

## **Economics 247 - Spring 2006**

### **Topics in International Trade**

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#### **Content:**

This course covers advanced topics in international trade. It includes: (i) the country-level analysis of trade flows; (ii) the firm-level analysis of the decisions to export and invest abroad; and (iii) the analysis of trade policy.

#### **Requirements:**

- 1) You must give a 30-minute presentation of one of the papers from the reading list.
- 2) You must write one referee report on one of the papers from the reading list (distinct from the one you have presented). The report should be 3-4 pages long and includes: a summary of the main features of the paper; a description of its contribution to the literature and its main weaknesses; and your recommendations to improve it.
- 3) You must write one research proposal. The proposal should be 3-4 pages long and describes: the question you want to address; why you think it is important; why you think the answer of the previous literature is unsatisfactory; and how you plan to improve it.

#### **Grading:**

The presentation accounts for 20% of the final grade; the referee report and the research proposal each account for 40%.

## **Course Outline and Reading List**

### **PART 1: Country-Level Analysis**

## Background reading:

\* E. Helpman, "The structure of foreign trade", *Journal of Economic Perspectives*, Spring 1999, 121-144.

## I. How much do countries trade?

\* R. Feenstra, *Advanced International Trade: Theory and Evidence*, ch 5

J. Rauch (2001), "Business and Social Networks in International Trade", JEL, 1177-1203

J. Eaton and S. Kortum (2002), "Technology, Geography and Trade," *Ecma*, 1741-1779.

J. Anderson and D. Marcouiller (2002), "Insecurity and the Pattern of Trade: An Empirical Investigation", *ReStat* 2002, 345-352

J. Anderson and E. van Wincoop (2003), "Gravity with gravitas; a solution to the border puzzle", *AER*, 170-92

\* J. Anderson and E. van Wincoop (2004), "Trade Costs", JEL, 691-751

E. Helpman, M. Melitz, and Y. Rubinstein (2005), "Trading partners and trading volumes" mimeo Harvard University

## II. What goods do countries trade?

### A. The role of factor endowments

\* R. Feenstra, *Advanced International Trade: Theory and Evidence*, chs 2, 3

\* D. Trefler (1995), "The case of the missing trade and other HOV mysteries," *AER*

D. Davis and D. Weinstein (2001), "An account of global factor trade," *AER*, 1423-1453.

J. Romalis (2004), "Factor proportions and the structure of commodity trade," *AER*, 67-97

Y.-S. Choi and P. Krishna (2004), "The factor content of bilateral trade: An empirical test," *JPE*, 887-914

\* P. Schott (2004), "Across-product versus within-product specialization in international trade", *QJE*

### B. The role of institutions

A. Levchenko (2004), "Institutional Quality and International Trade", mimeo MIT

A. Costinot (2005), "Contract Enforcement, Division of Labor and the Pattern of Trade", mimeo UCSD

N. Nunn (2005), Relationship Specificity, "Incomplete Contracts and the Pattern of Trade", mimeo University of Toronto

D. Acemoglu, P. Antràs, and E. Helpman (2006), "Contracts and Technology Adoption", mimeo Harvard University

A. Cuñat and M. Melitz (2006), "Labor Market Flexibility and Comparative Advantage", mimeo Harvard University

## **PART 2: Firm-Level Analysis**

### **I. Why do firms export (or not)?**

#### ***A. Theory***

\* M. Melitz (2003), "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity", *Ecta*, 1695-1725

A. Bernard, S. Redding, P. Schott (2004), "Comparative Advantage and Heterogeneous Firms", *NBER Working Paper*

A. Bernard, J. Eaton, J.B. Jensen and S. Kortum (2003), "Plants and Productivity in International Trade", *AER*, 1268-1290

Marc Melitz and Gianmarco Ottaviano (2003), "Market Size, Trade and Productivity", mimeo Harvard University

#### ***B. Evidence***

M. Roberts and J. Tybout (1997), "The Decision to Export in Colombia: An Empirical Model of Entry with Sunk Costs", *AER*, 545-564

A. Bernard and J.B. Jensen (1999), "Exceptional Exporter Performance: Cause, Effect, or Both?", *JIE*

J. Eaton, S. Kortum, and F. Kramarz (2005), "An Anatomy of International Trade: Evidence from French Firms", mimeo, NYU

A. Bernard, J. Jensen, and P. Schott (2005), "Importers, Exporters, and Multinationals: A Portrait of Firms in the U.S. that Trade Goods", *NBER Working Paper No. 11404*

### **II. Why do firms invest abroad (or not)?**

#### ***A. Theory***

\* R. Feenstra, *Advanced International Trade: Theory and Evidence*, ch11, 371-390

J. Markusen (1995), "The Boundaries of Multinational Enterprises and the Theory of International Trade", *JEP*, 169-189

J. Markusen and A. Venables (2000), "The Theory of Endowment, Intra-industry and Multi-national Trade", *JIE*, 209-234

\* E. Helpman, M. Melitz, and S. Yeaple (2004), "Exports versus FDI with Heterogeneous Firms", AER, 300-316

### **B. Evidence**

\* R. Feenstra, Advanced International Trade: Theory and Evidence, ch11, 390-395

L. Brainard (1997), "An Empirical Assessment of the Proximity-Concentration Trade-off Between Multinational Sales and Trade", AER, 520-544

D. Carr, J. Markusen, and K. Maskus (2001), "Estimating the Knowledge-Capital Model of the Multinational Enterprise", AER, 693-708

S. Yeaple (2003), "The Role of Skill Endowments in the Structure of U.S. Outward FDI", ReStat, 726-734

## **III. International organization of production**

J. McLaren (2000), "Globalization and Vertical Structure", AER, 1239-1254

G. Grossman and E. Helpman (2002), "Integration vs. Outsourcing in Industry Equilibrium", QJE, 85-120

\* P. Antràs (2003), "Firms, Contracts, and Trade Structure", QJE, 1375-1418

P. Antràs and E. Helpman (2004), "Global Sourcing", JPE, 552-580

\* G. Grossman and E. Helpman (2005), "Outsourcing in a Global Economy", ReStud, 135-159

\* R. Feenstra and G. Hanson (2005), "Ownership and Control in Outsourcing to China: Estimating the Property-Rights Theory of the Firm", QJE, 729-761

## **PART 3: Policy Analysis**

### **I. Why is international trade not free?**

#### **A. Basic approach**

H.G. Johnson (1953), "Optimum tariffs and retaliation," ReStud

A. Dixit (1985), "Tax policy in open economies," in A. Auerbach and M. Feldstein (eds.), Handbook of Public Economics

\* E. Helpman and P. Krugman (1989), Trade Policy and Market Structure, MIT Press, ch 2

#### **B. Strategic trade**

J. Brander and B. Spencer (1985), "Export subsidies and international market share rivalry", JIE

J. Eaton and G. Grossman (1986), "Optimal trade policy under oligopoly", QJE

E. Helpman and P. Krugman (1989), Trade Policy and Market Structure, MIT Press, chs 3,4,5,6,8

\* J. Brander (1995), "Strategic trade policy," in G. Grossman and K. Rogoff, Handbook of International Economics, vol.3, North Holland

G. Maggi, "Strategic Trade Policies with Endogenous Mode of Competition," AER 1996

### ***C. Political economy motives***

\* G. Grossman and E. Helpman (1994), "Protection for sale", AER

\* D. Rodrik (1995), "The political economy of trade policy," in G. Grossman and K. Rogoff, Handbook of International Economics, vol.3

E. Helpman (1998), "Politics and Trade Policy," NBER WP No. 5309

P. Goldberg and G. Maggi (1999), "Protection for Sale: An Empirical Investigation," AER

G. Grossman and E. Helpman (2004), "A protectionist bias in majoritarian politics", mimeo Princeton University

## **II. Trade agreements**

K. Bagwell and R. Staiger (1990), "A Theory of Managed Trade", AER, 779-795.

G. Grossman and E. Helpman (1995), "Trade wars and trade talks," JPE

\* K. Bagwell and R.W. Staiger (1999), "An Economic Theory of GATT", AER

G. Maggi and A. Rodríguez-Clare (1998), "The Value of Trade Agreements in the Presence of Political Pressures", JPE

G. Maggi (1999), "The role of multilateral institutions in international trade cooperation," AER

\* Bagwell, K. and R.W. Staiger (2002), The Economics of the World Trading System, ch 2

\* K. Bagwell and R.W. Staiger (2001), "Domestic Policies, National Sovereignty and International Economic Institutions," QJE

H. Horn, G. Maggi and R. Staiger (2005), "The GATT/WTO as an incomplete contract", mimeo Princeton University