

Topics in International Economics (ECO2304H)

Instructor:

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Course Description:

This course covers key topics of current interest (both research and policy/media interest). Topics covered include the new theories of (1) firm-level comparative advantage and (2) offshore outsourcing and multinational activities. Both the theories and their empirical support will be carefully examined. Additional topics may include the impact of international trade on domestic institutions (including political outcomes) and the role of quality in trade.

Each lecture will provide in-depth coverage of a key recent contribution; students will be expected to do the readings in advance. The course is oriented towards Ph.D. students interested in original research in the field; however, interested M.A. students are encouraged to enroll.

Prerequisite:

ECO2304 will have ECO2300 as a pre-requisite.

Components of course and schedule:

- Final exam – **35%**.
- Research proposals related to topics covered in class (group project, one hour presentation during tutorial) – **25%**.
- Students present published papers (20 minute presentation during tutorials) – **30%**.
 - Ph.D. students present twice – 15% per presentation.
 - M.A. students present once – This will be an easier paper; M.A. students can choose to the Ph.D. evaluation method.
- **Before** each lecture students will provide (via e-mail) comments on one of the papers being presented in the lecture. The comments will briefly summarize the paper and provide one or two brief insights in the form of a comment (favourable or critical) or a question about the paper – **10%**.

Readings:

- There is usually one required reading per week. Additional readings, not required, are listed with brackets [].

Part I. Firm Heterogeneity and International Trade

1. Introduction: Empirical Evidence on Firm Heterogeneity (Week 1)

- Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding, and Peter K. Schott, "Firms in International Trade," *Journal of Economic Perspectives*, Summer 2007, 21 (3), 105–130.
- [Helpman, Elhanan, "Trade, FDI and the Organization of Firms," *Journal of Economic Literature*, September 2006, XLIV (3), 589–630.]

2. The Melitz Model (Week 2)

- Melitz, Marc J., "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, November 2003, 71 (6), 1695–1725.
- [Krugman, Paul R., "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review*, December 1980, 70 (5), 950–959.]
- Web Resources: Melitz (2003) annotated, CES Monopolistic Competition: A Mathematical Primer.

Tutorial (Week 2): Detailed review of Melitz (2003)

3. Exporting and Productivity (Week 3)

- Lileeva, Alla and Daniel Trefler, "Improved Access to Foreign Markets Raises Plant-Level Productivity ... for Some Plants," *Quarterly Journal of Economics*, August 2010, CXXV (3), 1051–1100.
- [Bernard, Andrew B. and J. Bradford Jensen, "Exceptional Exporter Performance: Cause, Effect, or Both?," *Journal of International Economics*, February 1999, 47 (1), 1–25.]

Tutorial (Week 3): Student presentations

- Bernard, Andrew B. and Stephen J. Redding, and Peter K. Schott, "Comparative Advantage and Heterogeneous Firms Comparative Advantage and Heterogeneous Firms," *Review of Economic Studies*, January 2007, 74 (1), 31–66.
- Chaney, Thomas, "Distorted Gravity: The Intensive and Extensive Margins of International Trade," *American Economic Review*, September 2008, 98 (4), 1707–21.
- Helpman, Elhanan, Marc Melitz, and Yona Rubinstein, "Estimating Trade Flows: Trading Partners and Trading Volumes," *Quarterly Journal of Economics*, May 2008, 123 (2), 441–487.
- Arkolakis, Costas, "Market Penetration Costs and the New Consumers Margin in International Trade," *Journal of Political Economy*, forthcoming.
- [Eaton, Jonathan and Samuel Kortum and Francis Kramarz, "An Anatomy of International Trade: Evidence from French Firms," *Econometrica*, September 2011, 79 (5), 1453–1498.]
- [Bernard, Andrew B., Stephen J. Redding, and Peter K. Schott, "Multi-Product Firms and Trade Liberalization," *Quarterly Journal of Economics*, forthcoming.]

4. A Variable Markup Model (Week 4)

- Melitz, Marc J. and Giancarlo I. P. Ottaviano, “Market Size, Trade, and Productivity,” *Review of Economic Studies*, 2008, 75 (1).

Tutorial (Week 4): Detailed review of Melitz and Ottaviano (2008).

5. Using the Canada-U.S. Free Trade Agreement to Test Our Theories (Weeks 4 and 5)

- Melitz, Marc J. and Daniel Trefler, “The Gains from Trade When Firms Matter,” mimeo, 2011.
- [Trefler, Daniel, “The Long and Short of the Canada-U.S. Free Trade Agreement,” *American Economic Review*, September 2004, 94 (4), 870–895.]
- (Two Handouts)

6. Gilles Duranton’s Primer on Economic Geography (Week 5)

Tutorial (Week 5): Student presentations continued.

7. Ricardian Models (Weeks 6 and 7)

- Eaton, Jonathan and Samuel Kortum, “Technology, Geography, and Trade,” *Econometrica*, September 2002, 75 (5), 1741–1779.
- [Bernard, Andrew B. and Jonathan Eaton, Bradford Jensen, and Samuel Kortum, “Plants and Productivity in International Trade,” *American Economic Review*, September 2003, 93 (4), 1268–1290.]

Tutorial (Week 6): Detailed Review of Eaton and Kortum (2002).

Part II. Incomplete Contracts, Multinationals, and Outsourcing (Weeks 7-10)

1. Older Approaches

- Helpman, Elhanan, Marc J. Melitz, and Stephen R. Yeaple, “Export versus FDI with Heterogeneous Firms,” *American Economic Review*, 2004, 94 (1), 300–316.

2. The Property Rights Approach

- Antràs, Pol, “Firms, Contracts, and Trade Structure,” *Quarterly Journal of Economics*, November 2003, 118 (4), 1375–1418.
- Antràs, Pol and Elhanan Helpman, “Global Sourcing,” *Journal of Political Economy*, 2004, 112, 552–580.
- Antràs, Pol, “Grossman-Hart (1986) Goes Global: Incomplete Contracts, Property Rights, and the International Organization of Production,” *Journal of Law, Economics, and Organizations*, forthcoming.
- [Nunn, Nathan and Daniel Trefler, “The Boundaries of the Multinational Firm: An Empirical Analysis,” in Elhanan Helpman, Dalia Marin, and Thierry Verdier, eds., *The*

Organization of Firms in the Global Economy, Cambridge, MA: Harvard University Press, 2008, pp. 55–83.]

Tutorial (Weeks 7-10): Student presentations

- Brainard, Lael, “An Empirical Assessment of the Proximity-Concentration Trade-off Between Multinational Sales and Trade,” *American Economic Review*, September 1997, 87 (4), 520–544.
- Helpman, Elhanan, “A Simple Theory of International Trade with Multinational Corporations,” *Journal of Political Economy*, June 1984, 92 (3), 451–471.
- Antràs, Pol and Elhanan Helpman, “Contractual Frictions and Global Sourcing,” in Elhanan Helpman, Dalia Marin, and Thierry Verdier, eds., *The Organization of Firms in the Global Economy*, Cambridge, MA: Harvard University Press, 2008, pp. 9–54.
- [Acemoglu, Daron, Pol Antràs, and Elhanan Helpman, “Contractual Frictions and Global Sourcing,” *American Economic Review*, 2007, 97, 916–943.]
- Nunn, Nathan, “Relationship-Specificity, Incomplete Contracts, and the Pattern of Trade,” *Quarterly Journal of Economics*, May 2007, 122 (2), 569–600.
- Manova, Kalina, “Credit Constraints, Heterogeneous Firms, and International Trade,” Working Paper 14531, National Bureau of Economic Research, December 2008.
- Chor, Davin, “Unpacking Sources of Comparative Advantage: A Quantitative Approach,” *Journal of International Economics*, November 2010, 82(2), 152-167.

Part III. Other Topics (Weeks 11-12)

1. Quality and Trade

- [Berry, Steven T., “Estimating Discrete Choice Models of Product Differentiation,” *RAND Journal of Economics*, Summer 1994, 25 (2), 242–262.]
- [Khandelwal, Amit, “The Long and Short (of) Quality Ladders,” *Review of Economic Studies*, October 2010, 77 (4), 1450–1476.]
- [Sutton, John and Daniel Trefler, “Deductions from the Export Basket: Capabilities, Wealth and Trade,” NBER Working Paper, 2011.]

2. The Impact of International Trade on Domestic Institutions

- Acemoglu, Daron, Simon Johnson, and James A. Robinson, “The Rise of Europe: Atlantic Trade, Institutional Change and Economic Growth,” *American Economic Review*, June 2005, 95 (3), 546–579.
- [Nunn, Nathan and Daniel Trefler, “The Political Economy of Tariffs and Long-Term Growth,” *American Economic Journal: Macroeconomics*, forthcoming.]
- [Puga, Diego and Daniel Trefler, “The Dynamics of International Trade, Income Distribution and Domestic Institutions: A Death in Venice,” 2010. Mimeo, University of Toronto.]
- [Dippel, Christian, and Daniel Trefler, “The Rents from Trade: Wages and Coercion in the Post-Abolition British Caribbean.”]

3. Sorting and International Trade

- Ohnsorge, Franziska and Daniel Trefler, “Sorting It Out: International Trade and Protection With Heterogeneous Workers,” *Journal of Political Economy*, October 2007, 115 (5), 868–892.
- [Costinot, Arnaud, “An Elementary Theory of Comparative Advantage,” *Econometrica*, 2009, 77 (4), 1165–1192.]
- [Costinot, Arnaud, and Jon Vogel, “Matching and Inequality in the World Economy,” *Journal of Political Economy*, 2010, 118 (4), 747–786.]

Tutorial (Week 12): Student research proposals presented.