

Topics in International Economics (ECO2304H)

Instructor:

Daniel Trefler

Office Hours: Tuesdays 1:00-2:00, Rotman 576

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Course Description:

This course covers key topics of current interest (both research and policy/media interest). Topics covered include the new theories of (1) firm-level comparative advantage and (2) offshore outsourcing and multinational activities. Both the theories and their empirical support will be carefully examined. Additional topics may include the impact of international trade on domestic institutions (including political outcomes) and the role of quality in trade.

Each lecture will provide in-depth coverage of a key recent contribution; students will be expected to do the readings in advance. The course is oriented towards Ph.D. students interested in original research in the field; however, interested M.A. students are encouraged to enroll.

Prerequisite:

ECO2304 will have ECO2300 as a pre-requisite. It will be open to all students, though M.A. students are encouraged to consult with the instructor.

Readings:

- There is usually one required reading per week. Additional readings, not required, are listed with brackets [].

Part I. Firm Heterogeneity and International Trade

1. Introduction: Empirical Evidence on Firm Heterogeneity

- Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding, and Peter K. Schott, "Firms in International Trade," *Journal of Economic Perspectives*, Summer 2007, 21 (3), 105–130.
- [Helpman, Elhanan, "Trade, FDI and the Organization of Firms," *Journal of Economic Literature*, September 2006, XLIV (3), 589–630.]

2. The Melitz Model

- Melitz, Marc J., "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, November 2003, 71 (6), 1695–1725.

3. Exporting and Productivity

- Lileeva, Alla and Daniel Trefler, "Improved Access to Foreign Markets Raises Plant-Level Productivity ... for Some Plants," *Quarterly Journal of Economics*, August 2010, CXXV (3), 1051–1100.
- [Clerides, Sofronis, Saul Lach, and James R. Tybout, "Is Learning by Exporting Important? Micro-dynamic Evidence from Colombia, Mexico, and Morocco," *Quarterly Journal of Economics*, August 1998, 113 (3), 903–947.]
- [Bernard, Andrew B. and J. Bradford Jensen, "Exceptional Exporter Performance: Cause, Effect, or Both?," *Journal of International Economics*, February 1999, 47 (1), 1–25.]

4. A Variable Markup Model

- Melitz, Marc J. and Giancarlo I. P. Ottaviano, "Market Size, Trade, and Productivity," *Review of Economic Studies*, 2008, 75 (1).

5. Empirical Tests

6. Ricardian Models

- Eaton, Jonathan and Samuel Kortum, "Technology, Geography, and Trade," *Econometrica*, September 2002, 75 (5), 1741–1779.

7. Suggestions for Student Presentations

- Bernard, Andrew B. and Stephen J. Redding, and Peter K. Schott, "Comparative Advantage and Heterogeneous Firms Comparative Advantage and Heterogeneous Firms," *Review of Economic Studies*, January 2007, 74 (1), 31–66.
- Chaney, Thomas, "Distorted Gravity: The Intensive and Extensive Margins of International Trade," *American Economic Review*, September 2008, 98 (4), 1707–21.
- Arkolakis, Costas, "Market Penetration Costs and the New Consumers Margin in International Trade," *Journal of Political Economy*, forthcoming.
- Helpman, Elhanan, Marc J. Melitz, and Stephen R. Yeaple, "Export versus FDI with Heterogeneous Firms," *American Economic Review*, 2004, 94 (1), 300–316.

- Helpman, Elhanan, Marc Melitz, and Yona Rubinstein, “Estimating Trade Flows: Trading Partners and Trading Volumes,” *Quarterly Journal of Economics*, May 2008, 123 (2), 441–487.
- Eaton, Jonathan and Samuel Kortum and Francis Kramarz, “An Anatomy of International Trade: Evidence from French Firms,” *Econometrica*, forthcoming.
- Bernard, Andrew B. and Jonathan Eaton, Bradford Jensen, and Samuel Kortum, “Plants and Productivity in International Trade,” *American Economic Review*, September 2003, 93 (4), 1268–1290.

Part II. Incomplete Contracts, Multinationals, Outsourcing and International Trade

1. The Property Rights Approach

- Antràs, Pol, “Firms, Contracts, and Trade Structure,” *Quarterly Journal of Economics*, November 2003, 118 (4), 1375–1418.
- Antràs, Pol and Elhanan Helpman, “Global Sourcing,” *Journal of Political Economy*, 2004, 112, 552–580.
- Nunn, Nathan and Daniel Trefler, “The Boundaries of the Multinational Firm: An Empirical Analysis,” in Elhanan Helpman, Dalia Marin, and Thierry Verdier, eds., *The Organization of Firms in the Global Economy*, Cambridge, MA: Harvard University Press, 2008, pp. 55–83.
- [Antràs, Pol and Elhanan Helpman, “Contractual Frictions and Global Sourcing,” in Elhanan Helpman, Dalia Marin, and Thierry Verdier, eds., *The Organization of Firms in the Global Economy*, Cambridge, MA: Harvard University Press, 2008, pp. 9–54.]
- [Acemoglu, Daron, Pol Antràs, and Elhanan Helpman, “Contractual Frictions and Global Sourcing,” *American Economic Review*, 2007, 97, 916–943.]

2. Suggestions for Student Presentations

- Manova, Kalina, “Credit Constraints, Heterogeneous Firms, and International Trade,” Working Paper 14531, National Bureau of Economic Research, December 2008.

Part III. Quality Differentiation, Economic Development and International Trade

1. Quality Within a CES Setting

- Johnson, Robert C., “Trade and Prices with Heterogeneous Firms,” 2009. Mimeo, Dartmouth College.

2. Multinomial Logit Approaches

- Berry, Steven T., “Estimating Discrete Choice Models of Product Differentiation,” *RAND Journal of Economics*, Summer 1994, 25 (2), 242–262.

- Fajgelbaum, Pablo D., Gene M. Grossman, and Elhanan Helpman, “Income Distribution, Product Quality, and International Trade,” Working Paper 15329, National Bureau of Economic Research, September 2009.
- Khandelwal, Amit, “The Long and Short (of) Quality Ladders,” *Review of Economic Studies*, October 2010, 77 (4), 1450–1476.

3. Economic Development

- Sutton, John and Daniel Trefler, “Deductions from the Export Basket: Capabilities, Wealth and Trade,” Mimeo, 2011.

4. Suggestions for Student Presentations

- Berry, Steven, James Levinsohn, and Ariel Pakes, “Voluntary Export Restraints on Automobiles: Evaluating a Trade Policy,” *American Economic Review*, June 1999, 89, 400–430.
- Kremer, Michael, “The O-Ring Theory of Economic Development,” *Quarterly Journal of Economics*, August 1993, 108 (3), 551–75.

Part IV. Domestic Institutions and International Trade

1. Political Economy of Protection

- Stigler, George J., “The Theory of Economic Regulation,” *Bell Journal of Economics and Management Science*, Spring 1971, 2 (1), 3–21.
- Grossman, Gene M. and Elhanan Helpman, “Protection for Sale,” *American Economic Review*, September 1994, 84 (4), 833–850.
- [Trefler, Daniel, “Trade Liberalization and the Theory of Endogenous Protection: An Econometric Study of U.S. Import Policy,” *Journal of Political Economy*, February 1993, 101 (1), 138–160.]
- [Goldberg, Pinelopi and Giovanni Maggi, “Protection for Sale: An Empirical Investigation,” *American Economic Review*, December 1999, 89 (5), 1135–1155.]

2. The Impact of Institutions on Trade

- Nunn, Nathan, “Relationship-Specificity, Incomplete Contracts, and the Pattern of Trade,” *Quarterly Journal of Economics*, May 2007, 122 (2), 569–600.

3. The Impact of Trade on Institutions

- Acemoglu, Daron, Simon Johnson, and James A. Robinson, “The Rise of Europe: Atlantic Trade, Institutional Change and Economic Growth,” *American Economic Review*, June 2005, 95 (3), 546–579.
- Nunn, Nathan and Daniel Trefler, “The Political Economy of Tariffs and Long-Term Growth,” *American Economic Journal: Macroeconomics*, forthcoming.
- Puga, Diego and Daniel Trefler, “The Dynamics of International Trade, Income Distribution and Domestic Institutions: A Death in Venice,” 2010. Mimeo, University of Toronto.