

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.

There is no text for this course. However, there will be a number of readings from:

Bhagwati, Jagdish N., Panagariya, Arvind, and Srinivasan, T. N., 1998,
Lectures on International Trade, 2nd edition, hereafter called B-P-S.

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

There will also be a few readings from another graduate text:

Feenstra, Robert C. *Advanced International Trade* (Princeton, NJ: Princeton), 2004, hereafter called F.

Students who have not studied international trade before may find it helpful to get an overview of the field from an undergraduate text. I can recommend:

Appleyard, Dennis R., Field Alfred J., Jr., and Cobb, Steven L., *International Economics, 6th edition*, 2008.

Caves, Richard E., Frankel, Jeffrey A., and Jones, Ronald W., *World Trade and Payments, 10th edition*, 2007.

Krugman, Paul R. and Obstfeld, Maurice, *International Economics, 8th edition*, 2009.

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.

*Costinot, Arnaud and Komunjer, Ivana, 2008,
What goods do countries trade? A structural Ricardian model, UCSD Working Paper.

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.

*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.

*Antràs, Pol, 2005,
Incomplete contracts and the product cycle, *American Economic Review* 95
(September): 1054-1073.

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 and Monopolistic Competition

A. Gains from intra-industry trade and agglomeration

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

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

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. The ideal product approach to 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.

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

C. Trade barriers

1. The home market effect

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

Rauch, James E. and Trindade, Vitor, 2009,
Neckties in the tropics: A model of international trade and cultural diversity,
Canadian Journal of Economics, forthcoming.

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

2. Determination of bilateral trade

*F, pp. 152-3, 156-161

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

Anderson, James E. and van Wincoop, Eric, 2003,
"Gravity with Gravitas: A Solution to the Border Puzzle," American Economic
Review 93 (March): 170-192.

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.

3. Fixed cost trade barriers and heterogeneous firms

*Bernard, Andrew B.; Redding, Stephen J.; and Schott, Peter K., 2007,
Comparative advantage and heterogeneous firms, Review of Economic Studies
74: 31-66.

*Arkolakis, Costas, 2008,
Market penetration costs and the new consumers margin in international trade,
National Bureau of Economic Research Working Paper No. 14214 (August).

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, National Bureau of Economic Research
Working Paper No. 13170.

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

*Moenius, Johannes; Rauch, James E.; and Trindade, Vitor, 2007,
Gravity and matching, UCSD working paper.

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.