Iowa State University
International Trade Theory (Econ 655)
Fall 2004

Instructor: Harvey Lapan

Prerequisites: Economics 603

Course Requirements:
The course grade will be based on an (optional) midterm exam, a final exam, and a paper. The paper is worth 35% of the grade. For those who take both exams, the midterm will be worth 25% and the final 40% of the grade, while for those who take only the final, it will be worth 65% of the grade. The paper topic must be discussed with me before Thanksgiving break, and a detailed outline of the paper must be turned in by the end of classes.

Required Text:

Recommended Text & Readings:
Jones & Kenen, eds., Handbook of International Economics, North-Holland, 1988 (paper); Vol. 1. [JK]
Wong, Kar-yiu, International Trade in Goods and Factor Mobility, MIT Press, [1997]

Several Readings come from each of the following (which are surveys, collections of articles, etc):
Greenway & Winters, Surveys in International Trade, Blackwell, 1994. [GW]
Helpman & Krugman, Market Structure and Foreign Trade, MIT Press, 1985, [HK1]

Note: For those wishing more details on any topic, the two Handbooks contain extensive references in each chapter.

Finding Readings: As you know, the Econ Reading Room – where economics course materials used to be stored, has closed. The required and recommended texts for the course are on reserve at the main library. Many of the articles can be found on JSTOR – I have inserted links (see the online reading list) for the required readings that are on JSTOR. For the other required readings, I have arranged for the main library to make them available (I believe they should be available online – most of these are in the Journal of International Economics). Many of the other readings (non-required) can also be found through JSTOR; and all journals should be available in hard copy in the library.

Purpose of the Course:
The purpose of this course is to acquaint students with the basic tools and propositions of international trade theory. There is no way that we can cover all of the material of the discipline in a single semester (many schools have a two semester sequence). The reading list is meant to indicate some of the more important topics in the area, and provide you with readings should you be interested in pursuing one of these topics as a course paper.
(Starred readings are required; at least some of the others should be read).

I. Introduction

*1) DN, Chs. 1-2
2) Krugman-Obstfeld, Chs. 1-5

II. Trade and Welfare: The Gains from Trade

*1) DN, Ch. 4
*2) Corden, Ch. 2 in Handbook, Vol. 1. [JK]

III. The Ricardian Model of Comparative Advantage

*1) BPS, Chs. 1-4.

IV. The Heckscher-Ohlin-Samuelson Model: Trade and Factor Prices

*1) DN, Ch. 4.
3) Wong, Chapter 2.
6) HK1, Ch. 1.

V. Extensions of the H-O Model and Alternative Trade Theories

A. Specific Factors

*1) BPS, Ch. 7

B. Technological Differences


C. Higher Dimensional Issues

*1) Ethier, Ch. 3, in Handbook, Vol. 1. [JK]
*2) Deardorff, "Weak Links in the Chain of Comparative Advantage," JIE, 5/79, 197-209 (e-library)
3) Wong, Chapter 2.
4) BPS, Ch.8
D. Nontraded Goods and Intermediate Inputs

VI. Empirical Studies
   *1) Leamer & Levinsohn, Ch. 26 in Handbook, Vol. 3. [GR]
   4) Trefler, D., "International factor price differences: Leontief was right!", JPE, 12/1993, 961-87.
   8) Leamer, E.E., Sources of Comparative Advantage, MIT Press, 1984 [L]- Chs 4 & 6, online at: http://www.anderson.ucla.edu/acad_unit/gem/faculty/leamer/books/leamer_sources_chapters_feb03/sources.htm
   13) Deardorff, Ch. 10, in Handbook, Vol. 1. [JK]

VII. Trade Patterns: Scale Economies and Imperfect Competition

A. Surveys
   *1) Helpman, Ch. 7 in Handbook, Vol. 1, [JK].
   *2) Krugman, Ch. 24 in Handbook, Vol 3. [GR].
   3) Smith, A., “Imperfect Competition and international trade,” in [GW]

B. External Economies
   *1) HK1 - Market Structure & Foreign Trade - Ch 3
   3) Wong, Chapter 5.

C. Oligopoly
   *1) HK1, Ch 5 Market Structure and Foreign Trade
   *3) Brander & Krugman, “A Reciprocal dumping model of international trade,” JIE 1983; Ch 1 in [G].
   4) Ben-Zvi and Helpman, “Oligopoly in Segmented Markets”, Ch. 2 in [G]
   5) Ethier, National and international returns to scale and the modern theory of international trade, AER, 1982, pp. 950-59 & Ch 14 in [G].

D. Monopolistic Competition
   *1) HK1, Ch. 6-11
*3) Helpman, "International Trade in the Presence of Product Differentiation, Economies of Scale and Monopolistic Competition: A Chamberlain-Heckscher-Ohlin Approach" JIE, 8/81, 305-40, & Ch. 13 in [G]. \(\text{e-library}\)

4) Ethier, National and international returns to scale and the modern theory of international trade, AER, 1982, 950-59 & Ch 14 in [G].

5) Krugman, “Intraindustry specialization and the gains from trade”, JPE, 1981, 959-74; Ch. 3 in [K]

6) Krugman, "Increasing Returns, Monopolistic Competition and International Trade," JIE, 11/79, 469-79 (Ch. 9 in [B]).


8) Wong, Chapters 6-7.

VIII. The Theory of Commercial Policy - Perfect Competition

A. Tariffs, Commodity and Factor Prices, and Welfare

1) BPS book, Ch12

2) DN, Ch. 5-6.


4) Helpman & Krugman, Chs. 1-4 (HK2)


B. Empirical Studies

1) Feenstra, Ch. 30, in Handbook, Vol. 3., [GR]


C. Optimal Tariffs and Retaliation: Large Country Case


4) Maskin and Newbery, “Disadvantageous Oil Tariffs and Dynamic Consistency,” AER, 3/90, 143-56

D. The (Non-)Equivalence of Tariffs and Quotas: Deterministic Models

1) BPS, Ch. 13.


E. Quotas, Tariffs & Quality


F. Quotas, Tariffs and Uncertainty

1) Pelcovitis, "Quotas vs. Tariffs under Uncertainty," JIE, 11/76, 363-70. \(\text{e-library}\)
3) Young, "Ranking Optimal Tariffs and Quotas for a Large Country under Uncertainty," **JIE** 5/79, 249-64.

**IX. Theory of Effective Protection**

*1) **BPS** book, Ch. 15.


**X. Domestic Distortions and Commercial Policy**

*1) **BPS**, Chs. 22-28.


5) Wong, Chapters 9-10.

**A. Infant Industry Argument for Protection**


**B. Piecemeal Policy Reform**

*1) Anderson and Neary, "Trade Reform with Quotas, Partial Rent Retention and Tariffs", **EMA**, Vol. 60, No. 1, Jan 1992, 57-76

*2) **BPS**, Chs. 31 & 39


**XI. Political Economy of Protectionism**

*1) Baldwin, Ch. 12 in **Handbook**, Vol 1 [JK].

*2) Rodrik, Ch. 28 in **Handbook**, Vol 3 [GR].


**II. Theory of Customs Union**


*3) Richard E. Baldwin & A. J. Venables, Ch. 31 in **Handbook** [GR], Vol. 3.

*4) Krugman, "Is Bilateralism Bad?" Ch. 1 in Helpman-Razin [HR].

XIII. Strategic Trade Policy
2) Brander, Ch. 27 in Handbook, Vol. 3. [GR].
3) Brander and Spencer, "Export Subsidies and International Market Share Rivalry," JIE, 1985, 83-100. [e-library]
5) Krishna, “Trade Restrictions as Facilitating Practices,” JIE, May 1989, 251-70 & Ch. 5 in [G]. {not available online}
9) Brander and Spencer, “Tariff Protection and Imperfect Competition,” Ch. 6 in [G].

XIV. Empirical Studies of Imperfect Competition

XV. Multinational Corporations
1) HK1, Chapters 12-13
8) Markusen, “Multinationals, Multi-Plant Economies, and the Gains from Trade,” JIE, 5/84, 205-24; Ch. 28 in [B].

XVI. Trade Under Uncertainty
*1) BPS, Ch. 39

XVII. Trade Policy Under Uncertainty
A. Incomplete Risk Markets

B. Asymmetric Information
*1) Dixit, “Trade and Insurance with Moral Hazard,” JIE, Nov. 1987, 201-20. [not available online]

XVIII. Trade and Growth
1) Findlay, Ch. 4 in Handbook, [JK], Vol. 1.
2) Grossman & Helpman, Ch. 25 in Handbook [GR]
4) Krugman, “A ‘Technology Gap Model of International Trade’”, in [K], Ch. 10.
6) GH, chs 3, 4, 7-10
8) Grossman and Helpman, “Product Development and International Trade, JPE, Dec. 1989, 1261-83 (also Ch. 17 in [G])
10) Grossman and Helpman, “Comparative Advantage and Long-Run Growth,” AER, Sept. 90, 796-815; Ch. 17 in [G]

XX. North-South Trade
*2) GH, Chs. 11-12

XXI. Evidence on R&D, Trade and Growth


XXII. Factor Movements, Trade and Welfare

*1) BPS, Chs. 32-33.
*2) Handbook [JK], Ch. 5.
4) DN, Ch. 5.
5) Wong, Chapter 14.

XXIII. Trade, Technology and Wages


XXIV. Miscellaneous Topics

A. International Rules and Institutions for Trade Policy

1) Staiger, Ch. 29 in Handbook, Vol. 3 [GR].

B. Dumping


C. Trade, Natural Resources and the Environment

1) Kemp and van Long, Ch. 8 in Handbook, Vol. 1. [JK].

Journal Abbreviations:

AER - American Economic Review
BPEA - Brookings Papers on Economic Activity
CJE - Canadian Journal of Economics
EER - European Economic Review
EJ - Economic Journal
EMA - Econometrica
IER - International Economic Review
JEL - Journal of Economic Literature
JDE - Journal of Development Economics
JEP - Journal of Economic Perspectives
JIE - Journal of International Economics
JJE - Journal of the Japanese and International Economies
JPE - Journal of Political Economy
OEP - Oxford Economic Papers
QJE - Quarterly Journal of Economics
RE Stat - Review of Economics and Statistics