

ECO364H1F – International Trade Theory
(This version: May 11, 2016)
Section L0501

Lectures: (Tuesday 2-5 PM and Thursday 2PM-3PM: LM158)

May 10 – May 31

Instructor: Palermo Penano (palermo.penano@mail.utoronto.ca)

Office Hours: Tuesday and Thursday, 5-6pm, GE213

TA: William Gaelan MacKenzie (gaelan.mackenzie@mail.utoronto.ca)

Office Hours: Wednesday, 10-12pm, GE 313

June 2 – June 16

Instructor: Scott Orr (scott.orr@mail.utoronto.ca)

Office Hours: Tuesday and Thursday, 5-6pm, GE213

TA: Leandro Freylejer (leandro.freylejer@mail.utoronto.ca)

Office Hours: Wednesday, 10-12pm, GE 313

Objectives: This course is an examination of the causes and consequences of international trade. The first half develops traditional models of comparative advantage. The second half examines trade policy, as well as more recent theoretical and empirical work on imperfect competition and firm heterogeneity.

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 tutorial and we 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.

Exclusion: ECO230Y1

Prerequisites: ECO200Y1/ECO204Y1/ECO206Y1,
ECO220Y1/ECO227Y1/(STA220H1,STA255H1)/(STA257H1,STA261H1)

Textbook: No textbook is required for this course, although most of this course's content will be based on "International Trade: Theory and Policy" by Krugman, Obstfeld, and Melitz (Henceforth, KOM).

For the prerequisites of other courses, see:

http://www.artsandscience.utoronto.ca/ofr/calendar/crs_eco.htm#ASMAJ1478

For the Department of Economics' policy regarding prerequisites, see:

<http://www.economics.utoronto.ca/index.php/index/undergraduate/load/prerequisites>

Tentative Course Outline:

Note: KOM readings are recommended, but not required. Readings marked with an asterisk (*) are advanced readings for students who are interested in learning more about the subject.

1. Introduction: facts about trade and globalisation

- KOM ch. 1- 2

2. The Ricardian Model

- KOM ch. 3

3. The Heckscher-Ohlin Model

- KOM ch. 5

4. The Specific Factors Model

- KOM ch. 4

MIDTERM: May 31st

5. Trade Policy

- KOM ch. 9 (Instruments)

- KOM ch. 10 (Politics)

(*) Bagwell, Kyle and Robert W. Staiger (2010) “The World Trade Organization: Theory and Practice” *Annual Review of Economics* 2(1): 223- 256.

6. Trade with Increasing Returns and Imperfect Competition

- KOM ch.7 (External Economies of Scale)

- KOM ch.8 (Internal Economies of Scale and Imperfect Competition)

(*) Krugman, Paul (1979) “Increasing Returns, Monopolistic Competition, and International Trade” *Journal of International Economics* 9(4): 469 – 480.

7. Firm Heterogeneity and Trade

- KOM ch. 8

(*) Melitz, Marc and Daniel Trefler (2012) “Gains from Trade When Firms Matter” *Journal of Economic Perspectives* 26(2): 91 – 118.

(**) (More advanced) Melitz, Marc (2003) “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity” *Econometrica* 71(6): 1675 - 1725.

FINAL EXAM: TBA

Evaluation

- Problem sets - 20%
 - **Due Dates (In Class):**
 - May 19, 2016
 - May 26, 2016
 - June 9, 2016
 - June 16, 2016
- Midterm - 30%
- Final exam - 50%

Problem Set: There will be a total of 4 problem sets, each worth 5% of your total grade. They will be due at the beginning of class at each of the aforementioned dates, and will be handed back during tutorials or TA office hours. Scans or photos of the problem sets are not accepted. Each problem set will be graded on a 0-5 scale based on the correctness of answer and effort in solving the questions. You are encouraged to work in groups. However, duplicate problem sets will not be given any marks. **Problem sets submitted one day late will be docked 50% of the grade. Problem sets submitted more than one day late will receive 0%.**

Midterm Exam: The Midterm is on May 31st in class. Please bring a nonprogrammable calculator to the exam. There will not be any extra calculators in the exam room.

Final Exam: The final exam will be 3 hours long. It will take place during the final exam period (June 20 to June 24). The university will announce the exact time and location of this exam on June 3.

Other Administrative Matters:

Tutorials: Gaelan and Leandro will hold tutorials every Thursday from 3- 5 PM in LM158. Solutions to the problem sets will be covered during tutorials. Tutorials are not mandatory. However, to encourage attendance, the problem set solutions will not be posted until *after* the last tutorial.

Email Policy: We will try to reply to admin-related questions within 24 hours on weekdays, and 48 hours on weekends. For course work related questions, we will only answer questions that can be answered in a couple of sentences. For more complicated queries, please come to our office hours.

Test Score Appeals: Please type a short paragraph explaining the grievance and why you should obtain additional points. Give a hard copy of this document 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. Conditional on this argument being found persuasive by the course instructors, the entire exam will be re-graded. Your score can go up or down. This does not apply to trivial appeals such as points being added incorrectly- if you find such a mistake, we will make adjustments on the spot.

Absence from Exams: The Faculty of Arts and Science select 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. If you miss the midterm due to medical reasons, email one of the Instructors on the day of (or before) the midterm exam. In addition, provide the University of Toronto Verification of Student Illness or Injury form. This form must satisfy the following requirements:

- It is signed on or before the date of the midterm exam. Retroactive notes will not be accepted.
- It is original (not scanned, copied, or emailed).
- It is completed and signed by a qualified medical doctor.
- The doctor's OHIP registration number must be provided.

Other excuses for missing the midterm exam (e.g. funerals and car accidents) must be accompanied by a note from the responsible authority that I can verify in order for excusal to even be considered. Again, only original notes (not scanned, copied, or emailed) on or before the date of the midterm exam will be considered.

Please note: The office of academic misconduct imposes a punishment of suspension for 4 months for passing on fake notes. If your note satisfies the above requirements, a makeup midterm test will be provided outside the normal class time. Scott will invigilate the makeup exam.

Academic Misconduct: Students should note that we 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.