

School of Economics and Finance

## **ECON 412 INTERNATIONAL ECONOMICS A**

Trimester One 2008

### **COURSE OUTLINE**

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#### **Contact Details**

Coordinator/Lecturer:  
Yuliya Moore

Office: RH 404  
Extension: 6436  
Email: [Yuliya.Moore@vuw.ac.nz](mailto:Yuliya.Moore@vuw.ac.nz)  
Office Hours: By appointment

#### **Class Times and Room Numbers**

Monday 13:40 to 16:30, RWW 126.

Lectures are expected to last between 2 and 3 hours.

The final examination will be held during the mid-year exam period 6<sup>th</sup> – 26<sup>th</sup> June 2008.

#### **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, for instance, trade and the environment, contracting in trade and outsourcing, and trade and geography.

#### **Expected Workload**

It is estimated that the workload will average out at approximately 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)
- Trebler, 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 programmable calculators may be taken into the final exam. The use of non-programmable calculators during the final exam will be specified at a later date.

**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, Essay (and its subsequent presentation in class) 20%)

There will be two home assignments to be turned in.

Each student will be also required to write and present in class a critical review and analysis of a journal article / articles chosen by the lecturer. Further details will be provided separately. The essay may be checked for academic integrity by the electronic search engine <<http://www.turnitin.com>>.

### **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**

Submission of the two home assignments and the essay/critical review 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 on the ground floor (EA005). This counter is the first point of contact for :

- 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.

### **Notice of Turnitin Use**

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <<http://www.turnitin.com>>. Turnitin is an on-line plagiarism prevention tool which identifies material that may have been copied from other sources including the Internet, books, journals, periodicals or the work of other students. Turnitin is used to assist academic staff in detecting misreferencing, misquotation, and the inclusion of unattributed material, which may be forms of cheating or plagiarism. *At the discretion of the School, handwritten work may be copy typed by the School and subject to checking by Turnitin.* You are strongly advised to check with your tutor or the course coordinator if you are uncertain about how to use and cite material from other sources. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

### **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.victoria.ac.nz/home/about/policy/students.aspx](http://www.victoria.ac.nz/home/about/policy/students.aspx)

For information on the following topics, go to the Faculty's website [www.victoria.ac.nz/fca](http://www.victoria.ac.nz/fca) under Important Information for Students:

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

### **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. The University defines plagiarism as follows:

*The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other students or staff.*

It is still plagiarism even if you re-structure the material or present it in your own style or words.

*Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.*

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalized severely. Consequences of being found guilty of plagiarism can include:

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

Find out more about plagiarism, and how to avoid it, on the University's website: [www.victoria.ac.nz/home/studying/plagiarism.html](http://www.victoria.ac.nz/home/studying/plagiarism.html)

### **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](mailto:manaaki-pihipihinga-programme@vuw.ac.nz) or phone (04) 463 6015. To contact the Pacific Support Coordinator, email [pacific-support-coord@vuw.ac.nz](mailto:pacific-support-coord@vuw.ac.nz) or phone (04) 463 5842.