ECON 2300: International Trade

Fall 2014 Course Outline

Classes: Thursday, 11:00 - 13:00; Location: Koffler House, room 113

Instructor: Andrey Stoyanov

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> **Office Hours:** Thursday 10:00-11:00 or by appointment
> **Office Location**: Glushkin House, room 336

Course website: TBD

Course Description
This is the introductory graduate course in international trade and is intended to give a broad coverage of the field. In the first part of the course we will cover the core models of international trade in order to study the causes of trade between two countries, direction of trade flows, and gains that trade brings to trading countries. Starting with the neoclassical models of trade based on constant economies of scale and perfect competition (Ricardian and Heckscher-Ohlin), we will move to the most recent class of models with heterogeneous firms. In the second part of the course we will cover a series of unconnected topics, such as trade policies and the effect of geography on trade. The course will be mostly focused on the theory of international trade, but recent empirical evidence will also be discussed.

Recommended Text:
Advanced international trade: Theory and evidence, by R. Feenstra (Princeton University Press).

Evaluation:

i) Problem sets (10%). There will be two problem sets (5% each), one before the midterm test and one before the final exam. Each one will be graded as "check plus" (5%), "check" (3%), or "check minus" (1%). Students are encouraged to work in small groups of up to 4 students, however, each group member must submit a handwritten assignment which is substantially different from those of other group members. All group members must be listed at the front page of each assignment.

ii) Referee report (10%) – a written evaluation of an academic article which will be assigned to all students. It should evaluate the motivation for the paper, the appropriateness of methodology and significance of the results. PhD students may choose to write a research proposal instead of the referee report. Students must submit a hard copy of the referee report in the last class. Reports not submitted by the deadline will be penalized by 1% per day of delay.

iii) Midterm test (30%) will be held on October 23 in class. If the test is missed for a legitimate reason and appropriate documentation is provided within two weeks of the date of the test, the weight of the midterm test will be transferred to the final exam. Failure to produce a note in time will result in a mark 0 for the test.

iv) Final exam (45%)

v) Class participation (5%)

Academic honesty: Student should note that I do not tolerate any form of academic misconduct. Conduct that violates the ethical or legal standards of the University community is a serious offence, and failure to adhere to the University policy on academic honesty may result in serious consequences. Any student caught at engaging in academic misconduct will be subject to academic discipline, which may include any of the following: receiving a penalty for the relevant course component of up to 100%; receiving a fail mark for the course; initiation of academic honesty hearing and notification of academic honesty infringement on the transcript; expulsion from the program.

Gains from trade and comparative advantage

(*)   Feenstra Chapter 6

Deardorf, A (1980) "The General Validity of the Law of Comparative Advantage," *Journal of Political Economy,* 88(5), pp.941-957

(*)   Bernhofen, D. and C Brown (2004) "Direct Test of the Theory of Comparative Advantage: The Case of Japan," *Journal of Political Economy,* 112(1), pp.48-67

Bernhofen, D. and C Brown (2005) "An Empirical Assessment of the Comparative Advantage Gains from Trade: Evidence from Japan," *American Economic Review,* 95(1), pp.208-225

The Ricardian Model

(*)   Feenstra Chapter 1

(*)   Dornbush, R., Fisher, S., and P. Samuelson (1977) "Comparative Advantage, Trade, and Payments in a Ricardian Model with Continuum of Goods," *American Economic Review,* 67(5), pp.823-839

(*)   Golub, S., and C.T. Hseih (2000) "Classical Ricardian Theory of Comparative Advantage Revisited," *Review of International Economics*, 8(2), 221-234.

Heckscher-Ohlin Model

(*)   Feenstra Chapters 2 and 3

Leamer, E. and J. Levinsohn (1994) "International Trade Theory: The Evidence," NBER Working Paper #4940.

Bowen, H., Leamer, E., and L. Sveikauskas (1987) "Multicountry, Multifactor Test of the Factor Abundance Theory," *American Economic Review,* 77(5), pp.791-809.

(*)   Trefler, D. (1993) "International Factor Price Differences: Leontief was Right!" *Journal of Political Economy,* 101(6), pp.961-987

Trefler, D. (1995) "The Case of the Missing Trade and Other Mysteries," *American Economic Review*, 85(5), pp. 1029-1046.

(*)   Romalis, J. (2004) "Factor Proportipons and the Structure of Commodity Trade," *American Economic Review,* 94(1), pp.67-97.

Models of Increasing Returns to Scale

(*)   Krugman, P. (1979) "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics,* 9(4), pp.313-321.

(*)   Krugman, P. (1980) "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review,* 70(5), pp.950-959.

Helpman, E., and P. Krugman (1985) "Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition and the International Economy," Cambridge: MIT Press.

(*)   Hanson, G., and C. Xiang (2004) "The Home-Market Effect and Bilateral Trade Patterns," *American Economic Review,* 94(4), pp.1108-1129.

Geography and Trade

(*)   Feenstra Chapter 5

McCallum, J. (1995) "National Borders Matter: Canada-U.S. Regional Trade Patterns," *American Economics Review*, 85(3), pp.615-23.

(*)   Anderson, J. and E. van Wincoop (2003) "Gravity and Gravitas: A solution to the Border Puzzle," *American Economics Review*, 92(1), pp.170-192.

Head, K., and T. Mayer (2013) "Gravity Equations: Workhorse, Toolkit, and Cookbook," *Handbook of International Economics*.

Models of Firm Heterogeneity

Levinsohn, J. (1999) "Employment Responses to International Liberalization in Chile," *Journal of International Economics,* 47, pp.321-344.

Bernard, A., and B. Jensen (1999) "Exceptional Exporter Performance: Cause, Effect, or Both?" *Journal of International Economics*, 47(1), pp.1-25.

(*)   Melitz, M. (2003) "The Impact of Trade on Intra-Industry Reallocations and Aggregate Productivity," *Econometrica,* 71, pp.1695-1725.

(*)   Pavcnik, N., (2002) "Trade Liberalization, Exit, and Productivity Improvements: Evidence from Chilean Plants," *Review of Economic Studies*, 69(1), pp.245-276

(*)   Bernard, A., Jensen, B., Redding, S., and P. Schott (2007) "Firms in International Trade," *Journal of Economic Perspectives,* 21(3), pp.105-130.

Melitz, M., and S. Redding (2012) "Heterogeneous Firms and Trade," NBER Working Paper #18652.

Trade Policy

(*)   Feenstra Chapter 7

Goldberg, P., and G. Maggi (1999) "Protection for Sale: An Empirical Investigation," *American Economic Review*, 89(5), pp.1135-1155.

Dutt, P. and D. Mitra (2002) "Endogenous Trade Policy Through Majority Voting: An Empirical Investigation," *Journal of International Economics*, 58(1), pp.107-133.

(*)   Broda, C., N. Limao, and D. Weinstein (2008) "Optimal Tariffs and Market Power: The Evidence," *American Economic Review*, 98(5), pp.2032–65.