ECO364H1S – International Trade Theory
(This version: January 14th, 2022)
Section L0101 (Monday 2pm-5pm)
Section L0201 (Tuesday 2pm-5pm)

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Course Website: https://q.utoronto.ca/courses/253422
Zoom Link (for OH and online classes): Link Meeting ID: 821 4672 0261 Passcode: 845478

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Professor Morrow's office hours: by appointment.

TA office hours:
- Torsten Jaccard: Fridays 12pm-1pm. Link Meeting ID: 845 7605 5747 Passcode: 558584
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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 also spend time on the tools of trade policy and issues associated with political economy.

Synchronous/Asynchronous Content: This all sucks and we all hate it but hopefully this is the beginning of the end. Due to COVID-19 restrictions, we will not be meeting in person through January 31st. As of today (January 7th), I do not know when or if we will be in-person this semester. While we are online, I will deliver material synchronously during normal class time. Material will be recorded and posted on the course website. **The course and TA office hours Zoom links are also in the "Announcements" section of the Quercus website.**

Syllabus: This draft represents by best guess/ambition for the material I want to cover this semester. If the past is any lesson, this will likely change such that I will update the readings as we progress. Please refer to the date at the top of this document for the most recent version of the syllabus. The version posted on Quercus will always be the "right" version. In accordance with University of Toronto policy, the grading metric will not change without a simple majority of student votes (no quorum needed).

Exams: TBD.

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 that you are able to perform simple linear regression using ordinary least squares and fixed effects (i.e. "dummy variables"). In a course this large, I have chosen to not make exceptions to the list of prerequisites.

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.

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. These include videos and podcasts. Specific examples are given in the course outline. 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.

- In accordance with university policy, I do not require that students present a Verification of Illness form to explain absence from any exam. However, students must self-declare an absence on Acorn. In addition, students are required to email me by 12pm (noon) ET the day of the exam if they need to declare an absence.

- Do not take two classes at the same time. I will not allow you to take an exam at a non-standard time. If another instructor sets their test or exam during my class time, I have priority and they are obliged to offer a make-up time.

- 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. I will not make special arrangements with students who miss the final exam.

Additional Issues

1) **Technology**: it is your responsibility to have a strong internet connection and to be able to upload material. I do this not to be difficult or mean but rather because it is infeasible to assess the

validity and details of students' technology problems. In addition, you are strongly encouraged to have access to a printer for exams if you wish to work off a piece of paper.

2) **Material**: 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.

3) **Weighting Scheme**:

Packback: 15%
Problem Sets: 25%
Midterm: 30%
Final Exam: 30%

4) **Problem Sets**:

   a. There will be between 4 and 6 problem sets. Each will be graded "check +", "check", "check minus", or zero. A "check plus" (100%) will result from a complete answering of all questions with small number of mistakes (if any). What comprises a "small number" is at the discretion of the grader. A "check" (66%) will reflect work that had substantive gaps or any unanswered questions. A "check minus" (33%) will result from many incorrect or incomplete answers. Again, what is "many" is at the discretion of the grader. All subjective statements will be consistently defined within a section (i.e. what is "many" or "a small number"). If the problem set is not turned in or shows little effort (as judged by the grader), 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 as given in class. No late problem sets will be accepted. Your lowest problem set score will be dropped. This is meant to account for unexpected life circumstances (e.g. sick relatives).

   c. You are allowed to turn in homework assignments in groups up to two people. Both students should submit a copy of the problem set to portal and both names should be on the assignment. People can work on problem sets "across sections" but, in so doing, forfeit any grievances regarding how each section is curved.

5) **Packback**

   a. We will be using the online platform Packback. Participation is a requirement for this course, and the Packback Questions platform will be used for online discussion about class topics. Packback Questions is an online community where you can be fearlessly curious and ask open-ended questions to build on top of what we are covering in class and relate topics to real-world applications. This is used in other economics courses including Introduction to Microeconomics (ECO 101) and International Finance (ECO 365). I will do an intro of this during the synchronous portion of the first day of class.

   b. How to Get Help from the Packback Team:

      i.   If you have any questions or concerns about Packback throughout the semester, please read their FAQ at help.packback.co. If you need more help, contact their customer support team directly at help@packback.co. If they do not respond within a reasonable amount of time, please email your TA.

      ii.   For a brief introduction to Packback Questions and why we are using it in class, watch this video: vimeo.com/packback/Welcome-to-Packback-Questions

c. How to Register on Packback: An email invitation will be sent to you from help@packback.co prompting you to finish registration. If you don't receive an email (be sure to check your spam), you may register by following the instructions below:

      i.   Create an account by navigating to https://questions.packback.ca and clicking "Sign up for an Account" Note: If you already have an account on Packback you can log in with your credentials.

      ii.   Then enter our class community's lookup key into the "Looking to join a community you don't see here?" section in Packback at the bottom of the homepage. Community Lookup Key: **031b4c32-9799-4e50-961e-4afdcce2ecbb** Follow the instructions on your screen to finish your registration. Packback may require a paid subscription. Refer to www.packback.co/product/pricing for more information.

d. Your participation on Packback will count toward 15% of your overall course grade.

e. There will be a weekly Friday at 7pm EST deadline for Packback submissions. To receive your points per week, you should submit the following per each deadline period:

      i.   1 open-ended Question per week with a minimum Curiosity Score of 55, each worth 33.33% of each assignment grade.

      ii.   2 Responses per week with a minimum Curiosity Score of 55, each worth 66.67% of each assignment grade.

      iii.   Half credit will be provided for questions and responses that do not meet the minimum curiosity score.

      iv.   I also ask you to include some citation link in your response. Again, the quality will not be assessed by the Packback Attendant, but we can see who you are and what you can assess.

      v.   One of the nice things is that it uses text recognition to show a range for your assessment as you write your response. In this way, you will know if you are likely to have attained the minimum *before* you submit your response.

f. I will put up a prompt each Tuesday night due by 7pm each Friday.

6) **Supplementary materials.** 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.

7) **Preparing for exams**: Exams will be a mix of multiple choice and "problem solving" questions. These will be in class during class hours. 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 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 reason for a re-grade. Give a pdf 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.

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**:

January 10th:	Winter term classes begin
January 13th:	Waitlists close for S classes
January 23rd:	Last day to enroll in S classes
February 21st-25th:	Reading Week (no class)
February 28th:	L0101 (Monday) Midterm
March 1st:	L0201 (Tuesday) Midterm
March 10th:	At least 10% of marks are returned by this date.
April 7th:	Last class (L0101)
April 8th:	Last class (L0201)
April 11th-29th:	Final exam period

Important University dates can be found at:

https://www.artsci.utoronto.ca/current/dates-deadlines/academic-dates

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 virtual 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.
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) **References**: Due to the size of the class, I am very restrictive regarding for whom I am willing to write letters. A minimum qualification is active participation in class. If I do not recognize your name and you cannot point to multiple specicific interactions, I do not write reference letters. In addition, I prefer to only write such letters for those who obtain a score of 85 or above although exceptions are more likely to be made for this than for the class participation rule.

COURSE OUTLINE: Dates Below are Preliminary Guesses and Subject to Revision Depending on Pace

Week of January 10th, Lecture 1: Introduction: facts about trade, globalization, and the Gravity Model.
- KMO chapters 2
- *The Economist* "Unfavourable Trade Winds", March 26th, 2016

Weeks of January 17th and 24th, Lectures 2 and 3: The Ricardian Model
- KMO ch 3
- *The Economist*, "Trade winds", November 6th, 1997

Weeks of January 24th and 31st, Lectures 3 and 4: Specific Factors and Income Distribution
- KMO ch 4
- *The Economist*, "In the shadow of prosperity", January 18th, 2007
- *The Economist,* "An Inconvenient Iota of Truth", August 4th, 2016

Week of February 7th and 14th, Lectures 5 and 6: 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)

Week of February 21st: Reading Week

Week of February 28th: Midterm

Week of March 7th, Lecture 7: Trade and Wages and Offshoring
- KMO ch 5
- *New York Times*, "How Convincing is the Case for Free Trade", February 11th, 2011
- 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. (introduction)
- *Bloomberg Businessweek*, "Washington Hasn't Learned the Real Lesson of the China Shock", December 10, 2021
- *Foreign Affairs*, "The China Shock's Lessons for the Green Economy", November 8th, 2021
- *New York Times*, "Back to Made in America", September 19th, 2013 (VIDEO)

- *Wall Street Journal*, "Routine Jobs are Disappearing", January 3rd, 2017

Week of March 14th, Lecture 8: Trade under Imperfect Competition/Firm Heterogeneity
- KMO ch. 8
- Melitz, Marc & Daniel Trefler "Gains from Trade When Firms Matter" *Journal of Economic Perspectives, 2012*

Week of March 21st, Lecture 9: Trade Policy Theory
- KMO ch. 9 and 10
- *Bloomberg*: "Evidence Grows That Trump's Trade Wars are Hitting the US Economy", March 4th, 2019
- *Washington Post "*Remember Bush's 2002 steel tariffs? His chief of staff warns Trump not to do the same" March 6th, 2018
- *Wall Street Journal*, "US Steel Tariffs Create Double-Edged Sword", May 31st, 2016
- *Trade Talks*, "Semiconductors and US Export Bans from Huawei to SMIC", December 20th, 2020

Week of March 28th, Lecture 10: Trade Policy and Political Economy Before COVID
- 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
- Fajgelbaum, Pablo & Goldberg, Penny & Kennedy, Patrick & Khandelwal, Amit "The Return to Protectionism", *NBER Working Paper*, 2018.
- *The Economist*, "The Problematic Proposal", August 11th, 2016
- *The Economist*, "Hard Bargain", October 1st, 2016
- https://www.cato.org/policy-analysis/protectionism-or-national-security-use-abuse-section-232
- *Washington Post*, "Days before Europeans warned Iran of nuclear deal violations, Trump secretly threatened to impose 25% tariff on European autos if they didn't", January 15th, 2020
- *Financial Times, "*Why no one knows the source of every car part — and why it matters", February 20th, 2020

Week of April 4th, Lecture 11: Trade Policy and Political Economy During and After COVID
- **Readings for this section are preliminary and likely to be revised.**

- Module A: Supply Chains
    - *Wall Street Journal*, "An Insider Explains the Supply Chain Crisis", December 17th, 2021
    - *New York Times*, "I've Never Seen Anything Like This: Chaos Strikes Global Shipping", October 18th, 2021
    - *Financial Times*, "Critical Goods: Don't Get By on Your Own Supply", May 17th, 2021
    - Chad Bown and Thomas Bollyky "How COVID-19 vaccine supply chains emerged in the midst of a pandemic", August 2021
    - Chad Bown and Thomas Bollyky "Here's how to get billions of COVID-19 vaccine doses to the world", March, 2021

- Module B: Managed Trade and The Future of the WTO
    - Cecilia Malström, "The EU should use its trade power strategically", January 4th, 2022
    - Lawrence H. Summers "Lawrence H. Summers on Rethinking Multilateralism" (VIDEO), December 17th, 2021
    - Chad Bown and Soumaya Keynes, "Why Trump shot the sheriffs: the end of WTO dispute settlement 1.0", March 2020
    - Chad Bown, "The False Alure of Managed Trade", December 17th, 2021

- *New York Times*, "The WTO is Having a Midlife Crisis", December 17th, 2020
- Simon Lester "Some Comments on a NY Times Op-Ed on the WTO", Cato Institute, December 18th, 2020
- *Bloomberg*, "WTO Closes Darkest Chapter in Its History With Eyes on 2021 Rebirth", December 17th, 2020

- Module C: The Future of Global Supply Chainss
- *The Economist*, "Is a wave of supply chain reshoring around the corner?", December 16th, 2020
- *Wall Street Journal*, "Globalization in Retreat", December 16th, 2020
- *McKinsey*, "Globalization in transition: the future of trade and value chains", January 16th, 2019

APRIL EXAM:
TBA

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