

ECO364H1S – International Trade Theory
(This version: January 6th, 2020)
Section L0101 (Thursday 10am-1pm, KP108)
Section L5101 (Tuesday 6pm-9pm, MC102)

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Professor Morrow's office hours: GE 336 Wednesday 11am-1pm (starting Jan. 14th)

TA office hours:

- Torsten Jaccard: TBA
- John Cairncross: TBA

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 and the gains from trade. We will spend extra time this year on the tools of trade policy and issues associated with political economy.

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. I will also expect you to be able to perform simple linear regression using ordinary least squares and fixed effects (i.e. “dummy variables”). The administration is very strict and does not allow me to issue waivers to students who do not have all of the prerequisites.

Syllabus: The syllabus may be updated from time to time to reflect idiosyncratic issues such as pacing, progress, and earlier typos. The most recent syllabus will always take precedent. Updates will be announced in class.

Textbook: Krugman, Melitz, and Obstfeld, *International Trade: Theory and Policy* (International Trade Custom Edition), 11th Edition, Pearson, 2014 (referred to as KMO in what follows). This is an electronic edition.

The book is available at the U of T bookshop. I do not require you to buy the newest edition of the textbook, allowing you to look for used copies online (e.g. amazon.com) at discounts. *However, you are responsible for the most recent material when the two editions diverge.*

Multimedia: At certain points, I may rely on multimedia. Specific examples are given the course outline. These include videos and podcasts. These will sometimes be presented in class and, at other times, you will be responsible for viewing them or listening to them outside of class. In addition to the *Planet Money* podcast on *National Public Radio*, an excellent podcast that focuses on issues of trade policy is *Trade Talks* from the *Peterson Institute for International Economics* (PIIE).

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 documentation (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). **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 so that we can discuss your case in person.
- 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..." variety 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 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.

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: 25% Midterm: 35% End of Term Exam: 40%

3) Problem Sets

a. There will be 4-6 problem sets over 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 homework should be submitted to the course website on Quercus. No paper copies should be turned in.** All problem sets must be turned in by noon on the stated due date. No late problem sets will be accepted. In addition, no excuses will be considered and no make up work will be offered.

c. **You are allowed to turn in homework assignments in groups up to two people. Each student should submit a copy of the problem set to portal and both names should be on the assignment.**

4) Your college career may involve asking professors to recommend you for graduate programs, jobs, or internships. Please be aware that professors are not obligated to write references for any student who asks us. I *strongly prefer* to only write a reference for a student if I can write a very positive and specific one. Generally, I prefer to only write such letters for those who obtain a score of 85 or above although exceptions might be made for those with whom I have (positively) interacted with frequently. Your job as a college student is to become the kind of student professors can rave about in recommendations — engaging, hardworking, collegial, and intellectually inquisitive and honest. Consider maintaining relationships over time with professors, so that they know you well enough to write for you.

5) **All supplementary readings will be posted on the Quercus site.** The supplementary readings 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.

- 6) Tutorials will occur during the last hour of class.
- 7) 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 Final Exam exam will be comprehensive.**
- 8) Test Score appeals: appeals will be conducted according to the following procedure:
- a) Please type a short paragraph (3-4 sentences) explaining the grievance and why you should obtain additional points. To be entertained, there must be a clear mistake in the grading relative to the posted answer key. If there is a clear mistake in the answer key, this is another possible grounds for a re-grade. 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.
- 9) Important dates:
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|---|----------------------------|
| January 6 th : | Winter term classes begin |
| January 16 th : | Wait list closes |
| January 19 th : | Last day to add the course |
| February 17 th -21 st : | Reading Week (no class) |
| February 25 th : | L5101 (Tuesday) Midterm |
| February 27 th : | L0101 (Thursday) Midterm |
| March 15 th : | Last day to drop |
| March 31 st : | Last class (L5101) |
| April 2 nd : | Last class (L0101) |
| April 6 th -25 th : | Final exam period |
- 10) Email Policy:
I will respond to e-mail within 24 hours on a weekday, 48 hours on a weekend, according to the following policy:
- a) I only respond to e-mails posing questions that can be answered in a sentence or three. For more involved questions, please come to office hours.
- b) 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.
- c) I do not reply to e-mails regarding the results of graded material – for that, please come to office hours.
- d) Use proper grammar in your emails. I do judge you based on how you write.
- e) Please use official “utoronto.ca” email accounts for all communication.

11) Course etiquette and other issues

- a. 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.
- b. Switch off your mobile phone during the class. Do not text message either.
- c. 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, globalization, and the Gravity Model.

- KMO chapters 2
- Krugman, "[Two Cheers For Formalism](#)", mimeo MIT, 1998 (primarily points 2 and 3)
- *The Economist* "[Down to Earth](#)", September 29th, 2016
- *The Economist* "[Unfavourable Trade Winds](#)", March 26th, 2016

2. The Ricardian Model

- KMO ch 3
- *The Economist*, "[Trade winds](#)", November 6th, 1997
- *MIT News*, "[Economists find evidence for famous hypothesis of comparative advantage](#)", June 20th, 2012

3. Specific Factors and Income Distribution

- KMO ch 4

4. The Factor Proportions/Heckscher-Ohlin Model

- KMO ch 5
- Hanson, Gordon & Matthew Slaughter (2002) "[Labor-market adjustment in open economies: Evidence from US States](#)," *Journal of International Economics* pg. 3-29 (introduction)
- Gandal, Neil & Gordon Hanson & Matthew Slaughter (2004) "[Technology, trade, and adjustment to immigration in Israel](#)," *European Economic Review* pg. 403-428 (introduction)
- *The Economist*, "[In the shadow of prosperity](#)", January 18th, 2007
- *New York Times*, "[How Convincing is the Case for Free Trade](#)", February 11th, 2011
- *The Economist*, "[An Inconvenient Iota of Truth](#)", August 4th, 2016

MIDTERM: Week of February 24th (In class)

5. Trade and Wages and Offshoring

- KMO ch 5
- Autor, David & David Dorn & Gordon Hanson, "[The China Syndrome: Local Labor Markets of Import Competition in the United States](#)", *American Economic Review*, 2013 (introduction)
- Autor, David & Frank Levy & Richard Murnane, "[The Skill Content of Recent Technological Change: An Empirical Exploration](#)", *Quarterly Journal of Economics*, 2003 (introduction)
- Bloom, Nicholas & Kyle Handley & Andre Kurman & Phillip Luck, "[The Impact of Chinese Trade on U.S. Employment: the Good, the Bad, and the Debateable](#)", *working paper*, 2019.
- *New York Times*, "[Back to Made in America](#)", September 19th, 2013 (VIDEO)
- *Wall Street Journal*, "[Routine Jobs are Disappearing](#)", January 3rd, 2017

6. Trade Policy and Political Economy

- KMO ch. 9 and 10
- Amiti, Mary & Stephen Redding & David Weinstein, "[The Impact of the 2018 Trade War on U.S. Prices and Welfare](#)", *working paper*, Princeton University, March 2019
- Bown, Chad "United States Special Protection in Historical Perspective: 1974-2019", *slide deck (see Quercus)*
- Fajgelbaum, Pablo & Goldberg, Penny & Kennedy, Patrick & Khandelwal, Amit "[The Return to Protectionism](#)", *NBER Working Paper*, 2018.
- *Bloomberg*: "[Evidence Grows That Trump's Trade Wars are Hitting the US Economy](#)", March 4th, 2019
- *Wall Street Journal*, "[US Steel Tariffs Create Double-Edged Sword](#)", May 31st, 2016
- *Washington Post* "[Remember Bush's 2002 steel tariffs? His chief of staff warns Trump not to do the same](#)" March 6th, 2018
- *The Economist*, "[The Problematic Proposal](#)", August 11th, 2016
- *The Economist*, "[Hard Bargain](#)", October 1st, 2016

7. Trade under Imperfect Competition/Firm Heterogeneity

- KMO ch. 8
- Melitz, Marc & Daniel Trefler "[Gains from Trade When Firms Matter](#)" *Journal of Economic Perspectives*, 2012
- Virginia Postel, "[Economic Scene](#)", *New York Times*, January 27th 2005, Page C2.

**APRIL EXAM:
TBA**