

School of Economics and Finance

ECON 412 - International Economics A

Trimester 1 2006

COURSE OUTLINE

Contact Details

Coordinator/Lecturer:	Office:	RH 404
Yuliya Meshcheryakova	Extension:	6436
	Email:	Yuliya.Meshcheryakova@vuw.ac.nz
	Office Hours:	Wednesday 2:30 to 4:30 (or by appointment)

Class Times and Room Numbers

Wednesday 11:30 to 13:20, RWW 126. Lectures are expected to last between 2 and 3 hours. The final examination will be held during the mid-year exam period.

Course Objectives

By the end of the course students should:

- 1) Have an understanding of recent developments in international trade theory,
- 2) Be able to apply this understanding to current issues and debates in trade theory,
- 3) Have demonstrated this understanding with well-argued discussion and formal analysis, particularly in writing but also in class discussion.

Course Content

The first part of the course covers the basic international trade models. The second part deals with policy issues, including strategic trade policy, the role of imperfect competition, and the political economy angle. The third part covers a few topics from the recent trade literature including trade and the environment, contracting in trade and outsourcing, and trade and geography.

Readings

1. Textbooks

The Main text (required) is:

Feenstra, R. *Advanced International Trade: Theory and Evidence*. 2004, Princeton University Press

The following texts are recommended but not required:

Helpman, E. and P. Krugman. *Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition, and the International Economy*. MIT Press 1985 (referred below as H&K)

Jones, R.W. and P.B. Kenen (eds). *Handbook of International Economics, vol.1*. North-Holland, 1984 (referred below as J&K)

Grossman, G. and K. Rogoff (eds). *Handbook of International Economics, vol.3*. North-Holland, 1995 (referred below as G&R)

Krugman, P. *Geography and Trade*. MIT Press, 1991

Copeland, B. and M.S. Taylor. *Trade and the Environment*. Princeton University Press, 2003

2. Journal Articles and Lecture Outline

The following abbreviations are used for journal titles:

AER – American Economic Review

JPE –Journal of Political Economy

JIE –Journal of International Economics

EMA –Econometrica

QJE – Quarterly Journal of Economics

JDE – Journal of Development Economics

JEP – Journal of Economic Perspectives

JET – Journal of Economic Theory

1. THE BASIC MODELS

(a) *Comparative Advantage and Ricardian Model*

- Feenstra, Chapter 1, pp.1-4
- Dornbusch, R., S. Fischer, and P.A. Samuelson, “Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods”, AER, 1977 (Dec)
- Jones, R.W. and J.P. Neary, “The Positive Theory of International Trade”, Chapter 1 in *J&K*, pp.10-14
- Krishna, K. and C. Yavas. “When Trade Hurts: Consumption Indivisibilities and Labour Market Distortions”, JIE, 2005 (Dec), pp. 413-427
- Samuelson, Paul A., Summer 2004. “Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization”, JEP, Vol. 18, No. 3, 135-146.

(b) *Heckscher-Ohlin Model*

- Feenstra, Chapters1-3
- Jones, R.W., “The Structure of Simple General Equilibrium Models”, JPE, 1965 (Dec)
- Jones, R.W. and J.P. Neary, “The Positive Theory of International Trade”, Chapter 1 in *J&K*, pp.14-21
- Ethier, W.J., “Higher Dimensional Issues in Trade Theory”, Chapter 3 in *J&K*

(c) *The Specific Factors Model*

- Feenstra, Chapter 3, pp.72-75
- Jones, R.W. and J.P. Neary, “The Positive Theory of International Trade”, Chapter 1 in *J&K*, pp.21-27

- Matsuyama, K., “Agricultural Productivity, Comparative Advantage, and Economic Growth”, JET, December 1992

(d) Empirical Evidence

- Feenstra, Chapters 2-3
- Eaton, J. and S. Kortum, “Technology, Geography, and Trade”, EMA, 2002 (Sept)
- Trefler, D., “The Case of Missing Trade and Other Mysteries”, AER, 1995 (Dec)
- Davis, D. and D. Weinstein, “An Account of Global Factor Trade”, AER, 2001 (Dec)
- Leamer, E. and J. Levinsohn, “International Trade Theory: The Evidence”, Chapter 26 in *G&R*

2. IMPERFECT COMPETITION AND TRADE

- Feenstra, Chapter 5, pp.138-141, Chapter 6, pp.200-204
- H&K, Chapters 1-11
- Krugman, P., “Increasing Returns, Imperfect Competition and the Positive Theory of International Trade”, Chapter 24 in *G&R*
- Krugman, P., “Increasing Returns, Monopolistic Competition, and International Trade”, JIE, 1979 (Nov)
- Melitz, M., “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity”, EMA, 2003 (Nov)
- Helpman, E., “Monopolistic Competition in Trade Theory”, International Finance Section, Princeton University, Special Papers in International Finance, No. 16, June 1990

3. TRADE POLICY WITH IMPERFECT COMPETITION

- Feenstra, Chapters 7-8
- Brander, J. and P. Krugman, “A Reciprocal Dumping Model of International Trade”, JIE, 1983 (15)
- Brander, J., “Strategic Trade Policy”, Chapter 27 in *G&R*
- Brander, J. and B. Spencer, “Export Subsidies and International Market Share Rivalry”, JIE, 1985 (Feb)

4. THE POLITICAL ECONOMY OF TRADE POLICY

- Feenstra, Chapter 9
- Rodrik, D. “Political Economy of Trade Policy”, Chapter 28 in *G&R*
- Grossman, G and E. Helpman, “Protection for Sale”, AER, 1994 (Sept)

5. OTHER DETERMINANTS OF TRADE PATTERNS

(a) Trade and the Environment

- Brander, J. and M.S. Taylor, “The Simple Economics of Easter Island: A Ricardo-Malthus Model of Renewable Resource Use”, AER, 1998
- Copeland, B. and M.S. Taylor, Trade and the Environment, Princeton University Press, 2003
- Copeland, B. and M.S. Taylor, “North-South Trade and the Environment”, QJE, 1994
- Copeland, B. and M.S. Taylor, “Trade and Transboundary Pollution”, AER, 1995(Sept)
- Antweiler, W., B. Copeland and M.S. Taylor, “Is Free Trade Good for the Environment?”, AER, 2001 (Sept)

(b) Trade and Geography

- Krugman, P., “Increasing Returns and Economic Geography”, JPE, 1991
- Krugman, P. Geography and Trade, MIT Press, 1991
- Matsuyama, K., “Geography of the World Economy”, working paper
- Matsuyama, K., “Why Are There Rich and Poor Countries?: Symmetry-Breaking in the World Economy”, Journal of the Japanese and International Economies, 1996
- Ottaviano, G.I.P. and Diego Puga, “Agglomeration in the Global Economy: A Survey of the ‘New Economic Geography’”, World Economy 21(6), 1998, pp. 707-731

(c) Hysteresis in Trade

- Baldwin, R. and P. Krugman “Persistent Trade Effects of Large Exchange Rate Shocks”, QJE, 1989 (Nov)

(d) Trade and Labour Markets

- Davis, D., “Does European Unemployment Prop up American Wages? National Labour Markets and Global Trade”, AER, 1998 (June)

(e) Contracting and Trade

- McLaren, J., “Globalization and Vertical Structure”, AER, 2000 (Dec)
- Grossman, G. and E. Helpman, “Integration versus Outsourcing in Industry Equilibrium”, QJE, 2002 (Feb)
- Antras, P., “Firms, Contracts, and Trade Structure”, QJE 2003 (Nov)
- Kei-Mu Yi, “Can Vertical Specialization Explain the Growth of World Trade?”, JPE 2003 (Feb)

(f) International Trade and Human Capital

- Findlay, R. and H. Kierzkowski, “International Trade and Human Capital: A Simple General Equilibrium Model”, JPE, 1983, vol. 91 (6)

(g) Credit Constraints and Trade

- Ranjan P., “Trade Induced Convergence through Human Capital Accumulation in Credit-constrained Economies”, JDE, 2003, pp.139-162
- Ranjan, P., “Dynamic Evolution of Income Distribution and Credit-constrained Human Capital Investment in Open Economies”, JIE, 2001, pp.329-358
- Matsuyama, K., “Financial Market Globalization, Symmetry Breaking and Endogenous Inequality of Nations”, EMA, 2004 (May)

(h) Trade and Endogenous Growth

- Feenstra, Chapter 10
- Acemoglu, D., “Patterns of Skill Premia”, Review of Economic Studies, vol. 70, pp. 199-230, 2003 (Apr)

Materials and Equipment

No materials or calculators may be taken into the final exam.

Assessment Requirements

The final mark in this course will be calculated using the results of coursework and a final examination as follows:

Final 2-hour Examination: 60%
Coursework: 40% (2 Assignments 10% each, Class Presentation 10%, Class Discussion 10%)

There will be two home assignments to be turned in.

Each student will be also required to present in class a critical summary and analysis of a journal article chosen from the list provided by the lecturer.

There will be a class discussion on the subject of international outsourcing in the second half of the class. Students will be asked to prepare a concise essay on the topic, elaborating on a list of issues provided by the lecturer, and participate in the class discussion of those issues. Students are expected to perform an independent search for the reading materials on the subject.

Penalties

Late work will be accepted without penalty with good reason (e.g., a medical certificate) and prior permission. In other cases the assignments handed in late will not be marked and the assignment score will be recorded as 0.

Preparation

It is expected that students will devote 10 to 15 hours per week of independent study time to this course.

It will be assumed that students have taken courses in microeconomic theory or have the equivalent background (ECON 309 or ECON 314 or ECON 201 are formal prerequisites). A working knowledge of multivariable calculus and linear algebra is also required. Students who feel that they lack sufficient background should contact the lecturer.

Communication of Additional Information

Information on the course, including assignments and lecture notes, will be distributed via <http://blackboard.vuw.ac.nz/>.

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student Administration Office

The Student Administration Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the office on (04) 463 5376.

Easterfield (EA) - FCA/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce & Administration and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- FCA Student Administration forms (e.g. application for academic transcripts, requests for degree audit, COP requests).

- Examinations-related information during the examination period.

Check with the Student Administration Office for opening times (04) 463 5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly those regarding assessment and course of study requirements, and formal academic grievance procedures.

Student Conduct and Staff Conduct

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps can be taken if there is a complaint. For queries about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor. This Statute is available in the Faculty Student Administration Office or on the website at: www.vuw.ac.nz/policy/StudentConduct.

The policy on Staff Conduct can be found on the VUW website at: www.vuw.ac.nz/policy/StaffConduct.

Academic Grievances

If you have any academic problems with your course you should talk to the tutor or lecturer concerned or, if you are not satisfied with the result of that meeting, see the Head of School or the Associate Dean (Students) of your Faculty. Class representatives are available to assist you with this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website:

www.vuw.ac.nz/policy/AcademicGrievances.

Academic Integrity and Plagiarism

Academic integrity is about honesty – put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. Plagiarism is **prohibited** at Victoria.

The University defines plagiarism as follows:

Plagiarism is presenting someone else's work as if it were your own, whether you mean to or not.

'Someone else's work' means anything that is not your own idea, even if it is presented in your own style. It includes material from books, journals or any other printed source, the work of other students or staff, information from the Internet, software programmes and other electronic material, designs and ideas. It also includes the organization or structuring of any such material.

Plagiarism is not worth the risk.

Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct (www.vuw.ac.nz/policy/studentconduct) and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- suspension from class or university
- cancellation of your mark for an assessment or a fail grade for the course.

Find out more about plagiarism and how to avoid it, on the University's website at: www.vuw.ac.nz/home/studying/plagiarism.html.

Students with Disabilities

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities an equal opportunity with all other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, then please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services to confidentially discuss your individual needs and the options and support that are available. Disability Support Services are located on Level 1, Robert Stout Building, or phoning 463-6070, email: disability@vuw.ac.nz. The name of your School's Disability Liaison Person can be obtained from the Administrative Assistant or the School Prospectus.

Student Support

Staff at Victoria want students' learning experiences at the University to be positive. If your academic progress is causing you concern, please contact the relevant Course Co-ordinator, or Associate Dean who will either help you directly or put you in contact with someone who can.

The Student Services Group is also available to provide a variety of support and services. Find out more at www.vuw.ac.nz/st_services/ or email student-services@vuw.ac.nz.

VUWSA employs two Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and faculty delegates. The Education Office is located on the ground floor, Student Union Building, phone 463 6983 or 463 6984, email education@vuwsa.org.nz.

Manaaki Pihipihinga Maori and Pacific Mentoring programme (Faculties of Humanities and Social sciences and Commerce and Administration).

- **What:** Academic Mentoring for Maori and Pacific students studying at all levels in the above faculties. Weekly sessions for an hour with a mentor to go over assignments and any questions from tutorials or lectures. Registered students can use the faculty's study rooms and computer suite at any time at Kelburn and Pipitea.
- Mature student and Post grad network

If you would like to register as a mentor or mentee please contact the coordinator.

Where:

Melissa Dunlop
Programme Coordinator
Room 109 D
14 Kelburn Parade: back courtyard
Ph: (04) 463 6015
Email: Maori-Pacific-Mentoring@vuw.ac.nz

Please Note: A mentoring room will also be running at Pipitea Campus starting January.
Please contact the Programme Coordinator for details.