

Economics 101 — Fall 2018
International Trade

September 26, 2018

Co-Instructors:	Marc-Andreas Muendler (through Oct 30)	Patrick Bloom (starting Nov 1)
Office hours:	Thu 11:30a-12:30p (Oct)	Thu 11:30a-12:30p (Nov and Dec)
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Class Times:	TueThu 9:30a-10:50a	
Classroom:	Peterson 104	
Course Web Page:	econ.ucsd.edu/muendler/teach/18f/101	

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 Globalization or International Monetary Relations, the International Trade class focuses on the long-term patterns of balanced trade in merchandise and services using rigorous two-country models at the industry and at the firm level. Part I of the class is dedicated to classic trade theory in a general equilibrium setting under perfect competition and explains trade between different countries. Part II of the class presents recent advances in trade theory under imperfect competition and with heterogeneous firms; it explains trade between 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

Econ 100B or 102.

3 Readings

Textbook: Krugman, Obstfeld, and Melitz (2015)/Ch. 1 through 12

Draft textbook: Muendler (2014)/Ch. 1 through 4 and 6

The relevant chapters of the textbook are from the first part of the book Krugman, Obstfeld, and Melitz (2015).

A special electronic version from the publisher, called an *Inclusive Access product*, is available for the course this quarter for the first time. This product has a negotiated price considerably below the typical retail price, thus saving you expenses. However, by the publisher's policy for such products, the default for this course is that the *ebook* edition becomes the main course material and, importantly, that your student account will be *automatically* charged after the add/drop deadline for courses on October 13, 2018. You will have access to the digital content on, or before, the first day of class, directly through a link in TritonEd.

Please **visit TritonEd and the Inclusive Access product immediately** and decide whether you want to opt out of the inclusive access product. You must actively opt out before the add/drop deadline on October 13, 2018. If you opt out, you will not be charged and will no longer have access to the inclusive content but can access the textbook in conventional ways at the UC San Diego bookstore and online bookstores. Otherwise, your student account will automatically be charged after the deadline.

Leslie Verfaillie from the UC San Diego Bookstore will be emailing every enrolled student to inform you about this program and to remind you of the opt-out date. Please contact Leslie Verfaillie at lverfail@ucsd.edu with any questions.

Supplemental textbook chapter drafts from Muendler (2014)/Ch. 1 through 4 and 6 are available for download at the class web page (see link above). The supplements are zipped and password protected. The password is given out on the first day in class.

Lecture notes will be posted on the class web page (see link above). 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 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* 4:50pm on the due date.

Problem sets 1 and 2 will contain five exam-like but more elaborate questions, each counting three points. Problem set 3 will have seven exam-like but more elaborate questions, one question counting two points and six questions counting three points.

Your teaching assistants Junyuan Chen and Churn Ken Lee will offer three problem set review sections per problem set to help you solve the problems. Problem sets have to be handed in *on paper* by the due date (Friday 10/19, 11/9, 11/30). You must drop the problem sets off in the assigned course mailbox at the economics department by the three due times, 4:50pm on the respective Fridays. No problem set will be accepted after the respective due time.

5 Assessment

There will be two midterm exams and a final exam. The two midterm exams will take 60 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* 4:50pm on the due date to be considered.

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)	10/19, 11/9, 11/30
Midterms (60 minutes each):	120 points	10/25, 11/13
Final (120 minutes):	120 points	12/13
<i>Total:</i>	290 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/18f/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.

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

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. Under its current rules, Student Health Services offers access to medical excuses that document illness *only under extreme circumstances*. To be excused from the midterm because of illness, the student must inform the instructor *before* the midterm exam. To be excused from the final exam, however, the illness must be sufficiently severe so that Student Health Services or another health-care provider does document the illness.

During exams, only a pen, a pencil, a ruler and an eraser are permitted for use. No other material is allowed, and all other objects must be outside your immediate reach at all times during the exam. Principles of academic honesty are strictly applied. Regardless of any potential additional sanction from the academic integrity office, or the absence of an additional sanction, the exam score will be zero if there is an exam rule violation. The complete UC San Diego Policy on Integrity of Scholarship can be viewed at: senate.ucsd.edu/manual/appendices/appendix2.pdf. On each exam, you are required to sign a personal pledge of academic integrity.

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 and problem sets will be reconsidered. An appeal may be denied if the exam or problem set was written with a pencil.

6 Course Schedule

I. Classic Trade Theory

- 1. Thu, September 27:** Introduction to International Trade
(Krugman, Obstfeld, and Melitz 2015/Ch. 1 and 2; Muendler 2014/Ch. 1)
- 2. Tue, October 2:** Comparative Advantage due to Productivity Differences
(Krugman, Obstfeld, and Melitz 2015/Ch. 3; Muendler 2014/Ch. 2)
PROBLEM SET 1 OUT
- 3. Thu, October 4:** Multiple Goods and Multiple Factors of Production
(Krugman, Obstfeld, and Melitz 2015/Ch. 4; Muendler 2014/Ch. 3)
- 4. Tue, October 9:** Comparative Advantage due to Endowment Differences
(Krugman, Obstfeld, and Melitz 2015/Ch. 5; Muendler 2014/Ch. 4)
- 5. Thu, October 11:** Mobile Factors and Endowment Differences
(Krugman, Obstfeld, and Melitz 2015/Ch. 5)
- 6. Tue, October 16:** World Trade Equilibrium in Classic Trade Theory
(Krugman, Obstfeld, and Melitz 2015/Ch. 6)

7. Thu, October 18: Distributional Consequences of Classic Trade
(Krugman, Obstfeld, and Melitz 2015/Ch. 4; Muendler 2014/Ch. 4)

Thu, October 18, time TBA: *Problem set 1 review section* (location TBA)

Fri, October 19, 4:50pm: PROBLEM SET 1 DUE

8. Tue, October 23: Intermediate Goods Trade and Offshoring
(Krugman, Obstfeld, and Melitz 2015/Ch. 8; Muendler 2014/Ch. 6)

Wed, October 24, time TBA: *Midterm 1 review section* (location TBA; problem set 1 back)

Thu, October 25, 9:30am: MIDTERM 1 EXAM (60 minutes)
covering lectures 1 through 8; Krugman, Obstfeld, and Melitz (2015)/Ch. 1 through 6; Muendler (2014)/Ch. 2 through 4 and 6

II. Imperfect Competition and Trade Theory

9. Tue, October 30: Imperfect Competition and Market Segmentation
(Krugman, Obstfeld, and Melitz 2015/Ch. 8)
PROBLEM SET 2 OUT

10. Thu, November 1: Intra-industry Trade
(Krugman, Obstfeld, and Melitz 2015/Ch. 8)

11. Tue, November 6: Diverse Firms, Trade, and Reallocation
(Krugman, Obstfeld, and Melitz 2015/Ch. 8)

12. Thu, November 8: Multinational Production
(Krugman, Obstfeld, and Melitz 2015/Ch. 8)

Thu, November 8, time TBA: *Problem set 2 review section* (location TBA)

Fri, November 9, 4:50pm: PROBLEM SET 2 DUE

Fri, November 9, time TBA (after 5pm): *Midterm 2 review section* (location TBA; *no problem sets accepted*)

Tue, November 13, 9:30am: MIDTERM 2 EXAM (60 minutes)
covering lectures 1 through 12; Krugman, Obstfeld, and Melitz (2015)/Ch. 1 through 6 and 8; Muendler (2014)/Ch. 2 through 4 and 6

III. Trade Policy

13. Thu, November 15: Instruments of Trade Policy
(Krugman, Obstfeld, and Melitz 2015/Ch. 9)
Problem set 2 back; PROBLEM SET 3 OUT

14. Tue, November 20: Costs and Benefits of Trade Restrictions (problem set 2 back)
(Krugman, Obstfeld, and Melitz 2015/Ch. 9)

15. Tue, November 27: Trade under External Economies of Scale
(Krugman, Obstfeld, and Melitz 2015/Ch. 7)

16. Thu, November 29: Political Economy of Trade Policies
(Krugman, Obstfeld, and Melitz 2015/Ch. 10 through 12)

Thu, November 29, time TBA: *Problem set 3 review section* (location TBA)

Fri, November 30, 4:50pm: PROBLEM SET 3 DUE

17. Tue, December 4: Trade Agreements
(Krugman, Obstfeld, and Melitz 2015/Ch. 10 through 12)

18. Thu, December 6: Economic Integration: Past and Present
(Muendler 2014/Ch. 1)

Fri, December 7, time TBA: *Final review section* (location TBA; problem set 3 back)

Thu, December 13, 8:00a-10:00a: FINAL EXAM (120 minutes only)
covering lectures 1 through 18, Krugman, Obstfeld, and Melitz (2015)/Ch. 1 through 12; Muendler (2014)/Ch. 1 through 4 and 6

References

KRUGMAN, P. R., M. OBSTFELD, AND M. J. MELITZ (2015): *International Trade: Theory and Policy*. Pearson, Boston, 10th edn.

MUENDLER, M.-A. (2014): "The Economics of Globalization," University of California, San Diego, unpublished textbook manuscript.