

Economics 101 — Fall 2003
International Trade

September 25, 2003

Instructor:	Marc-Andreas Muendler
Office:	Economics 312
Office hours:	MW 2:30pm - 3:30pm
Phone:	(858) 534-4799
E-mail:	muendler@ucsd.edu
Class Time:	MWF 12:00pm - 12:50pm
Classroom:	CENTR 212
Class Web Page:	econ.ucsd.edu/muendler/teach/03f/101
Teaching Assistants:	Dong Jin Lee and Onji Kazuki
Section Time:	M 3:00pm - 3:50pm
Section Room:	SOLIS 104

1 Course Objectives

This course examines theories of international trade in goods and services, as well as international flows of labor and capital, and analyzes 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 motives for trade policies and presents the economic effects of trade barriers and trading blocs on industrial competitiveness, income distribution and welfare.

2 Prerequisites

Economics 1A-B-C. *Recommended:* Economics 100A-B or 170A-B.

3 Readings

Required textbook: Krugman and Obstfeld (2003)

Required readings: Leamer and Levinsohn (1995), Feenstra (1998), Krugman (1993), Mussa (1993), Horlick and Palmer (2001), Rodrik (1992), Porter (1990), Freeman (1995), Rodrik (1998), Williamson (1998)

Recommended readings: Ohlin (1931), Grossman and Helpman (1995)

The required and recommended readings (articles and book chapters) are available as custom materials from AS Soft Reserves (copyright fees apply). Most

required readings can also be accessed through the class web page (see link above) and the UCSD electronic library.

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 will hold review sessions to help you approach the problems. Your solutions to the problem sets will be checked (check/no check) and your performance on them will be part of the final grade. Problem sets have to be handed in *before* 12:00pm on the due date.

Problem sets 1 through 3 will contain five exam-like 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 first midterm exam is mandatory and will take 50 minutes. The second midterm is optional and will take 80 minutes. The final exam will take 120 minutes and is mandatory. All exams are cumulative. Your overall grade will be based on your total score in the two mandatory exams and three problem sets.

Problem sets:	50 points (15+15+20 points)	10/15, 11/5, 11/26
Midterm 1 (50 minutes):	50 points	10/17
Midterm 2 (80 minutes):	80 points, <i>optional</i>	11/6
Final (120 minutes):	120 points	12/8 (finals week)

If you choose to take the optional second midterm exam, your overall score includes the score of this midterm by default. However, if you are not satisfied with your performance on the optional second midterm and do not want the score to count towards your final grade, you may state this by Friday, November 17.

The first and mandatory midterm will be held on 10/17 during lecture time. The second and optional midterm will be held on 11/6 in the late afternoon. The final and mandatory exam will be held on 12/8 at 11:30am. (Problem sets have to be handed in *before* 12:00pm on the due date.)

If you choose not to take the optional second midterm exam, or you do not want it to count towards your final grade and state so by Friday, November 17, the score in all other exams and problem sets will be scaled up by a factor of 15/11 (300/220).

Final *letter grades* will be inferred from the typical grade distribution in economics classes at UCSD.

6 Class Schedule

I. Trade Theory

1. **Fri, September 26:** Introduction to International Trade
(Krugman and Obstfeld 2003/Ch. 1)
2. **Mon, September 29:** Comparative Advantage and Ricardo's Trade Theory
(Krugman and Obstfeld 2003/Ch. 2)
PROBLEM SET 1 OUT
3. **Wed, October 1:** Gains from Trade due to Productivity Differences
(Krugman and Obstfeld 2003/Ch. 2)
4. **Fri, October 3:** Gains from Trade, Multiple Goods and Transport Costs
(Krugman and Obstfeld 2003/Ch. 2)
5. **Mon, October 6:** Specific Factors of Production in Trade Theory
(Krugman and Obstfeld 2003/Ch. 3)
6. **Wed, October 8:** Gains from Trade due to Endowment Differences
(Krugman and Obstfeld 2003/Ch. 3)
7. **Fri, October 10:** Implications for the Political Economy of Trade
(Krugman and Obstfeld 2003/Ch. 3)
8. **Mon, October 13:** Mobile Factors and the Heckscher-Ohlin Trade Theory
(Krugman and Obstfeld 2003/Ch. 4 and Ohlin 1931/Ch. 6)
9. **Wed, October 15:** Gains from Trade due to Endowment Differences
(Krugman and Obstfeld 2003/Ch. 4)
PROBLEM SET 1 DUE
- Fri, October 17:** MIDTERM 1
covering Krugman and Obstfeld (2003)/Ch. 1 through 4
10. **Mon, October 20:** Closing the Trade Models
(Krugman and Obstfeld 2003/Ch. 5)
PROBLEM SET 2 OUT
11. **Wed, October 22:** Terms of Trade, Demand Changes and Tariffs
(Krugman and Obstfeld 2003/Ch. 5)
12. **Fri, October 24:** Imperfect Competition and Returns to Scale
(Krugman and Obstfeld 2003/Ch. 6)
13. **Mon, October 27:** Intra-industry Trade
(Krugman and Obstfeld 2003/Ch. 6)
14. **Wed, October 29:** Gains From Trade under Returns to Scale
(Krugman and Obstfeld 2003/Ch. 6)

15. **Fri, October 31:** Theories of Trade: The Evidence
(Leamer and Levinsohn 1995)
16. **Mon, November 3:** International Migration
(Krugman and Obstfeld 2003/Ch. 7)
17. **Wed, November 5:** International Disintegration of Production
(Krugman and Obstfeld 2003/Ch. 7 and Feenstra 1998)
PROBLEM SET 2 DUE
- Thu, November 6:** MIDTERM 2
covering Krugman and Obstfeld (2003)/Ch. 1 through 7; Leamer and Levinsohn (1995), Feenstra (1998),
(no class on November 7, due to 80-minute exam on November 6)

II. Trade Policy

18. **Mon, November 10:** Instruments of Trade Policy
(Krugman and Obstfeld 2003/Ch. 8)
PROBLEM SET 3 OUT
19. **Wed, November 12:** Costs and Benefits of Tariffs
(Krugman and Obstfeld 2003/Ch. 8)
20. **Fri, November 14:** Costs and Benefits of Other Trade Restrictions
(Krugman and Obstfeld 2003/Ch. 8)
21. **Mon, November 17:** Free Trade versus Protectionism
(Krugman 1993, and Mussa 1993)
22. **Wed, November 19:** Political Economy of Trade and Trade Agreements
(Krugman and Obstfeld 2003/Ch. 9)
23. **Fri, November 21:** Trade Integration in the Americas
(Krugman and Obstfeld 2003/Ch. 9, Horlick and Palmer 2001)
24. **Mon, November 24:** Trade, Technology and Growth
(Krugman and Obstfeld 2003/Ch. 10, Grossman and Helpman 1995)
25. **Wed, November 26:** Trade Policy in Developing Countries
(Krugman and Obstfeld 2003/Ch. 10, Rodrik 1992)
PROBLEM SET 3 DUE
26. **Mon, December 1:** Issues in Trade Policy
(Porter 1990/Ch. 3 and Freeman 1995)
27. **Wed, December 3:** Economic Integration: Past and Present
(Rodrik 1998 and Williamson 1998)
28. **Fri, December 5:** Summary and Review Session

Mon, December 8: FINAL EXAM

covering Krugman and Obstfeld (2003)/Ch. 1 through 10; Leamer and Levinsohn (1995), Feenstra (1998), Krugman (1993), Mussa (1993), Horlick and Palmer (2001), Rodrik (1992), Porter (1990), Freeman (1995), Rodrik (1998), Williamson (1998)

References

- FEENSTRA, R. C. (1998): "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, 12(4), 31-50.
- FREEMAN, R. B. (1995): "Are Your Wages Set in Beijing?," *Journal of Economic Perspectives*, 9(3), 15-32.
- GROSSMAN, G. M., AND E. HELPMAN (1995): "Technology and Trade," in *Handbook of international economics*, ed. by G. M. Grossman, and K. Rogoff, vol. 3 of *Handbooks in Economics*, pp. 1279-1337. Elsevier, North-Holland, Amsterdam, New York and Oxford.
- 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. (1993): "The Narrow and Broad Arguments for Free Trade," *American Economic Review*, 83(2), 362-66.
- KRUGMAN, P. R., AND M. OBSTFELD (2003): *International economics: Theory and policy*. Addison Wesley, Boston, 6th edn.
- LEAMER, E. E., AND J. LEVINSOHN (1995): "International Trade Theory: The Evidence," in *Handbook of international economics*, ed. by G. M. Grossman, and K. Rogoff, vol. 3 of *Handbooks in Economics*, pp. 1339-94. Elsevier, North-Holland, Amsterdam, New York and Oxford.
- MUSSA, M. (1993): "Making the Practical Case for Freer Trade," *American Economic Review*, 83(2), 372-76.
- OHLIN, B. (1931): *Interregional and International Trade*, vol. 39 of *Harvard Economic Studies*. Harvard University, Cambridge, 2nd (1952) edn., Chapter 6, pp.91-113.
- PORTER, M. E. (1990): *The Competitive Advantage of Nations*. Free Press, New York, Chapter 3, pp. 69-130.
- 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.
- WILLIAMSON, J. G. (1998): "Globalization, Labor Markets and Policy Backlash in the Past," *Journal of Economic Perspectives*, 12(4), 51-72.

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Rodrik (1992),
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References

- FEENSTRA, R. C. (1998): "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, 12(4), 31–50.
- 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. (1993): "The Narrow and Broad Arguments for Free Trade," *American Economic Review*, 83(2), 362–66.
- LEAMER, E. E., AND J. LEVINSOHN (1995): "International Trade Theory: The Evidence," in *Handbook of international economics*, ed. by G. M. Grossman, and K. Rogoff, vol. 3 of *Handbooks in Economics*, pp. 1339–94. Elsevier, North-Holland, Amsterdam, New York and Oxford.
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- PORTER, M. E. (1990): *The Competitive Advantage of Nations*. Free Press, New York, Chapter 3, pp. 69–130.
- RODRIK, D. (1992): "The Limits of Trade Policy Reform in Developing Countries," *Journal of Economic Perspectives*, 6(1), 87–105.
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Recommended Readings

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- GROSSMAN, G. M., AND E. HELPMAN (1995): "Technology and Trade," in *Handbook of international economics*, ed. by G. M. Grossman, and K. Rogoff, vol. 3 of *Handbooks in Economics*, pp. 1279–1337. Elsevier, North-Holland, Amsterdam, New York and Oxford.
- OHLIN, B. (1931): *Interregional and International Trade*, vol. 39 of *Harvard Economic Studies*. Harvard University, Cambridge, 2nd (1952) edn., Chapter 6, pp.91-113.