

ECO364 INTERNATIONAL TRADE

University of Toronto
Department of Economics

Summer 2014

Lectures: 10am – 1pm, Tuesdays and Thursdays
Bahen Centre for Information Technology

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Course Overview

This objective of this course is to introduce upper year students to international trade theory and an overview of the evidence. The course will cover microeconomic models aiming to explain how country characteristics determine the goods that a country produces and exports, why some firms export while others do not, and the trade-offs that firms face between exporting and becoming multinational enterprises. These models will then be used to explain how trade impacts economic innovation, unemployment, wages and firms' decisions on where to produce. We will also cover the empirical literature to examine how well the models match the facts on these issues.

Recommended Textbook

Most of the lectures will draw upon the material in the following textbook:

Paul R. Krugman, Maurice Obstfeld and Marc J. Melitz, *International Economics: Theory and Policy*, 9th Edition, ISBN: 0132146657.

The textbook is available in the Campus Bookstore and in the library on reserve.

Marking Scheme

- Midterm: 35%
- Final Exam: 65%

The midterm will be written in class on Thursday May 29. The final exam will be written during the exam period in June.

Administrative Details

1. If you miss the mid-term for health reasons and would like to write a make-up test you must complete **ALL** of the following steps:
 - i. Send me an email within 24 hours of the midterm. The subject of your email must be “missed midterm” and it must be sent from your University of Toronto email address.
 - ii. In the email you must concisely explain why you missed the midterm.
 - iii. If you complete the prior steps and I find your explanation justifiable a make-up midterm will be held at a time of my choosing.
 - iv. If you miss the make-up midterm you will receive a 0. Under no circumstances will the weight be shifted to the final exam.
2. Appeals for regarding of the midterm must be submitted to the TA in writing along with the midterm within **TWO WEEKS** of the day that the midterm was handed back. The TA will re-grade the entire midterm, which may result in a higher or a lower mark. Midterms written in pencils will not be re-graded.

Email Policy

Feel free to email me concerning administrative or urgent matters or to schedule an appointment. You can email either me or the TA if you have a short question about the material which requires an answer no longer than 2 sentences. Longer questions should be asked during office hours. All emails **must** be sent from your University of Toronto email and **must** include the course number (ECO 364) in the subject line. I will not reply to emails that request information that can be found on the syllabus.

Accessibility

The University provides academic accommodations for students with disabilities in accordance with the terms of the Ontario Human Rights Code and the AODA legislation (Access for Ontarians with Disabilities Act). Students in need of accommodations should contact either me or the Accessibility Services Office, <http://www.accessibility.utoronto.ca/Contact-Us.htm>.

Course outline

Below is a list of topics that will be covered during this course. The suggested readings closely correspond to the material that will be covered in class. Most of these readings come from the textbook, denoted by KOM. Some of the topics also contain a list of optional readings. These are provided solely for students interested in obtaining a greater understanding of the issue. You will **NOT** be tested on the material in the optional readings that is not covered in the lectures.

1. Introduction to International Trade

Suggested reading

KOM, Ch. 2

Optional reading

Ostapik, Edith and Kei-Mu Yi, "*International Trade: Why We Don't Have More of It*," **Federal Reserve Bank of Philadelphia Business Review**, 2007, http://www.phil.frb.org/research-and-data/publications/business-review/2007/q3/ostapik-yi_international-trade.pdf

2. Comparative Advantage and the Ricardian Model

Suggested reading

KOM, Ch. 3

Optional reading

Eaton, Jonathan and Samuel Kortum, "*Putting Ricardo to Work*," **Journal of Economic Perspectives**, 2012, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.2.65>, (pp. 65-74 only).

3. The Heckscher-Ohlin Model

Suggested reading

KOM, Ch. 5

Optional readings

Bernard, Andrew B., J. Bradford Jensen and Peter K. Schott, "*Survival of the best fit: Exposure to low-wage countries and the (uneven) growth of U.S.*

manufacturing plants,” **Journal of International Economics**, 2006,
<http://www.sciencedirect.com/science/article/pii/S0022199605000498>

Helpman, Elhanan, “*The Structure of Foreign Trade,*” **Journal of Economic Perspectives**, 1999, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.13.2.121>, (pp. 121- 124, 128-133 only).

4. Imperfect Competition and Intra-Industry Trade

Suggested reading

KOM, Ch. 8, pp. 155-71 only.

Optional readings

Melitz, Marc J. and Daniel Trefler, “*Gains from Trade when Firms Matter,*” **Journal of Economic Perspectives**, 2012,
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.2.91>, (pp. 91-97 only).

“*Intra-industry trade,*” **OECD Economic Outlook**, 2002,
<http://www.oecd.org/eco/outlook/2752923.pdf>, (pp. 159-163 only).

Ruffin, Roy J., “*The nature and significance of intra-industry trade,*” **Economic and Financial Policy Review**, Federal Reserve Bank of Dallas, 1999,
<http://www.dallasfed.org/assets/documents/research/efr/1999/efr9904a.pdf>

5. Heterogeneous Firms and Selection into Exporting

Suggested reading

Melitz, Marc J. and Daniel Trefler, “*Gains from Trade when Firms Matter,*” **Journal of Economic Perspectives**, 2012,
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.2.91>, (pp. 97-110 only).

Optional readings

Bernard, Andrew, J. Bradford Jensen, Stephen Redding, and Peter Schott, “*Firms in International Trade,*” **Journal of Economic Perspectives**, 2007,
<http://www.princeton.edu/~reddings/pubpapers/FirmsTradeJEP2007.pdf>

Helpman, Elhanan, “*Trade, FDI, and the Organization of Firms,*” **Journal of Economic Literature**, 2006,

http://www.dems.unimib.it/corsi/678/altro/trade_fdi_and_the_organization_of_firms.pdf, (pp. 592-96 only).

KOM, Ch. 8, pp. 172-78 only.

6. Foreign Direct Investment (FDI) and Multi-National Corporations (MNCs)

Suggested readings

KOM, Ch. 8, pp. 180-87 only.

Antràs, Pol, and Stephen R Yeaple, “*Multinational Firms and the Structure of International Trade*,” **Handbook of International Economics**, Vol. 4, 2014, http://scholar.harvard.edu/files/antras/files/antras_yeaple_pre_print_3.pdf (pp. 55-66 only).

Helpman, Elhanan, “*Trade, FDI, and the Organization of Firms*,” **Journal of Economic Literature**, 2006, http://www.dems.unimib.it/corsi/678/altro/trade_fdi_and_the_organization_of_firms.pdf, (section 2.4 only).

Optional readings

“*Intra-firm trade*,” **OECD Economic Outlook**, 2002, <http://www.oecd.org/eco/outlook/2752923.pdf>, (pp. 163-66 only).

Ramondo, Natalia, Veronica Rappoport and Kim J. Ruhl, “*Horizontal versus Vertical Foreign Direct Investment: Evidence from U.S. Multinationals*,” mimeo, 2014, <http://personal.lse.ac.uk/rappopor/papers/VerticalHorizontal.pdf>

7. Trade, Wages and Employment: Theory and Evidence

Suggested reading

Pavcnik, Nina, “*Globalization and within-country income Inequality*,” **WTO**, 2011, http://www.wto.org/english/res_e/booksp_e/glob_soc_sus_e_chap7_e.pdf

Optional readings

Haskel, Jonathan, Robert Z. Lawrence, Edward E. Leamer, and Matthew J. Slaughter, “*Globalization and U.S. Wages: Modifying Classic Theory to Explain Recent Facts*,” **Journal of Economic Perspectives**, 2012, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.2.119>

Helpman, Elhanan, Oleg Itskhoki, Marc-Andreas Muendler, and Stephen Redding, “Trade and Inequality: From Theory to Estimation,” mimeo, 2014, http://scholar.harvard.edu/files/helpman/files/himr_020814_1.pdf, (pp. 1-17 only).

8. Trade and Innovation

Suggested reading

Melitz, Marc J. and Daniel Trefler, “*Gains from Trade when Firms Matter*,” **Journal of Economic Perspectives**, 2012, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.2.91>, (pp. 111-115 only).

9. Trade Policy

Suggested reading

KOM, Ch. 8 (pp. 178-80 only), Chs. 9 and 12