

# ECON-671

## International Economics: Trade

American University  
Department of Economics  
Spring 2008  
*Class Time:* Thur. 5:30-8:00 p.m.  
*Room:* Ward 113

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*Office Hours:* M 2-4; W&Th 2:30-4:30

## Syllabus

This is a graduate course in international trade theory and policy analysis for M.A. and Ph.D. students in economics or other graduate students who have the required background. The **minimum prerequisites** for this course are ECON-500 or 703 (M.A. or Ph.D.-level micro theory), and ECON-505 or 705 (quantitative methods or mathematical economic analysis); ECON-603 or undergraduate micro does *not* count as a prerequisite. Graduate students with less technical background in math and microeconomics are advised to take other trade-related courses (e.g., ECON-670), or else to obtain the necessary prerequisites first and take this course later.

This is a rigorous and technically demanding course, which emphasizes both theoretical (mathematical) models as well as empirical studies of how well those models fit “real world” data. You will need to work on understanding the economic logic (intuition) behind the mathematical models, as well as thinking critically about the assumptions behind the theories and how well they do (or do not) fit actual trading economies. We will cover a mix of “old” and “new” ideas in trade theory, as well as selected trade policy issues. Since it is not possible to cover all aspects of international trade in 14 weeks, the lectures will focus on a “core” of major theoretical models, policy analyses, and empirical studies in topics 1-5 on the reading list below (other topics will be covered only as time permits).

## Class Website

A class website will be created using Blackboard ([blackboard.american.edu](http://blackboard.american.edu)). The website will contain this syllabus (and any updates) plus announcements, assignments, and other useful information (e.g., links to some required readings and related websites). The website will also be used for sending e-mail messages to class participants; I will use this feature extensively to make announcements. **You are responsible for accessing the class website and checking it (and your e-mail) regularly.** By default, the Blackboard system sends e-mail to your official @american.edu address; if you wish you may use [my.american.edu](http://my.american.edu) to have messages forwarded to another e-mail address, or you may change the default e-mail address in your personal settings in Blackboard. *It is **your** responsibility to make sure you are enrolled in the Blackboard course website and to configure your e-mail so that you receive messages from the instructor.*

## Books and References

### Books **ordered at the Campus Store:**

Robert C. Feenstra, *Advanced International Trade: Theory and Evidence*, Princeton University Press, 2004. ISBN10: 0-691-11410-2 [Our **main text** – a graduate (doctoral) level book.]

Edward Leamer, editor, *International Economics*, Worth Publishers, 2001. ISBN10: 1-57259-820-4. [A collection of important original articles on trade.]

Robert C. Feenstra & Alan M. Taylor, *International Trade*, Worth Publishers, 2008. ISBN13: 978-1-4292-0690-7. [An advanced undergraduate/M.A.-level book; useful for background but *not graduate-level*. If you had an undergraduate trade course, you may not need this.]

Note: If you order books on-line, use the ISBN numbers to make sure you get the right editions.

### Other books **on reserve at the library:**

Jagdish N. Bhagwati, ed. *International Trade: Selected Readings*, 2nd edition (Cambridge, MA: MIT Press, 1987).

Jagdish N. Bhagwati, Arvind Panagariya, & T. N. Srinivasan, *Lectures on International Trade*, second edition (Cambridge, MA: MIT Press, 1998).

William R. Cline, *Trade and Income Distribution* (Washington, DC: Institute for International Economics, 1997).

Stephen D. Cohen, Robert A. Blecker, & Peter D. Whitney, *Fundamentals of U.S. Foreign Trade Policy: Economics, Politics, Laws, and Issues*, 2<sup>nd</sup> edition. (Boulder: Westview, 2003).

Susan M. Collins, ed., *Imports, Exports, and the American Worker* (Washington, DC: Brookings Institution, 1998).

Ralph E. Gomory & William J. Baumol, *Global Trade and Conflicting National Interests* (Cambridge, MA: MIT Press, 2000).

Gene M. Grossman, ed., *Imperfect Competition and International Trade* (Cambridge, MA: MIT Press, 1992).

Gene M. Grossman & Kenneth Rogoff, eds., *Handbook of International Economics*, vol. 3, (Amsterdam: North-Holland, 1995).

Ronald W. Jones & Peter B. Kenen, eds., *Handbook of International Economics*, vol. 1, *International Trade* (Amsterdam: North-Holland, 1984).

Paul R. Krugman, *Rethinking International Trade* (Cambridge, MA: MIT Press, 1990).

Paul R. Krugman, *Geography and Trade* (Cambridge, MA: MIT Press, 1991).

Andrea Maneschi, *Comparative Advantage in International Trade: A Historical Perspective* (Edward Elgar, 1998)

Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, DC: Institute for International Economics, 1997).

# Work Requirements

There will be a **midterm** exam (tentatively scheduled for Thursday, March 6) and a **final** exam on **Thursday, May 1** (both at the regularly scheduled class time and place). Everyone must take the exams on the scheduled dates. The midterm and final will each count for 45% of the grade, but that a higher weight will be given to the final for students who improve substantially compared with the midterm. Problem sets will be distributed to provide practice for the exams. The problem sets will be *checked* for completeness and effort (but not graded on an A-F scale), and are *essential* study guides for the tests; problem sets will count for 10% of the grade.

## Reading List

**\*Denotes minimal required readings (subject to change).** [If you took undergraduate trade theory, the readings in Feenstra & Taylor are optional.]

**B = Blackboard (Course Documents); E = E-Reserves (also on Blackboard); R = book on reserve in the library.**

### 1. Core Trade Models: Ricardian and Neoclassical

\*Feenstra, *Advanced*, chap. 1.

\*Feenstra & Taylor, chap. 2.

\*Cohen, Blecker, and Whitney, *Fundamentals of U.S. Foreign Trade Policy*, chap. 3 [non-technical overview of trade theory and policy analysis] **R**

Leamer, Preface and readings by Samuelson (pp. 19-33) and Jones (pp. 24-55).

Rudiger Dornbusch, Stanley Fischer, & Paul Samuelson, "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review* 67 (1977): 823-39. **B**

Andrea Maneschi, *Comparative Advantage in International Trade: A Historical Perspective*.

Andrea Maneschi, "Dynamic Aspects of Ricardo's International Trade Theory," *Oxford Economic Papers* 35 (1983): 67-80. **B**

Andrea Maneschi, "Ricardo's International Trade Theory: Beyond the Comparative Cost Example," *Cambridge Journal of Economics* 16 (1992): 421-37.

Ian Steedman, ed., *Fundamental Issues in Trade Theory* (1979).

### 2. The Heckscher-Ohlin Model, Specific Factors Model, and Empirical Tests

\*Feenstra, *Advanced*, chaps. 2-3 (only pages 71-75 of chapter 3 will be covered in class).

\*Feenstra & Taylor, chaps. 3-4 (but we will cover these in the reverse order, 4 and then 3).

\*Leamer, readings by Bowen et al. (pp. 113-141), Leamer (pp. 142-150), and Trefler (pp. 151-176) [Neary (pp. 3-17) and Deardorff (pp. 55-71) are recommended].

Daniel Trefler, "International Factor Price Differences: Leontief Was Right!" *Journal of Political Economy* 101, no. 6 (December 1993): 961-87. **E**

### 3. Trade, Wages, and Outsourcing: Theoretical Perspectives and Empirical Studies

- \*Feenstra, *Advanced*, chap. 4.
- \*Feenstra & Taylor, chap. 7.
- \*Leamer, readings by Lawrence & Slaughter (pp. 177-203) and Leamer (pp. 204-231) [Davis (pp. 72-95) is recommended].
- \*Paul Samuelson, "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Concerning Globalization," *Journal of Economic Perspectives* 18, no. 3 (Summer 2004): 135-46, and Appendix 1; available at <http://www.e-jep.org> **B**
- \*G. E. Johnson & F. P. Stafford, "International Competition and Real Wages," *American Economic Review, Papers and Proceedings* 83 (May 1993): 127-30. **E**
- \*Henry Thompson, "Free Trade and Income Redistribution in a Three Factor Model of the U.S. Economy," *Southern Economic Journal* 63, no. 4 (April 1997): 1074-83. **E**
- \*L. Josh Bivens, "Wages, Profits, and Rent-Sharing in an Open Economy," *International Review of Applied Economics*, vol. 20, no. 1 (January 2006): 69-83. **E**
- \*Josh Bivens, "Globalization, American Wages, and Inequality: Past, Present, and Future," Economic Policy Institute, Working Paper # 279, September 2007. **B**
- Daniel Ortega and Francisco Rodríguez, "Trade Policy and Factor Prices: An Empirical Strategy" manuscript, April 2005. **B**
- A. Brewer, "Trade with Fixed Real Wages and Mobile Capital," *Journal of International Economics* 18 (1985): 177-86. **E?**
- Susan M. Collins, ed., *Imports, Exports, and the American Worker*. **R**
- Robert C. Feenstra, "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives* 12, no. 4 (Fall 1998): 31-50. **B**
- Dani Rodrik, *Has Globalization Gone Too Far?* chaps. 1-3. **R**
- William R. Cline, *Trade and Income Distribution*. **R**
- G. E. Johnson & F. P. Stafford, "The Labor Market Implications of International Trade," in O. Ashenfelter & D. Card, eds., *Handbook of Labor Economics*. **R**
- Paul Krugman, "Technology, Trade, and Factor Prices," *Journal of International Economics* 50 (2000): 51-71.
- Robert C. Feenstra, ed., Special Issue on Trade and Wages, *Journal of International Economics* 54, no. 1 (2001).

### 4. Increasing Returns, National Conflict, and the Gravity Model

- \*Feenstra, chap. 5.
- \*Leamer, readings by Krugman (pp. 255-266), Ethier (pp. 278-300), and Krugman (pp. 301-316) [Engel & Rogers (pp. 233-253) and Hummels & Levinsohn (pp. 339-359) are recommended].
- \*Feenstra & Taylor, chap. 6.
- \*Daniel Treffer, "The Long and Short of the Canada-U.S. Free Trade Agreement," *American Economic Review*, vol. 94, no. 4 (September 2004). **E**
- \*Ralph E. Gomory and William J. Baumol, "Globalization: Prospects, Promise, and Problems," Lecture Presented at the University of the West Indies (2004) [note this is a short, intuitive summary of the following book]. **B**
- R. E. Gomory and W. J. Baumol, *Global Trade and Conflicting National Interests*. **R**

\*Thomas Palley, "Rethinking Trade and Trade Policy: Gomory, Baumol, and Samuelson on Comparative Advantage," Levy Economics Institute, Public Policy Brief No. 86, 2006.

**B**

Paul R. Krugman, *Rethinking International Trade*. **R**

Paul R. Krugman, *Geography and Trade*. **R**

Bruce Elmslie & Antoine James, "The Renaissance of Adam Smith in Modern Theories of International Trade," in R.F. Hebert, ed., *Perspectives on the History of Economic Thought*, vol. IX (1993).

Robert A. Blecker, "The 'Unnatural and Retrograde Order': Adam Smith's Theories of Trade and Development Reconsidered," *Economica* 64 (August 1997): 527-37. **B**

Francesca Chiaramonte & Giovanni Dosi, "The Micro Foundations of Competitiveness and their Macroeconomic Implications," in D. Foray & C. Freeman, eds., *Technology and the Wealth of Nations* (Pinter, 1993).

## **5. Trade Policies Under Alternative Assumptions: Perfect Competition, Imperfect Competition, and Market Failures**

\*Feenstra, chaps. 6-8 (required pages TBA).

\*Feenstra & Taylor, chaps. 8-10 (required pages TBA).

\*Leamer, reading by Bhagwati (pp. 96-112), Brander & Krugman (pp. 267-277), Eaton & Grossman (pp. 317-338).

\*Josh Bivens, "The Gains from Trade: How Big and Who Gets Them?" Economic Policy Institute, Working Paper # 280, December 2007. **B**

Robert A. Blecker, "Stolper-Samuelson After Kalecki: International Trade and Income Distribution with Oligopolistic Mark-Ups and Partial Pass-Through," June 2007. **B**

Bhagwati, Panagariya, and Srinivasan, *Lectures on International Trade*, second edition, chaps. 12-22, 28-29, 31 [required and recommended pages TBA]. **R**

*Handbook of International Economics*, vol. 3, chs. 28-31. **R**

Giovanni Maggi, "Strategic Trade Policies with Endogenous Mode of Competition," *American Economic Review* 86, no. 1 (March 1996): 237-58. **E**

\*Keith Cowling & Roger Sugden, "Strategic Trade Policy Reconsidered: National Rivalry vs. Free Trade vs. International Cooperation," *Kyklos* 51, No. 3 (1998): 339-57. **E**

## **6. Political Economy of Trade Policy (Public Choice Models)**

Feenstra, chap. 9.

Leamer, reading by Grossman & Helpman (pp. 407-430).

## **7. Trade and Growth**

Feenstra, chap. 10.

Leamer, reading by Kremer (pp. 383-405).

## **8. International Factor Mobility and Multinational Corporations**

Feenstra, chap. 11.

Feenstra & Taylor, chap. 5.

Leamer, reading by Markusen (pp. 361-382).

## **9. Preferential Trade Arrangements**

Feenstra, chap. 6 (pp. 192-204 only).

Feenstra & Taylor, chap. 11.