

School of Economics and Finance

## **ECON 412 INTERNATIONAL ECONOMICS A**

Trimester One 2010

### **COURSE OUTLINE**

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**Paul Tompkinson, RH 403, extn: 5737, email: [Paul.Tompkinson@vuw.ac.nz](mailto:Paul.Tompkinson@vuw.ac.nz).  
Office hours 9-00am to 11-30am.**

#### **Trimester Dates**

Teaching Period: Monday 1 March - Friday 4 June 2010

Study Period: Monday 7 June - Thursday 10 June 2010

Examination Period: Friday 11 June - Wednesday 30 June (inclusive)

#### **Withdrawal from Courses:**

Information available via

**Withdrawal dates: Late withdrawals with Associate Dean (Students) permission  
(See Section 8: Withdrawals - from the Personal Courses of Study Statute)**

<http://policy.vuw.ac.nz/Amphora!~policy.vuw.ac.nz~POLICY~000000001743.pdf>

**Withdrawal dates: refunds:**

<http://www.victoria.ac.nz/home/admisenrol/payments/withdrawalsrefunds.aspx>

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

Lectures 10-30 to 12-20, Tuesdays, RWW 415

#### **Course Learning Objectives**

By the end of this course students should be able to

- understand both the traditional and modern approaches to the analysis of international trade.
- apply this analysis to understanding the causes of international trade.
- evaluate the positive effects of government policies relating to international trade.
- assess the normative implications of policies relating to international trade.

#### **Course Delivery**

Class times will consist of a mixture of lectures, discussion and student presentations

#### **Course Content**

The readings given below that are underlined are those which you should have read before attending the relevant session. This material is reprinted in the Course

**Handbook which can be purchased from the Pipitea Bookstore.** For complete details of those references which end [JK], [GW] etc. see the section below titled, **Reading: Surveys.**

The sessions will consist in part of lectured material in which certain issues in the prescribed reading will be amplified and in part of a class discussion of the prescribed reading.

As not all students have done an undergraduate course in pure trade theory the first three weeks will be devoted to reviewing the material covered in such courses. Any student who has not already taken a course in trade theory should use these weeks to read the relevant chapters of one of the following texts.

R. E. Caves and R. W. Jones, 1996, *World Trade and Payments*, Seventh Edition, Little Brown, CHs. 1 to 7, 11, 12.

P. R. Krugman and M. Obstfeld, 1997, *International economics*, Fourth Edition., Harper Collins, CHs. 1 to 5, 8, 9.

J. R. Markusen and J. R. Melvin, 1988, *The Theory of International Trade*, Harper and Row, CHs 1-9, 14, 15.

### **Week beginning 1 Mar: Standard trade theory 1**

Partial equilibrium trade models.

A GE model of (1) a closed economy, (2) a small open economy and (3) a two country trading model.

Some analytical tools: cost functions, expenditure functions, revenue functions, the properties of constant returns production functions.

W. J. Ethier, 1995. Appendix I "A Survey of the Pure Theory of International Trade".

R. Findlay, 1970, "The General Equilibrium of Resource Allocation, Production and Trade" from *Trade and Specialisation*, Harmondsworth, Penguin.

1PE MODELS in Course Documents

E412 LECT 1 in Course Documents

### **Week beginning 8 Mar: Standard trade theory 2**

The main trade theorems

W. J. Ethier, 1995. Appendix I "A Survey of the Pure Theory of International Trade".

4HOM in Course Documents

E412 LECT 2 in Course Documents

R. E. Falvey, "The Theory of International Trade", Ch. 2 in [GW].

### **Week beginning 15 Mar: Standard trade theory 3**

Specific factors/Three factor model

Gains from trade

Theory of domestic distortions

3SPEC FACT in Course Documents

7GAINS FROM TRADE in Course Documents

E412 LECT 3 in Course Documents

W. M. Corden, "The Normative Theory of International Trade", p. 65-100, Ch. 2 in [JK].

### **Week beginning 22 Mar: Imperfect Competition and Trade**

P. R. Krugman, "Increasing Returns and the Theory of International Trade, Ch. 5 in [RIT].

P. R. Krugman, Part I of [RIT].

P. R. Krugman, 1995, "Increasing Returns, Imperfect Competition and the Positive Theory of International Trade", Ch. 24 in [GR].

A. Smith, "Imperfect Competition and Trade, Ch. 3 in [GW].

Vousden, Ch 6 "Oligopoly" and Ch. 7 "Monopolistic Competition".

5INC RETURNS & IMP COMP in Course Documents

E412 LECT 4 in Course Documents

### **Week beginning 29 Mar: Trade Policy under Imperfect Competition**

P. R. Krugman, 1989, "Industrial Organisation and Industrial Trade", from R. Schmalensee and R. D. Willig (eds.), *Handbook of Industrial Organisation, Volume II*, Amsterdam, North Holland.

K. Cowling and R. Sugden, 1998, "Strategic Trade Policy Reconsidered: National Rivalry vs Free Trade vs International Competition, *Kyklos*, 51, 339-357.

J. A. Brander, "Strategic Trade Policy", Ch. 27 in [GR].

D. Laussier and C. Montet, "Strategic Trade Policies, Ch. 7 in [GW].

P. R. Krugman, Part IV of [RIT].

5INC RETURNS & IMP COMP in Course Documents

E412 LECT 4 in Course Documents

### **Week beginning 19 Apr: Trade and the Environment**

H. Daly, 1997, "Reconciling Internal and External Policies for Sustainable Development", Ch. 2 in A. K. Dragun and K. M. Jacobson (eds.) *Sustainability and Global Environmental Policy*, Edward Elgar, Cheltenham.

P. Brenton, H. Scott, and P. Sinclair, 1997, "Trade and the Environment", from *International Trade*, Oxford, Oxford University Press.

K. Anderson and R. Blackhurst, 1992, Chs. 1 and 2, *The Greening of World Trade Issues*, Harvester Wheatsheaf, Hemel Hempstead.

Esty, D. C., 1994, *Greening the GATT: Trade Environment and the Future*, Institute for International Economics, Washington DC.

P. Uimonen and J. Whalley, 1997, Ch. 1, *Environmental Issues in the New World Trading System*, Macmillan, London.

9TRADE & ENVIRON in Course Documents

### **Week beginning 26 Apr: Factor Mobility and International Trade**

J. Bhagwati, 1979, "International Factor Movements and National Advantage", *Indian Economic Review*, 14, 73-100. Reprinted in *International Factor Mobility*, 1987, Cambridge, Massachusetts, MIT Press.

A. Razin and E. Sadka, "International Migration and International Trade", Ch. 15 in M. R. Rozenweig and O. Stark (eds.) *Handbook of Population Economics*, North Holland, Amsterdam.

6FACTOR MOBILITY in Course Documents

### **Week beginning 3 May: The Impact of Globalisation**

D. Rodrik, 1997, Ch 2 from, *Has Globalisation Gone Too Far?* , Institute for International Economics, Washington

D. Rodrik, 1998, "Sense and Nonsense in the Globalisation Debate", in *Economics 99/99*, McGraw Hill.

D. Rodrik, 2000, "How Far Will International Economic Integration Go?", *Journal of Economic Perspectives*, 14, 177-186.

### **Week beginning 10 May: The Political Economy of Trade Policy**

D. Rodrik, "Political Economy of Trade Policy", Ch. 28 in [GR].

R. E. Baldwin, 1989, "The Political Economy of Trade Policy", *Journal of Economic Perspectives*, 3, pp.119-135.

J. Gibson and R. Lattimore, 1991, "Causes of the Pattern of Manufacturing Industry Assistance in New Zealand 1981/2", *New Zealand Economic Papers*, 25, 100-122.

D. Mabbett, 1995, *Trade Employment and Welfare*, Clarendon Press, Oxford.

S. P. Magee, "The Political Economy of Trade Policy", Ch. 6 in [GW].

### **Week beginning 17 May: International Trade and Technological Change**

S. Dowrick, 1997, "Trade and Growth a Survey", from J. Fagerberg, P. Hansson, L. Lundberg and A. Melchior (eds), *Technology and International Trade*, Cheltenham, Edward Elgar.

G. M. Grossman and E. Helpman, 1990, "Trade Innovation and Growth", *American Economic Review*, Papers and Proceedings, 80, 86-91

G. Dosi, K. Pavitt and L. Soete, 1990, *The Economics of Technical Change*, Harvester Wheatsheaf, New York.

G. M. Grossman and E. Helpman, 1991, CHs. 1 and 13 in *Innovation and Growth in the Global Economy*, MIT Press, Cambridge Mass.

G. M. Grossman and E. Helpman, "Technology and Trade". Ch. 25 in [GR].

P. R. Krugman, "Technological Change in International Trade", in P. Stoneman (ed.) *Handbook of the Economics of Innovation and Technical Change*, 1995, Blackwell, Oxford.

P. R. Krugman, Parts II and III of [RIT].

G. D. Snooks, 1993, *Economics Without Time*, London, MacMillan.

### **Week beginning 24 May: Is Free Trade Passé?**

K. Cowling and R. Sugden, 1998, "Strategic Trade Policy Reconsidered: National Rivalry vs Free Trade vs International Competition", *Kyklos*, 51, 339-357.

J. Komlos, 1988, "Comment on 'Is Free Trade Passé?'" , *Journal of Economic Perspectives*, 2, pp.207-209.

P. R. Krugman, (2), 1987, "Is Free Trade Passé?", *Journal of Economic Perspectives*, 1, pp.131-144.

### **Week beginning 31 May: Review of Course Material**

#### **Reading: Texts**

R. N. Batra, 1973, *Studies in the Pure Theory of International Trade*, London, Macmillan.

J. Bhagwati and T. N. Srinivasan, 1983, *Lectures on International Trade*, MIT Press.

P. Brenton, H. Scott and P. Sinclair, 1997, *International Trade: A European Text*, Oxford, Oxford University Press.

M. Chacholiades, 1978, *International Trade Theory and Policy*, Tokyo, McGraw Hill.

A. K. Dixit and V. Norman, 1980, *Theory of International Trade*, Cambridge University Press.

W. J. Ethier, 1995, *Modern International Economics*, Third Edition, Norton.

E. Helpman and P. R. Krugman, 1992, *Trade Policy and Market Structure*, MIT Press.

J. R. Markusen and J. R. Melvin, 1988, *The Theory of International Trade*, Harper and Row.

M. Mikic, 1998, *International Trade*, Basingstoke, Macmillan. [3DL]

Vousden, N., 1990, *The Economics of Trade Protection*, Cambridge University Press.

### **Reading: Surveys**

D. Greenaway (ed.), 1985, *Current Issues in International Trade Theory*, MacMillan.

D. Greenaway and L. A. Winters, 1994, *Surveys in International Trade*, Blackwell. [GW]

G. M. Grossman and K. Rogoff, 1995, *Handbook of International Economics Vol. 3*, North Holland, Amsterdam. [GR].

R. W. Jones and P. B. Kenen, *Handbook of International Economics Vol. 1*, North Holland, Amsterdam. [JK].

P. R. Krugman, 1990, *Rethinking International Trade*, MIT Press, Cambridge Mass. [RIT].

P. R. Krugman (ed.), 1988, *Strategic Trade Policy and the New International Economics*, MIT Press.

### **Reading: Reprints**

#### **ECON 412 INTERNATIONAL ECONOMICS A 2009 REPRINTED READINGS [In alphabetical order]**

1. J. Bhagwati, 1979, "International Factor Movements and National Advantage", *Indian Economic Review*, 14, 73-100. Reprinted in *International Factor Mobility*, 1987, Cambridge, Massachusetts, MIT Press.
2. J. Bhagwati, 1989, "Is Free Trade Passé after All", *Weltwirtschaftliches Archiv*, 125, 17-44.
3. P. Brenton, H. Scott, and P. Sinclair, 1997, "Trade and the Environment", from *International Trade*, Oxford, Oxford University Press.
4. K. Cowling and R. Sugden, 1998, "Strategic Trade Policy Reconsidered: National Rivalry vs Free Trade vs. International Competition", *Kyklos*, 51, 339-357.
5. H. Daly, 1997, "Reconciling Internal and External Policies for Sustainable Development", from A. K. Dragun and K. M. Jacobson (eds.) *Sustainability and Global Environmental Policy*, Edward Elgar, Cheltenham.
6. S. Dowrick, 1997, "Trade and Growth a Survey", from J. Fagerberg, P. Hansson, L. Lundberg and A. Melchior (eds), *Technology and International Trade*, Cheltenham, Edward Elgar.
7. W. J. Ethier, 1995. "Appendix I", from "A Survey of the Pure Theory of International Trade".
8. R. C. Feenstra, 1992, "How Costly is Protectionism?", *Journal of Economic Perspectives*, 6, 159-178.
9. R. Findlay, 1970, "The General Equilibrium of Resource Allocation, Production and Trade" from *Trade and Specialisation*, Harmondsworth, Penguin.
10. G. M. Grossman and E. Helpman, 1990, "Trade Innovation and Growth", *American Economic Review*, Papers and Proceedings, 80, 86-91.
11. J. Komlos, 1988, "Comment on Is Free Trade Passé", *Journal of Economic Perspectives*, 2, 207-209
12. P. R. Krugman, 1987, "Is Free Trade Passé", *Journal of Economic Perspectives*, 1, 131-144.
13. P. R. Krugman, 1989, "Industrial Organisation and Industrial Trade", from R. Schmalensee and R. D. Willig (eds.), *Handbook of Industrial Organisation, Volume II*, Amsterdam, North Holland.

14. P. R. Krugman, 1990, "Increasing Returns and the Theory of International Trade", from *Rethinking International Trade*, Cambridge Massachusetts, MIT, Press.
15. D. Rodrik, 1997, "Consequences of Trade for Labour Markets and the Employment Relationship", from, *Has Globalisation Gone Too Far?* , Institute for International Economics, Washington
16. D. Rodrik, 1995, "Political Economy of Trade Policy", from G. M. Grossman and K. Rogoff, 1995, *Handbook of International Economics Vol. 3*, North Holland, Amsterdam.

### **Expected Workload**

Students are expected to do 10 hours study per week. This comprises two hours of lectures, four hours of reading prescribed material and two hours for preparing essays. Some students may find they have to do more than this.

### **Readings**

Students will have to purchase the Handbook for this course which is available from Student Notes

### **Materials and Equipment**

Students are not allowed to use machines, such as, computers or calculators in tests and exams.

### **Assessment Requirements**

Student Presentations	15%
Essay	35%
Exam	50%

Depending on the numbers enrolled in the class students will make 1 or 2 class presentations. The required number will be announced during the first class. The essay is due on Tuesday 1 June. The word limit for the essay is 2000 words. Further details of what is required for the essay and class presentations will be provided on a separate sheet. The examination is of two hours duration

*Note: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.*

### **Examinations**

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period.

The final examination for this course will be scheduled at some time during the period from **Examination Period: Friday 11<sup>h</sup> June – Wednesday 30<sup>th</sup> June 2010**

### **Penalties**

Late work will be accepted without penalty with good reason (e.g. a medical certificate) and prior permission. In other cases 5 marks will be deducted from the student's mark (out of 100) for each day, or part day, the assignment is late.

## **Mandatory Course Requirements**

None

## **Class Representative**

A class representative will be elected in the first lecture and that person's name and contact details will be available to VUWSA, the Course Coordinator and the class

## **Communication of Additional Information**

Additional information will be conveyed on Blackboard

## **Use of Turnitin (if applicable)**

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 compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin. 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.

**For the following important information follow the links provided:**

### **Academic Integrity and Plagiarism**

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

### **General University Policies and Statutes**

<http://www.victoria.ac.nz/home/about/policy>

### **AVC (Academic) Website: information including: Conduct, Academic Grievances, Students with Impairments, Student Support**

[http://www.victoria.ac.nz/home/about\\_victoria/avcacademic/Publications.aspx](http://www.victoria.ac.nz/home/about_victoria/avcacademic/Publications.aspx)

### **Faculty of Commerce and Administration Offices**

<http://www.victoria.ac.nz/fca/studenthelp/>

### **Manaaki Pihipihinga Programme**

[http://www.victoria.ac.nz/st\\_services/mentoring/](http://www.victoria.ac.nz/st_services/mentoring/)