policy:** in order to take a small step in rebelling against US backwardness, all questions, answer, and discuss involving units of weights/measures/distances and so forth should be in metric unit.