

**ECO364H1F – International Trade Theory**  
**(This version: September 20<sup>th</sup>, 2011)**  
**Section L0101 (Monday 2pm-5pm, RW110)**  
**Section L5101 (Monday 6pm-9pm, SS2135)**

**Instructor:** Assistant Professor Peter M. Morrow  
Room: Max Gluskin House (150 St. George), Room 336  
Email: [peter.morrow@utoronto.ca](mailto:peter.morrow@utoronto.ca)

**Teaching Assistants:** Leandro Freylejer (L0101), Michelle Liu (L5101)  
Email: [leandro.freylejer@utoronto.ca](mailto:leandro.freylejer@utoronto.ca), [mengxiaoliu@gmail.com](mailto:mengxiaoliu@gmail.com)

Morrow's office hours: GE 336 *Tuesday 10am-11am, Wednesday 10am-11am*  
TA office hours: GE 213 *Tuesday 11am-noon (Leandro), Tuesday noon-1pm (Michelle)*

**Objectives:** This course introduces key concepts of international trade. Specifically, we will develop a theoretical framework to analyze the global market for goods and services. These models allow us to analyze both the determinants of trade and the impact of trade on domestic economic activity. Having developed these models, we will explore the empirical literature to examine how the models match the facts regarding (but not limited to) trade and wages, the gains from trade, and the relationship between trade and growth.

**Exclusion:** ECO230Y1/328Y

**Prerequisites:** ECO200Y1/ECO204Y1/ECO206Y1, ECO220Y1/ECO227Y1/(STA247H1, STA248H1)/  
(STA250H1, STA255H1)/(STA257H1, STA261H1)

I expect that you will be able to perform basic calculus, including simple partial and total derivatives. The teaching assistant will offer a brief review on the first day of class and I will post a short refresher. The administration is very strict and does not allow me to issue waivers to students who do not have all of the prerequisites.

**Textbook:** Krugman, Melitz, and Obstfeld, *International Economics: Theory and Policy*, 9th Edition, Addison Wesley, 2011 (referred to as KMO in what follows)

This is available at the UoT bookshop and at the Short-Term Loan Service at the Robarts Library (3rd Floor) in very limited numbers. I do not require you to buy the newest (9<sup>th</sup>) edition of the textbook, allowing you to look for used copies online (e.g. amazon.com) at discounts. However, "buy-backs" from the bookstore are likely to apply to the most recent edition only, if at all.

Paul Krugman is an excellent writer and this (as much as anything) has led to his success as an economic commentator and academic. I will also be assigning a number of his shorter writings. While they are assigned for their economic content, pay attention to the clarity of his writing. There are also a number of web-logs (blogs) that I find useful:

Paul Krugman (Princeton University):	<a href="http://krugman.blogs.nytimes.com/">http://krugman.blogs.nytimes.com/</a>
Mark Thoma (University of Oregon):	<a href="http://economistsview.typepad.com/">http://economistsview.typepad.com/</a>
Nicholas Rowe (Carleton University):	<a href="http://worthwhile.typepad.com/">http://worthwhile.typepad.com/</a>

While you are not required to read these regularly, these blogs are useful sources of real world examples. Each contains political commentary that can be rather partisan. I am suggesting these blogs for their economic content. Their political viewpoints do not necessarily reflect mine nor those of the Department.

## ACADEMIC MISCONDUCT

Students should note that I do not tolerate any form of academic misconduct. Any student caught engaging in such activities will be subject to academic discipline ranging from a mark of zero to dismissal from the university as outlined in the academic handbook. Any student abetting or otherwise assisting in such misconduct will also be subject to academic penalties.

### **ABSENCE FROM EXAMS.**

- If you miss the midterm due to illness or other *excused* absence and present a medical note within one week of the date of the test. A make-up exam will be given in the final week of classes if the note is accepted. Due to difficulties in arranging times that work for everyone after classes have ended, I reserve the right to invigilate the make-up exam outside of class hours. Failure to produce a medical note in time will result in a mark of 0 on the midterm. Other excuses (e.g. funerals and car accidents) must be accompanied by a note from a responsible adult that I can verify *in order for excusal to even be considered*. The validity of these excuses will then be evaluated by the undergraduate chair or myself. Only original (i.e. not scanned, copied, or emailed) will be considered. The doctor's OHIP registration number **must** be provided.
- I will NOT accept retroactive notes (i.e., student claims to have been sick on the day of the test, but met doctor at a later date). I also reserve the right not to accept that the student would have performed "sub-optimally." **In addition, students must email me the day of the test if they anticipate applying for an excused absence.**
- It is highly likely that I will ask to meet with you if you apply for an excused absence.
- To be considered, an illness must render the student incapacitated and unable to take the exam. Vague illnesses such as "gastroenteritis", "fever", "inability to concentrate" will not be considered. In addition, in order for a doctor's note to be accepted, the illness must be immediately verifiable to the doctor. Illnesses of the "student claims to be..." will not be accepted. In addition, "anxiety" or "stress" is no longer an acceptable excuse. If you have trouble with test conditions, please consult the **Access Ability Resource Centre** at the following webpage: <http://www.erin.utoronto.ca/access/>.
- The only acceptable medical notes are those provided by the University of Toronto Student Medical Certificate (see the Registration Handbook & Timetable for a copy of the certificate).
- The office of academic misconduct imposes a punishment of **suspension for 4 months for passing on fake sick notes.**
- The Faculty of Arts and Science selects the dates for examinations within the final exam period. You must not make travel, employment or other plans that may conflict with the date chosen for the examination in this course and any such conflict will not be accepted as grounds for writing a deferred exam. Instructors cannot make special arrangements with students who miss the final exam for any reason.

## Additional Issues

1) Although the lectures will generally follow the textbook, they will depart frequently. The most priority should be on lecture slides and then the text. Materials mentioned in the text but not in the slides deserve less priority. Topics will sometimes be covered briefly in class with the expectation that you study them more closely in the text. I will explicitly say when this is the case.

2) Weighting Scheme:

Problem Sets: 10%      Midterm: 40%      End of Term Exam: 50%

3) Problem Sets

- a. Problem sets are going to be graded this year in response to repeated requests by students to have a more “diversified” set of assignments on which they are graded. There will be between 3 and 5 problem sets assigned over the course of the semester. Each will be graded “check +”, “check”, “check minus”, or zero. A “check plus” (100%) will result from a complete answering of all questions. A “check” (66%) will reflect work that had substantive gaps or unanswered questions. A “check minus” (33%) will result from a large number of incorrect or incomplete answers. If the problem set is not turned in, the student will get a zero.
  - b. All problem sets must be turned in by 5pm on the due date for L0101 and 9pm for L5101. No late problem sets will be accepted. In addition, no excuses will be considered and no make up work will be offered. You must turn in problem sets in the lecture for which you are registered unless you turn them in earlier.
  - c. Although you should not rely on others to do your work, feel free to work in groups. However, each student is required to turn in an individual completed problem set. Do not cut and paste solutions in from other sources aside your own work. Solutions will be posted after the problem sets are turned in.
- 4) **All supplementary readings will be posted on the blackboard site.** The supplementary readings will serve more than a single purpose. They will find real world examples of some of the concepts we discuss in class. They will also include written work by leading economists on topics that offers new evidence and interpretation of the models and debates presented in class. I explicitly reserve the right to update the reading list as the semester progresses.
- 5) Tutorials will occur during the last hour of class. The tutorials will be coordinated across all sections. Feel free to attend any tutorial that works best for you although preference will be given to those who “belong” to that tutorial if there are space constraints. However, you **must** write exams in the lecture section for which you are enrolled.
- 6) Preparing for exams: Exams will be a mix of multiple choice and “problem solving” questions. While there will be some straight forward questions, there will also be questions that will ask you to apply the analytic tools you use in the class to new problems. Details will be discussed as the midterm approaches. **The December exam will be comprehensive.**
- 7) Test Score appeals: appeals will be conducted according to the following procedure:
- a) Please *type* a short paragraph explaining the grievance and why you should obtain additional

points. Give a hard copy of this document to me or to your TA. You must turn in this appeal by the end of class the week following the week in which exams are first handed back. This holds regardless of whether you are in class when exams are returned. Picking up your exam is your responsibility.

- b) Conditional on this argument being found persuasive by me, the *entire* exam will be re-graded. Your score can go *up or down*.

Grading is an imprecise science, points are often given that are not deserved and taken away when they are deserved. Please think carefully about your choice of whether to appeal a mark. Note: This does not apply to trivial appeals such as points being added incorrectly.

8) Important dates:

September 12 <sup>th</sup> (Monday):	Fall term classes begin
September 25 <sup>th</sup> (Sunday):	Last day to add the course
October 10 <sup>th</sup> (Monday):	No classes (Thanksgiving)
October 14 <sup>th</sup> (Friday):	December exam schedule posted
November 3 <sup>rd</sup> (Thursday):	Last day to drop fall classes without penalty
November 7 <sup>th</sup> (Monday):	No classes (fall break)
December 6 <sup>th</sup> (Tuesday):	Classes end
December 7 <sup>th</sup> (Wednesday):	“Make-up Monday” for “lost Thanksgiving classes”
December 9 <sup>th</sup> -20 <sup>st</sup> :	Final examination period

9) Email Policy:

I will respond to e-mail within 24 hours on a weekday, 48 hours on a weekend, according to the following policy:

- I only respond to e-mails posing questions that can be answered in a sentence or three. For detailed questions, please come to office hours.
- I do not reply to e-mails that request information that can be found on the website or the syllabus, so you should check those places first.
- I do not reply to e-mails regarding the results of graded material – for that, please come to office hours.
- Use proper grammar in your emails. I do judge you based on how you write.

10) Course etiquette and other issues

- Time keeping. The lectures start at 10 minutes past the hour. There will be a short 5-minute break halfway through class and then an additional break before the tutorial.
- Switch off your mobile phone during the class. Do not text message either.
- If you are sufficiently tired that you cannot stay awake in class, please stay home and get the required rest. I will wake you up if you are sleeping in class.

## Course Outline:

### **1. Introduction: facts about trade and globalisation**

- KMO chapters 1-2.
- Summers, "Distinguished Lecture on Economics in Government: Reflections on Managing Global Integration", *The Journal of Economic Perspectives*, Spring, 1999.
- Krugman, "Two Cheers For Formalism", mimeo MIT, 1998

### **2. The Ricardian Model**

- KMO ch 3
- *The Economist*, "[Trade winds](#)", November 6<sup>th</sup> 1997
- Krugman, [In praise of cheap labor](#), 1997

### **3. The Factor Proportions/Heckscher-Ohlin Model**

- KMO ch 5
- *The Economist*, [In the shadow of prosperity](#), January 18<sup>th</sup>, 2007

## **MIDTERM: October 24th**

### **4. Trade and Wages**

- KMO ch 5 Appendix
- Freeman "Are Your Wages Set in Beijing?" *The Journal of Economic Perspectives*, Summer, 1995 (pages 18-24,28-31)
- Lemieux "The Changing Nature of Wage Inequality," mimeo, UBC, 2006
- Saez and Veall "The Evolution of High Incomes in Northern America: Lessons from Canadian Evidence," *American Economic Review*, 2005
- *The Economist*, "Krugman's Conundrum", July 24<sup>th</sup>, 2008.
- Krugman "Trade and Wages, Reconsidered" February, 2008 (optional)
- Bivens "Globalization, American Wages, and Inequality", 2008 (optional)

### **5. Outsourcing/Offshoring**

- Blinder "Offshoring: The Next Industrial Revolution?" *Foreign Affairs*, Vol. 85, No. 2, March/April, 2006, pg. 113-128
- Blinder "How Many Jobs Might be Offshorable?", *working paper*, March 2007

### **6. Trade under Imperfect Competition**

- KMO ch. 7 and 8 (pg. 156-171)

### **7. Trade Policy**

- KMO ch. 9 (instruments)
- KMO ch. 10 (politics)
- *The Economist*, "Weighing Up the WTO", November 22<sup>nd</sup>, 2002
- *The Economist*, "Is There Any point to the WTO?", August 4<sup>th</sup>, 2005

### **8. Growth and Trade**

- Baldwin, Robert "Openness and Growth: What's the Empirical Relationship?" National Bureau of Economic Research working paper #9578, March 2003.

- KMO ch. 11

**9. Firm Heterogeneity and Trade**

- KMO ch. 8 (pg. 171-191)

- Virginia Postel, "Economic Scene", New York Times, January 27<sup>th</sup> 2005, Page C2.

**DECEMBER EXAM:  
To Be Announced.**