

ECO364H1F – International Trade Theory
(This version: September 14th, 2010)
Section L0101 (Monday 2-5pm, McLennan 202)
Section L5101 (Monday 6pm-9pm, Ramsey Wright 117)

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Morrow's office hours: *Tuesday 10am-11am, Wednesday 10am-11am*
Dippel's office hours: *Fridays 2pm-4pm, 150 Saint George, Room 40 (downstairs)*

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, the gains from trade, and the relationship between trade and growth.

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. Christian will offer a brief review on the first day of class and I will post a short refresher. The administration is very strict and will not allow me to issue waivers to students who do not have all of the prerequisites.

Textbook: Krugman and Obstfeld, *International Economics: Theory and Policy*, 8th Edition, Addison Wesley, 2008 (referred to as KO in what follows)

The is available at the UoT bookshop and at the Short-Term Loan Service at the Robarts Library (3rd Floor) in very limited numbers. I do not require you to buy the newest (8th) edition of the textbook, allowing you to look for used copies online (e.g. amazon.com) at discounts. However, "buy-backs" from the bookstore are likely to apply to the 8th edition only, if at all.

Paul Krugman is an excellent writer and this (as much as anything) has led to his success as an economic commentator and academic. I will also be assigning a number of his shorter writings. While they are assigned for their economic content, pay attention to the clarity of his writing. There are also a number of web-logs (blogs) that I find useful:

Paul Krugman (Princeton University):	http://krugman.blogs.nytimes.com/
Mark Thoma (University of Oregon):	http://economistsview.typepad.com/
Nicholas Rowe (Carleton University):	http://worthwhile.typepad.com/

While you are not required to read these regularly, these blogs are useful sources of real world examples. Each contains political commentary that can be rather partisan. I am suggesting these blogs for their economic content. Their political viewpoints do not necessarily reflect mine nor those of the Department.

General issues:

1. Although the lectures will generally follow the textbook, they will depart frequently. The most priority should be paid to the lecture slides first and then the text. If something is mentioned in the text but not at all in the slides, place a lower priority on that material. 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. 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 on the test or examination 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.

3. Supplementary course materials (readings, announcements, practice problems, solutions, etc.) will be posted on a class Blackboard site. Please check these pages frequently and stay up to date with the course.

4. **All supplementary readings will be posted on the blackboard site.** The supplementary readings will 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.

5. Tutorials will occur during the last hour of class. The tutorials will be coordinated across the three sections. Feel free to attend any tutorial that works best for you although preference will be given to those who “belong” to that tutorial if there are space constraints.

6. Although there will be no graded assignments or problem sets, I will post problem sets (and solutions) to the course website every week or two. These problems are meant to provide practice with the types of questions that will appear on exams. Although you should not rely on others to do your work, feel free to work in groups. However, note that some of the problem solving practice problems will be longer than the problems that will appear on exams and are meant as problems for you to spend some time working on.

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 December exam will be comprehensive.**

8. Exam dates

Midterm exam 1:	October 25 th , 2010
End of term exam:	Date to be announced

9. Weighting Scheme:

Midterm: 40%	End of Term Exam: 60%
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10. Test Score appeals: appeals will be conducted according to the following procedure:

- Please *type* a short paragraph explaining the grievance and why you should obtain additional points. Give a hard copy of this document to me or to your TA.

- 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.

11. Important dates:

September 13 th (Monday):	Fall term classes begin
September 26 th (Sunday):	Last day to add the course
October 11 th (Monday):	No classes (Thanksgiving)
October 15 th (Friday):	December exam schedule posted
November 3 rd (Tuesday):	Last day to drop fall classes without penalty
December 7 th (Tuesday):	Classes end
December 10 th -21 st :	Final examination period

12. Email Policy:

I will do my best to 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 detailed questions, please see me or the TA in 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 see me in office hours.

14. Course etiquette and other issues

- 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.
- Switch off your mobile phone during the class. Do not text message either.
- 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.

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, all weight will be placed on the comprehensive end of term exam. 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.
- 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...” 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**. It’s webpage is <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). Also note that new policy this year requires ROSI registration for **all** sick notes. A summary of the new guidelines can be found at

<https://homes.chass.utoronto.ca/~benjamin/AbsenceMemoSept2010.pdf>.

Generally:

- 1) Students can no longer simply declare themselves as having H1N1 or flu-like symptoms.
 - 2) Students, however, will now be required to record ALL absences on ROSI, so we can track their use of sick notes.
 - 3) As the memo notes, instructors have the discretion to require whatever supporting documentation they wish. Departmental practice is to require a U of T Medical 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 selects 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.

Course Outline:

1. Introduction: facts about trade and globalisation

- KO chapters 1-2.
- Summers, "Distinguished Lecture on Economics in Government: Reflections on Managing Global Integration", *The Journal of Economic Perspectives*, Spring, 1999. Pages 1-9.
- Krugman, "Two Cheers For Formalism", mimeo MIT, 1998

2. The Ricardian Model

- KO ch 3
- *The Economist*, "[Trade winds](#)", November 6th 1997
- Krugman, [In praise of cheap labor](#), 1997

3. The Factor Proportions/Heckscher-Ohlin Model

- KO ch 4
- *The Economist*, [In the shadow of prosperity](#), January 18th, 2007

MIDTERM: October 25th

4. Trade and Wages

- KO ch 4 (pg. 66-68)
- Freeman "Are Your Wages Set in Beijing?", *The Journal of Economic Perspectives*, Summer, 1995 (pages 18-24,28-31)
- Lemieux "The Changing Nature of Wage Inequality," mimeo, UBC, 2006
- Saez and Veall "The Evolution of High Incomes in Northern America: Lessons from Canadian Evidence," *American Economic Review*, 2005
- *The Economist*, "Krugman's Conundrum", July 24th, 2008.
- Krugman "Trade and Wages, Reconsidered" February, 2008 (optional)
- Bivens "Globalization, American Wages, and Inequality", 2008 (optional)

5. Outsourcing/Offshoring

- Blinder "Offshoring: The Next Industrial Revolution?" *Foreign Affairs*, Vol. 85, No. 2, March/April, 2006, pg. 113-128
- Blinder "How Many Jobs Might be Offshorable?", *working paper*, March 2007

6. Trade under Imperfect Competition

- KO ch. 6

7. Trade Policy

- KO ch. 8 (instruments)
- KO ch. 9 (politics)
- *The Economist*, "Weighing Up the WTO", November 22nd, 2002
- *The Economist*, "Is There Any point to the WTO?", August 4th, 2005

8. Growth and Trade

- Baldwin, Robert "Openness and Growth: What's the Empirical Relationship?" National Bureau of Economic Research working paper #9578, March 2003.

9. Firm Heterogeneity and Trade

- Virginia Postel, "Economic Scene", New York Times, January 27th 2005, Page C2.

**DECEMBER EXAM:
To Be Announced.**