

SYLLABUS

This course covers the determinants of the pattern and volume of trade in goods and services, the interaction of trade with income distribution and economic growth, and commercial policy. The emphasis is on theory, with some empirical illustration and motivation. The empirical side of international trade will be covered in Economics 247, taught by Prof. Gordon Hanson.

There will be three or four problem sets in the course, each of which will count for 10 percent of the course grade. The remainder of the grade will be determined by a two-three hour final examination. The course may be taken for a grade or on an S/U basis.

The text for this course is:

Feenstra, Robert C. *Advanced International Trade* (Princeton, NJ: Princeton), 2003, hereafter called F.

However, since Prof. Hanson and Prof. Feenstra have collaborated on research for many years, you will learn the approach of the Feenstra text in Econ 247. I will draw more heavily on:

Bhagwati, J., A. Panagariya, and T. N. Srinivasan, 1998,
Lectures on international trade, hereafter called B-P-S.

You do not need to buy this text because I will put photocopies of the relevant chapters on reserve.

Students who have not studied international trade before may find it helpful to do the readings for my undergraduate course (Econ 101). The text for that course is:

Appleyard, Dennis R. and Alfred J. Field, Jr., 2001,
International economics, 4th edition.

In the following outline and reading list, items marked with an asterisk (*) are required; unmarked items are recommended.

I. Trade in Models with Constant Returns to Scale

A. The Ricardian theory of comparative advantage

*B-P-S, chapters 2-4.

*Dornbusch, R., S. Fischer and P. Samuelson, 1977,
Comparative advantage, trade and payments in a Ricardian model with a continuum of goods, *American Economic Review*, December.

Eaton, Jonathan and Samuel Kortum, 2002,
Technology, geography, and trade, *Econometrica* 70 (September): 1741-1779.

MacDougall, G. D. A., 1951,
British and American exports: A study suggested by the theory of comparative costs, *Economic Journal* 61 (December): 697-724. Reprinted in Caves, Richard E., and Harry G. Johnson, eds., *Readings in International Economics* (Homewood, IL: Irwin), 1968.

Rauch, James E., 1991,
Comparative advantage, geographic advantage, and the volume of trade, *Economic Journal* 101 (September): 1230-1244.

B. The Ricardian model and the product cycle

*Vernon, R., 1966,
International investment and international trade in the product cycle, *Quarterly Journal of Economics* 80, 190-207.

Vernon, R., 1979,
The product cycle hypothesis in a new international environment, *Oxford Bulletin of Economics and Statistics* 41, 255-267.

*Krugman, P., 1979,
A model of innovation, technology transfer, and the world distribution of income, *Journal of Political Economy* 87 (April), 253-266.

*Grossman, Gene and Elhanan Helpman, 1991,
Endogenous product cycles, *Economic Journal* 101 (September): 1214-1229.

*Grossman, Gene and Elhanan Helpman, 1991,
Imitation (Chapter 11 in their book *Innovation and Growth in the Global Economy*.)

Lai, Edwin L. C., 1995,
The product cycle and the world distribution of income: A reformulation, *Journal of International Economics* 39: 369-382.

C. The Heckscher-Ohlin-Samuelson (H-O-S) theory of comparative advantage

*B-P-S, chapters 5-6 and Appendix B.

*Helpman, E. and P. Krugman, 1985,
Market Structure and Foreign Trade, chapter 1.

*Findlay, Ronald and Henryk Kierzkowski, 1983,
International trade and human capital: A simple general equilibrium model, *Journal of Political Economy* 91 (December): 957-978.

Bhagwati, J., 1972,
The Heckscher-Ohlin theorem in the multi-commodity case, *Journal of Political Economy* 80, 1052-1055.

*Deardorff, A., 1979,
Weak links in the chain of comparative advantage, *Journal of International Economics*, May.

*Deardorff, A., 1980,
The general validity of the law of comparative advantage, *Journal of Political Economy*, October.

Deardorff, A., 1982,
The general validity of the Heckscher-Ohlin theorem, *American Economic Review*, September.

Dornbusch, R., S. Fischer and P. Samuelson, 1980,
Heckscher-Ohlin trade theory with a continuum of goods, *Quarterly Journal of Economics*, September.

II. Trade in Models with Increasing Returns to Scale

*Jones, R. and P. Kenen, eds., 1984,
Handbook of International Economics, Vol. I, chapter 7, especially sections 6 and 7.

A. Economies of scale and inter-industry trade

*Helpman, E. and P. Krugman, 1985,
Market Structure and Foreign Trade, chapters 2-4.

Ethier, Wilfred J., 1982,
National and international returns to scale in the modern theory of international trade,
American Economic Review, June.

Rivera-Batiz, Francisco L., 1988,
Increasing returns, monopolistic competition, and agglomeration economies in
consumption and production, Regional Science and Urban Economics 18: 125-153.

Rauch, James E., 1989,
Increasing returns to scale and the pattern of trade, Journal of International Economics
26 (May): 359-369.

Rauch, James E., 1993,
Does history matter only when it matters little? The case of city-industry location,
Quarterly Journal of Economics 108 (August): 843-867.

B. Economies of scale and intra-industry trade

*Helpman, E., 1981,
International trade in the presence of product differentiation, economies of scale, and
monopolistic competition: A Chamberlin-Heckscher-Ohlin approach, Journal of
International Economics 11, 305-340.

Krugman, P., 1981,
Intra-industry specialization and the gains from trade, Journal of Political Economy,
November.

Hummels, David and Lugovskyy, Volodymyr, 2005,
Trade in ideal varieties: Theory and evidence, National Bureau of Economic
Research Working Paper No. 11828.

C. Economies of scale and trade barriers

*F, Chapter 5

1. Determination of bilateral trade

*Romalis, John, 2004,
Factor proportions and the structure of commodity trade, *American Economic Review* 94 (March): 67-97.

Deardorff, Alan V., 1998,
Determinants of bilateral trade: Does gravity work in a neoclassical world?" In
Jeffrey A. Frankel, ed., *The Regionalization of the World Economy* (Chicago:
University of Chicago): 7-28.

2. The home market effect

*Helpman, E. and P. Krugman, 1985,
Market Structure and Foreign Trade, pp. 205-209.

Rauch, James E. and Trindade, Vitor, 2005,
Neckties in the tropics: A model of international trade and cultural diversity,
National Bureau of Economic Research Working Paper No. 11890.

Krugman, P., 1980,
Scale economies, product differentiation, and the pattern of trade, *American Economic Review* 70: 950-959.

3. Fixed cost trade barriers and heterogeneous firms

*Yeaple, Stephen R., 2005,
A simple model of firm heterogeneity, international trade, and wages, *Journal of International Economics* 65 (January): 1-20

Rauch, James E., 2006,
Development through synergistic reform, UCSD Working Paper.

Melitz, Marc J., 2003,
The impact of trade on intra-industry reallocations and aggregate industry
productivity, *Econometrica* 71 (November): 1695-1725.

4. Informal trade barriers and networks

Rauch, James E., 2001,
Business and social networks in international trade, *Journal of Economic Literature* 39 (December): 1177-1203.

*Rauch, James E. and Alessandra Casella, 2003,
Overcoming informational barriers to international resource allocation: Prices and ties, *Economic Journal* 113: 21-42.

*F, pp. 399-406.

Rauch, James E. and Vitor Trindade, 2003,
Information, international substitutability, and globalization, *American Economic Review* 93: 775-791.

III. Putting it All Together: How Much is Trade Worth?

*Frankel, Jeffrey A. and Romer, David, 1999,
Does trade cause growth? *American Economic Review* 89 (June): 379-399.

IV. Commercial Policy

*B-P-S, Chapters 17-18, 20-21

B-P-S, Chapters 13-14, 28, 31

Krishna, Pravin and Arvind Panagariya, 2000,
A unification of second best results in international trade, *Journal of International Economics* 52 (December): 235-257.

Bagwell, Kyle and Robert W. Staiger, 2001,
Domestic policies, national sovereignty, and international economic institutions, *Quarterly Journal of Economics* 116 (May): 519-562.

Grossman, Gene and Lai, Edwin, 2004,
International protection of intellectual property, *American Economic Review* 94 (December): 1635-1653.