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.

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]
3) BPS book, Chs. 17-19

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.
4) Wong, Chapter 2.
7) HK1, Ch.
8) BPS, Chs. 5-6, 9-10.

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]
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.
11) 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 Reciprocald 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
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]).
7) 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.
3) Rodriguez, The Non-Equivalence of Tariffs and Quotas under Retaliation," JIE, 11/74, 295-98 (in Bhagwati Readings, MIT, Ch. 13).

E. Quotas, Tariffs & Quality

F. Quotas, Tariffs and Uncertainty
2) Young & Anderson, "Risk Aversion and Optimal Trade Restrictions," RES, 4/82, 291-306.
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.
4) Krueger, Ch. 11, Sections 3-4, in Handbook, Vol. 1 [JK]

X. Domestic Distortions and Commercial Policy
*1) BPS, Chs. 22-28.
*2) Johnson, "Optimal Trade Intervention in the Presence of Domestic Distortions," in Bhagwati Readings, MIT, Ch. 15.
*3) Bhagwati and Srinivasan, "Optimal Intervention to Achieve Non-Economic Objectives," RES, 1/69, 27-38.
9) Wong, Chapter 910.

A. Infant Industry Argument for Protection

B. Piecemeal Policy Reform
*1) Anderson and Neary, "Trade Reform with Quotas, Partial Rent Retention and Tariffs", EMA, 1/92, 57-76
*2) BPS, Chs. 31 & 39
3) Beghin and Karp, "Tariff Reform in the Presence of Sector-Specific Distortions", CJE, 1992, 294-309
5) Falvey, "Tariffs, Quotas and Piecemeal Policy Reform", JIE, 1988, 173-83

XI. Political Economy of Protectionism
*1) Baldwin, Ch. 12 in Handbook, Vol 1 [JK].
*2) Rodrik, Ch. 28 in Handbook, Vol 3 [GR].
*4) Krueger, "The Political Economy of the Rent-Seeking Society," AER, 6/74, 291-303 ([B], Ch. 17)
XII. Theory of Customs Union

2) Kemp and Wan, "An Elementary Proposition Concerning the Formation of Customs Unions," (Ch. 21 in [B]), _JIE_, 1976.
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].
9) Krugman, "Import Protection as Export Promotion: International Competition in the Presence of Oligopoly and Economies of Scale," Ch. 4 in [G].
10) Brander and Spencer, "Tariff Protection and Imperfect Competition," Ch. 6 in [G].
15) Wong, Chapter 12.

XIV. Empirical Studies of Imperfect Competition


XV. Multinational Corporations
*1) HK1, Chapters 12-13
9) 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

XVIII. Trade and Growth I
*1) Findlay, Ch. 4 in Handbook, [JK], Vol. 1.
5) Krugman, “A Technology Gap Model of International Trade’’, in [K], Ch. 10.
7) Brecher and Diaz-Alejandro, "Tariffs, Foreign Capital and Immiserizing Growth," in Bhagwati Readings, Ch. 23.
8) Grossman and Helpman, "Growth and Welfare in a Small Open Economy,” Ch. 8 in [HR].

XIX. Trade and Growth II
*1) Grossman & Helpman, Ch. 25 in Handbook [GR]
5) GH, chs 3, 4, 7-10
7) 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. Dynamics of 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.
6) Wong, "Are International Trade and Factor Mobility Substitutes," JIE, 8/86, 25-44. (Ch. 3 in [B]).
10) 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:

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<th>Abbreviation</th>
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<tr>
<td>AER</td>
<td>American Economic Review</td>
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<td>BPEA</td>
<td>Brookings Papers on Economic Activity</td>
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<td>CJE</td>
<td>Canadian Journal of Economics</td>
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<td>EER</td>
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<td>EJ</td>
<td>Economic Journal</td>
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<td>EMA</td>
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<td>IER</td>
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<td>JEL</td>
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<td>JDE</td>
<td>Journal of Development Economics</td>
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<td>Journal of Economic Perspectives</td>
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