

University of Colorado
Department of Economics

Economics 4413: International Trade
Spring 2008

Lecture time: TR 9:30-10:45

Lecture location: 207 Clare Small Arts and Science

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Office hours: TR 11-12 and W 2-3

Course Description and Pre-requisites

This course will analyze the causes and consequences of international trade and investment. We will investigate why nations trade, what they trade, and who gains from this trade. We will then analyze the motives for countries or organizations to restrict or regulate international trade and study the effects of such policies on economic welfare.

Although the course will emphasize the understanding of past and current events in the world economy, we will rely on formal economic modeling to help us understand these events. We will therefore extensively use micro-economic tools that you have learned in your introductory microeconomics classes. Econ 3070 (Intermediate Microeconomic Theory) is a prerequisite for this course. It is important that you not only be familiar with these tools and models, but that you also feel comfortable using and manipulating them.

Course Outline and Reading List

Required text: Feenstra, Robert and Alan Taylor, International Economics, 1st Edition, Worth Publishers, 2008.

Readings in the textbook are abbreviated "F-T." There other textbooks with useful treatments of the subject matter are (1) Krugman and Obstfeld, (2) Markusen et al, and (3) Ethier. Non-textbook readings will be made available on the course CULearn/blackboard page. Other readings concerning current events may be posted on the CULearn/blackboard site from time to time. You will be responsible for all material posted on the CULearn/blackboard site.

1. **Introduction.** Where is the course going? What are the fundamental issues?

Readings: F-T, Chapter 1
Krugman, "What do Undergrads Need to Know about Trade?" *AER* 1993

2. **Comparative Advantage.** Country differences create gains from trade. Trade affects income distribution. Learning to think in general equilibrium.

Readings: F-T, Chapters 2-4

3. **Multinational Firms.** What effect does foreign investment have on wages? Why do some firms become multinationals while others do not?

Readings: F-T, Chapter 5
Markusen, "The Boundaries of Multinational Enterprises and the Theory of International," *Journal of Economic Perspectives*, 1995.

4. **Offshoring, Trade and Wages.** What is offshoring? How is this trend different from earlier trends in globalization?

Readings: F-T, Chapter 7
Feenstra, "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, 1998.
Freeman, "Are your Wages set in Beijing," *Journal of Economic Perspectives*, 1995.
The Economist, "Hard truths about helping the losers from globalization"

5. **Increasing returns to scale & Imperfect Competition.** Does trade reduce monopoly power? Trade and variety. Rationalization effects and productivity. Why free trade in Canada is less controversial than free trade with Mexico.

Readings: F-T, Chapter 6
Lecture notes, "The Helpman-Krugman Version of Heckscher-Ohlin"

6. **Trade Policy.** Types of policies that affect international trade. How trade policies of one country affect well being in another.

Readings: F-T, Chapters 8 - 10

7. **Political Economy.** Why countries do not maximize welfare. Why some interest groups are favored over others.

Baldwin, "The Political Economy of Trade Policy," *Journal of Economic Perspectives*, 1989.
Krugman, "Is Free Trade Passe?" *Journal of Economic Perspectives*, 1987.

8. **International Trade Agreements.** What to make of the WTO. What to make of NAFTA. Why do we or do we not need agreements like the Kyoto protocol.

Readings: F-T, Chapter 11

Evaluation

Class Participation	10%
Homework One	5%
Exam One (tentatively March 4)	30%
Homework Two	5%
Exam Two (tentatively May 1)	30%
Take-Home Final (due May 8 th)	20%

There will be NO make-ups for either exam. Given a valid excuse (e.g. documented illness) all of the weight of the missed exam will be assigned to the other exam. Homework assignments will be handed out roughly two weeks before an exam and will be due roughly a week before the exam. You may work on the homework in groups but must present the material in your own words. Participation includes regular attendance and an effort to engage in classroom discussions. Instructions for the take-home final can be found below.

Instructions for the Take-Home Final Due May 8th, 10:30 a.m. in my office

Choose a country other than the United States from the list below. Write a paper that explicitly addresses the following requirements.

1. What are the major export and import categories for your country?
2. How the composition of the country's exports and imports changed in the last ten years?
3. Who are the country's main trading partners?
4. What theories, if any, can explain the pattern of trade across countries and across goods?
5. Does trade policy appear to affect the country's trading patterns?

Your paper is not to exceed eight typed, double-spaced pages, including tables and references. Exposition counts! Please proofread your paper,

List of countries: Argentina, Brazil, Chile, China, Kenya, Mexico, Germany, Italy, Japan, Switzerland, New Zealand

Sources of information: The World Bank (www.worldbank.org) has extensive databases and often publishes country studies. The Economist Intelligence unit is also helpful. Other international organizations, such as the United Nations, Asia-Pacific Economic

Cooperation Forum (APEC), Asian Development Bank, African Development Bank, Inter-American Development Bank are also possible sources. The World Trade Organization (www.WTO.org) is a source of international trade information. The U.S. government also publishes numerous studies about trading partners; see especially the *International Economic Review* of the U.S. International Trade Commission and the *National Trade Estimate Annual Report on Foreign Trade Barriers* of the U.S. Trade Representative's Office.

University policies

Campus policy regarding disabilities requires that faculty adhere to the recommendations of Disability Services. In addition, campus policy regarding religious observances requires that faculty make every effort to reasonably and fairly accommodate all students who, because of religious obligations, have conflicts with scheduled examinations, assignments or required attendance. Any student eligible for and needing academic adjustments or accommodations because of disability or religious practice should arrange to meet with me immediately. Those with disabilities should immediately submit a letter from Disability Services describing appropriate adjustments or accommodations.¹

Students and faculty share responsibility for maintaining an appropriate learning environment. All are subject to the University's policies on Sexual Harassment and Amorous Relationships.² Students who fail to adhere to appropriate behavioral standards may be subject to discipline. Faculty have the professional responsibility to treat students with understanding, dignity and respect, to guide classroom discussion and to set reasonable limits on the manner in which students express opinions.³ I am happy to discuss any issues of individual or group treatment in office hours or by appointment.

¹ University policies regarding disabilities are available at <http://www.colorado.edu/disabilityservices>. Disability Services can be contacted by telephone at 303-492-8671, or in person at Willard 322. University policies regarding religious practice are available at http://www.colorado.edu/policies/fac_relig.html.

² University policies regarding Sexual Harassment and Amorous Relationships are available at <http://www.colorado.edu/odh/>. The Office of Discrimination and Harassment can be reached by telephone at 303-492-2127. The Office of Judicial Affairs can be reached at 303-492-5550.

³ University policies regarding classroom behavior are available at <http://www.colorado.edu/policies/classbehavior.html> and at http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code