

School of Economics and Finance

ECON 412 - International Economics A

Trimester One 2007

COURSE OUTLINE

Contact Details

Coordinator/Lecturer:	Office:	RH 404
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	Office Hours:	By appointment

Class Times and Room Numbers

Thursday 3:40 to 6:30, RWW 220. 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.

Expected Workload

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.

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

JEL – Journal of Economic Literature

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
- 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)
- Alvarez, F. and R. Lucas, Jr. “General Equilibrium Analysis of the Eaton-Kortum Model of International Trade”, *NBER Working Paper 11764*, 2005 (Nov)
- 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
- Ethier, W., “Decreasing Costs in International Trade and Frank Graham’s Argument for Protection”, *EMA*, 1982 (Sept)
- Krugman, P., “History Versus Expectations”, *QJE*, 1991 (May)
- 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)
- Krugman, P., “Scale Economies, Product Differentiation, and the Pattern of Trade”, *AER*, 1980 (Dec)
- 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. ARGUMENTS FOR AND AGAINST FREE TRADE

- Feenstra, Chapter 6
- Krugman, P., “The Narrow and Broad Argument for Free Trade”, *AER*, 1993 (May)
- Krugman, P., “Is Free Trade Passe?”, *JEP*, 1987 (Autumn)
- Deardorff, A. and R. Stern, “What You Should Know about Globalization and the World Trade Organization”, *Review of International Economics*, 2002, Vol. 10 (3)
- Deardorff, A., “Benefits and Costs of Following Comparative Advantage”, *University of Michigan, School of Public Policy, Research Seminar in International Economics Discussion Paper No. 423*, 1998 (Jan)
- Javorcik, B., W. Keller and J. Tybout, “Openness and Industrial Response in a Wal-Mart World: A Case Study of Mexican Soaps, Detergents and Surfactant Producers”, *NBER Working Paper 12457*, 2006 (Aug)

- Krishna, K. and C. Yavas. “When Trade Hurts: Consumption Indivisibilities and Labour Market Distortions”, JIE, 2005 (Dec), pp. 413-427

4. 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)

5. THE POLITICAL ECONOMY OF TRADE POLICY

- Feenstra, Chapter 9
- Rodrik, D. “Political Economy of Trade Policy”, Chapter 28 in *G&R*
- Fernandez, R. and D. Rodrik, “Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty”, AER, 1991 (Dec)
- Grossman, G. and E. Helpman, “Protection for Sale”, AER, 1994 (Sept)
- Goldberg, P.K. and G. Maggi, “Protection for Sale: An Empirical Investigation”, AER, 1999 (Dec)

6. 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, Growth, and the Environment”, JEL, 2004 (Mar)
- 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)
- Lucas, R., Jr., “Making a Miracle”, EMA, 1993 (Mar)

(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 participate in the class discussion of a list of issues provided by the lecturer; they may also be asked to prepare a concise essay on the topic, elaborating on 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.

Mandatory Course Requirements

Presentation of a journal article chosen from the list provided by the lecturer is a necessary condition for passing the course.

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 and Academic Services Office

The Faculty's Student and Academic Services 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 Student and Academic Services Office on (04) 463 5376.

Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education 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.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar or go to www.vuw.ac.nz/policy.

For information on the following topics, go to the Faculty's website www.vuw.ac.nz/fca under Important Information for Students:

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

Manaaki Pihipihinga Programme

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email manaaki-pihipihinga-programme@vuw.ac.nz or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.