Economics 101 — Fall 2011

International Trade

October 3, 2011

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Section ID   722610

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1   Course Objectives

This course examines theories of international trade in goods and services and analyzes the consequences of trade policies. The course presents the principle of comparative advantage and its application to classical and modern trade theory. Focusing on the long-term effects of international economic integration, the course discusses the economic effects of trade, as well as trade barriers and trading blocs, on industrial competitiveness, the income distribution, growth and welfare.

Compared to other classes on international economic integration, such as International Capital Markets or International Monetary Relations, the International Trade class focuses on the long-term patterns of balanced trade in merchandize and services. Part I of the class is dedicated to classic trade theory in a general equilibrium setting under perfect competition and explains trade among different countries. Part II of the class presents recent advances in trade theory under imperfect competition and with heterogeneous firms; it explains trade among similar countries and the formation of multinational enterprises. Part III applies the insights from both partial and general equilibrium models to policy issues related to international economic integration.

2   Prerequisites

Economics 1A-B or 2 or 100B or 170B.

3   Readings

Required textbook: Krugman, Obstfeld, and Melitz (2011a)/Ch. 1 through 12

Required textbook supplements: Muendler (2011a-c)

Required readings (in order of appearance): Feenstra (1998); Rodrik (1992); Freeman (1995); Horlick and Palmer (2001); Stiglitz and Charlton (2005)/Ch. 2; Rodrik (1998); Williamson (1998)

The relevant chapters of the textbook are compiled in a custom reader: Krugman, Obstfeld, and Melitz (2011a), kindly provided for Econ 101 by Pearson Learning Solutions. This special extract is available for purchase from the bookstore. The complete textbook Krugman, Obstfeld, and Melitz (2011b), which also covers the material of Econ 103, is also available for purchase from the bookstore. Library copies are on reserve.

The textbook supplements Muendler (2011a), Muendler (2011b) and Muendler (2011c) will be available for download from the class web page (see link above) prior to the respective lectures. The supplements are zipped and password protected. The password is given out on the first day in class.

The readings (articles) help you review the lecture material beyond the textbook. They are available through the class web page (see link above). Web links to copyrighted readings only work from on-campus domains.

Lecture notes will be posted on the class web page (see link above) before lecture. The notes are zipped and password protected. The password is given out on the first day in class.

4 Problem Sets

There will be three problem sets, due on scheduled dates throughout the quarter. You are encouraged to work on the problems with your classmates. Your teaching assistants Xuan Liang and Lindsay Rickey will hold sections over the course of the quarter to help you solve the problems, and you can receive assistance during any of the scheduled office hours. Your solutions to the problem sets will be checked by question (check/no check) and your performance on them will be a part of the final grade. Problem sets have to be handed in on paper *before* 12:30p on the due date. You may bring them to class and hand them in *before* class begins.

Problem sets 1 through 3 will contain five exam-like but more elaborate questions, each counting three points. Problem set 3 will have one open question in addition, counting five points.

5 Assessment

There will be two midterm exams and a final exam. The two midterm exams will take 70 minutes each and the final exam will take 120 minutes (no extra time). All exams are cumulative. Midterm exams take place in class and contain 7 ten-minute questions each. The final exam contains 12 ten-minute questions. Problem sets have to be handed in *before* 12:30pm on the due date to be considered.

During exams, only a pen, a pencil, a ruler and an eraser are permitted for use. No other material is allowed. Principles of academic honesty are strictly applied.

Appeals of scores on exams must be submitted in writing, along with all prior exams and problem sets. Following the appeal, all questions on all exams will be reconsidered. Participation in exams is mandatory and excused only under the conditions that also permit an incomplete grade: course work must be of non-failing quality and absence must be for a cause beyond the student's control. In particular, the incidence of other exams on the same day is no reason for an excuse from the exam.

Your final raw score will be your total points from the three exams and the three problem sets:

Problem sets:	50 points (15+15+20 points)	10/18, 11/8, 11/29
Midterm 1 (70 minutes):	70 points	10/20
Midterm 2 (70 minutes):	70 points	11/10
Final (120 minutes):	120 points	12/9
Total:	310 points	

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UC San Diego. You can find this grade distribution at *econ.ucsd.edu/muendler/teach/11f/101*.

Therefore the difficulty or simplicity of problem sets and exams will not matter, whereas your relative performance in comparison to your classmates will determine your final letter grade. Grades of D or F will not depend on the curve but on a minimal performance standard. Your graders will be Xuan Liang and Lindsay Rickey.

There will be six review sessions to help you prepare for the exams.

6 Class Schedule

Chapter numbers refer to the textbook chapters in the custom reader.

I. Classic Trade Theory

1. Thu, September 22: Introduction to International Trade
(Krugman, Obstfeld, and Melitz 2011a/Ch. 1 and 2)

2. Tue, September 27: Comparative Advantage due to Productivity Differences
(Krugman, Obstfeld, and Melitz 2011a/Ch. 3)
PROBLEM SET 1 OUT

3. Thu, September 29: Multiple Goods and Multiple Factors of Production
(Krugman, Obstfeld, and Melitz 2011a/Ch. 4)

4. Tue, October 4: Comparative Advantage due to Endowment Differences
(Krugman, Obstfeld, and Melitz 2011a/Ch. 5)

5. Thu, October 6: Mobile Factors and Endowment Differences
(Krugman, Obstfeld, and Melitz 2011a/Ch. 5)

6. Tue, October 11: World Trade Equilibrium in Classic Trade Theory
(Krugman, Obstfeld, and Melitz 2011a/Ch. 6)

7. Thu, October 13: Distributional Consequences of Classic Trade
(Krugman, Obstfeld, and Melitz 2011a/Ch. 4)

Mon, October 17: *Problem set 1 review section* Lindsay Rickey

8. Tue, October 18: Intermediate Goods Trade and Offshoring
(Krugman, Obstfeld, and Melitz 2011a/Ch. 8; Feenstra 1998; Muendler 2011a)
PROBLEM SET 1 DUE

Tue, October 18: *Midterm 1 review section A*: Xuan Liang

Wed, October 19: *Midterm 1 review section B*: Lindsay Rickey (problem set 1 back)

Thu, October 20: MIDTERM 1
covering lectures 1 through 8; Krugman, Obstfeld, and Melitz (2011a)/Ch. 1 through 6 (and 8); Muendler (2011a)

II. Imperfect Competition and Trade Theory

9. Tue, October 25: Imperfect Competition and Market Segmentation
(Krugman, Obstfeld, and Melitz 2011a/Ch. 8)
PROBLEM SET 2 OUT

10. **Thu, October 27:** Intra-industry Trade
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 8)

11. **Tue, November 1:** Diverse Firms, Trade, and Reallocation
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 8; Muendler 2011b)

12. **Thu, November 3:** Multinational Production
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 8; Feenstra (1998); Muendler 2011c)

Mon, November 7: *Problem set 2 review section* Xuan Liang

13. **Tue, November 8:** Trade under External Economies of Scale
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 7)
    PROBLEM SET 2 DUE

Tue, November 8: *Midterm 2 review section A*: Lindsay Rickey

Wed, November 9: *Midterm 2 review section B*: Lindsay Rickey (problem set 2 back)

Thu, November 10: MIDTERM 2
    covering lectures 1 through 13; Krugman, Obstfeld, and Melitz (2011a)/Ch. 1 through 8; Muendler
    (2011b); Muendler (2011c); Feenstra (1998)

III. Trade Policy

14. **Tue, November 15:** Instruments of Trade Policy
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 9)
    PROBLEM SET 3 OUT

15. **Thu, November 17:** Costs and Benefits of Trade Restrictions
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 9)

16. **Tue, November 22:** Political Economy of Trade Policies
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 10 through 12, Rodrik 1992, and Freeman 1995)

Mon, November 28: *Problem set 3 review section* Lindsay Rickey

17. **Tue, November 29:** Trade Agreements
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 10 through 12, Horlick and Palmer 2001, and Stiglitz
    and Charlton 2005/Ch. 2)
    PROBLEM SET 3 DUE

Wed, November 30: *Final review section A*: Xuan Liang

18. **Thu, December 1:** Economic Integration: Past and Present
    (Rodrik 1998 and Williamson 1998)

Fri, December 2: *Final review section B*: Lindsay Rickey (problem set 3 back)

Fri, December 9 (Finals Week): 11:30am-1:30pm FINAL EXAM (120 minutes)
    covering lectures 1 through 18, Krugman, Obstfeld, and Melitz (2011a)/Ch. 1 through 12;
    Muendler (2011a); Muendler (2011b); Muendler (2011c); Feenstra (1998); Rodrik (1992); Free-
    man (1995); Horlick and Palmer (2001); Stiglitz and Charlton (2005)/Ch. 2; Rodrik (1998);
    Williamson (1998)

References

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FREEMAN, R. B. (1995): "Are Your Wages Set in Beijing?," *Journal of Economic Perspectives*, 9(3), 15–32.

HORLICK, G. N., AND C. R. PALMER (2001): "The Negotiation of a Free Trade Area of the Americas," *Integration and Trade*, 5(13), 151–64.

KRUGMAN, P. R., M. OBSTFELD, AND M. J. MELITZ (2011a): *International Economics: Theory & Policy*, Pearson Custom Business Resources. Pearson Learning Solutions, New York, special extract compiled for International Trade Econ 101.

——— (2011b): *International economics: Theory and policy*. Addison-Wesley, Boston, 9th edn.

MUENDLER, M.-A. (2011a): "Globalization," University of California, unpublished manuscript, La Jolla, Calif., Ch. 5 (*Intermediate Goods Trade and Offshoring*).

——— (2011b): "Globalization," University of California, unpublished manuscript, La Jolla, Calif., Ch. 11 (*Diverse Competitors and Trade*).

——— (2011c): "Globalization," University of California, unpublished manuscript, La Jolla, Calif., Ch. 12 (*Multinational Firms*).

RODRIK, D. (1992): "The Limits of Trade Policy Reform in Developing Countries," *Journal of Economic Perspectives*, 6(1), 87–105.

——— (1998): "Symposium on Globalization in Perspective: An Introduction," *Journal of Economic Perspectives*, 12(4), 3–8.

STIGLITZ, J. E., AND A. CHARLTON (2005): *Fair trade for all: How trade can promote development*. Oxford University Press, Oxford and New York.

WILLIAMSON, J. G. (1998): "Globalization, Labor Markets and Policy Backlash in the Past," *Journal of Economic Perspectives*, 12(4), 51–72.