

Economics 245 - Winter 2007

International Trade: Theory

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Content:

This course covers (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. The focus of the class is on the theory of international trade. The empirical side of international will be covered in Econ 247 taught by Professor Gordon Hanson.

Books:

There are no required textbooks. The following books are cited in the reading list by the abbreviations indicated. All are available on reserve in the library.

Avinash Dixit and Victor Norman, *Theory of International Trade* (DN)
Robert Feenstra, *Advanced International Trade: Theory and Evidence* (F)
Elhanan Helpman and Paul Krugman, *Market Structure and Foreign Trade* (HKa)
Elhanan Helpman and Paul Krugman, *Trade Policy and Market Structure* (HKb)
Kyle Bagwell and Robert W. Staiger, *The Economics of the World Trading System* (BS)

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%.

Part 1: Explaining Trade Flows Across Countries

I. Comparative Advantage

A. Technological Differences

- * R. Dornbusch, S. Fischer and P. Samuelson (1977), "[Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods](#)," AER, 823-839
- J. Eaton and S. Kortum (2002), "[Technology, Geography and Trade](#)," Ecma, 1741-1779
- A. Costinot and I. Komunjer (2006), "[What Goods Do Countries Trade? New Ricardian Predictions](#)," mimeo UCSD

B. Factor Endowments

- * F, pp. 31-41, pp. 64-75, pp. 83-93.
- * HKa, chapter 1
- DN chapters 2, 4
- R. Jones (1965), "[The Structure of Simple General-Equilibrium Models](#)," JPE
- J. Bhagwati (1972), "[The Heckscher-Ohlin Theorem in the Multi-Commodity Case](#)," JPE
- A. Deardorff (1979), "[Weak Links in the Chain of Comparative Advantage](#)," JIE

II. Increasing returns to scale

A. Monopolistic Competition

- * F, pp. 131-146
- * HKa, chapters 6-9
- P. Krugman (1979), "[Increasing Returns, Monopolistic Competition, and International Trade](#)," JIE
- P. Krugman (1980), "[Scale Economies, Product Differentiation, and the Pattern of Trade](#)," AER
- P. Krugman (1981), "[Intraindustry Specialization and the Gains from Trade](#)," JPE

B. Oligopoly

- * HKa, chapter 5
- J. Brander and P. Krugman (1983), "[A reciprocal dumping model of international trade](#)," JIE, 313-321

PART 2: Explaining Firms' Behavior in an Open Economy

I. Why do firms export (or not)?

- * M. Melitz (2003), "[The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity](#)," Ecma, 1695-1725
- A. Bernard, S. Redding, P. Schott (2007), "[Comparative Advantage and Heterogeneous Firms](#)," ReStud
- Marc Melitz and Gianmarco Ottaviano (2003), "[Market Size, Trade and Productivity](#)," NBER WP No. 11393

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

* F pp. 371-390

* E. Helpman, M. Melitz, and S. Yeaple (2004), "[Exports versus FDI with Heterogeneous Firms](#)", AER
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

III. International Organization of Production

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

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

* P. Antràs (2005), "[Incomplete Contracts and the Product Cycle](#)", AER

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 and E. Helpman (2004), "[Global Sourcing](#)", JPE, 552-580

G. Grossman and E. Rossi Hansberg (2006), "[Trading Tasks: A Simple Theory of Offshoring](#)", mimeo
Princeton University

PART 3: Explaining Trade Policy

I. Why is international trade not free?

A. Basic approach

* HKb, chapter 2

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

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

B. Strategic trade

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

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

HKb, chapters 3,4,5,6,8

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

II. Trade agreements

A. Terms of Trade

*BS chapter 2

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

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

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

B. Commitment

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

G. Maggi and A. Rodríguez-Clare (2005), "[A Political-Economy Theory of Trade Agreements](#)", mimeo Princeton University

C. Contractual Imperfections

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

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

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

PART 4: Other Topics (if time allows...)

I. Institutions and Trade

A. Levchenko (2007), "[Institutional Quality and International Trade](#)", ReStud forthcoming

A. Costinot (2006), "[On the Origins of Comparative Advantage](#)", mimeo UCSD

N. Nunn (2007), "[Relationship Specificity, Incomplete Contracts and the Pattern of Trade](#)", QJE forthcoming

D. Acemoglu, P. Antràs, and E. Helpman (2007), "[Contracts and Technology Adoption](#)", AER forthcoming

A. Cuñat and M. Melitz (2006), "[Volatility, Labor Market Flexibility and the Pattern of Comparative Advantage](#)", mimeo Harvard University

II. Sorting and Trade

G. Grossman and G. Maggi (2000), "[Diversity and Trade](#)," AER, 1255-1275.

G. Grossman (2004), "[The distribution of talent and the pattern and consequences of international trade](#)," JPE

F. Ohnsorge and D. Trefler (2004), "[Sorting it out: International trade and protection with heterogeneous workers](#)", NBER WP No 10959.