

Boston University
Department of Economics

Economics 598
The Economics of Globalization
Spring 2014

Syllabus

Instructor

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Logistics

Lecture days and time: Tuesday-Thursday 2.00-3.30pm
Lecture location: CAS116
Course Webpage: on Blackboard

Course Overview

This course is an advanced course in International Economics, targeted to MA students with a background in International Trade at the master or at the undergraduate level. We study various aspects of globalization, both theoretically and empirically, using standard tools from trade theory.

After briefly reviewing background material, we will focus on the drivers of trade at the firm-level. What determines if firms export, and which foreign markets they enter? More generally, what is the role of firms' heterogeneity in shaping export decisions? The emphasis on firm-level behavior will be useful to introduce important alternative modes of foreign operations: multinational production, foreign direct investment and offshoring.

We will introduce multinational production as an additional/alternative possibility for firms to serve foreign markets. We will study the classical theory of multinational firms, based on the proximity-concentration trade-off, and the firm level decision between trade and multinational production. We will then move to more recent theories of the international organization of the firm, vertical specialization, outsourcing, and offshoring. We will explore the effects of multinational production on the labor markets and on welfare.

The starting point of the analysis of each topic will be the understanding of past and current events in the world economy, often by reading articles from the press. We will then use formal modeling to understand these events, and we will outline empirical procedures to test the theories. The lectures will attempt to make the papers, which are sometimes advanced, accessible to the students.

Background and Prerequisites

Students should have completed the following courses:

- EC391 or EC591 or equivalent (International Trade)
- EC201 or EC501 or equivalent (Intermediate Microeconomics)
- MA121 or MA123 or MA127 or EC505 or equivalent (Calculus)
- EC 203 or EC305 or EC507 or equivalent (Statistics).

Grounding in microeconomic theory and a previous course in international trade are required, since the course is built on the main models of trade usually taught in intermediate level courses. Calculus is used to develop the theories covered in this course; in particular the techniques of unconstrained and constrained optimization will be used extensively. Basic knowledge of Statistics is required for the understanding of some empirical aspects of the subject; further knowledge of Econometrics (EC414 or EC508 or equivalent) is desirable. Prerequisites may be waived by the instructor.

Readings

There is no textbook assigned for this course. Papers and newspaper articles that we will cover will be posted on the Blackboard website. Most papers are also available at <http://www.jstor.org> and may usually be found using <http://scholar.google.com>. I will sometimes distribute class notes, also via Blackboard.

For those who feel the need of refreshing the main background concepts in trade theory, good references are:

- Robert C. Feenstra and Alan M. Taylor, *International Trade*. Worth Publishers, Second Edition.
- John McLaren, *International Trade*. Wiley.
- Dominick Salvatore, *International Economics*. Wiley, Eight Edition.

Grading

The course grade will be based on problem sets, a midterm exam, and a final paper.

Problem Sets: 20%

Midterm: 35%

Final Paper: 45%

Class participation will be also evaluated at the end of the semester and may be taken into account when assigning grades in borderline cases.

If you have questions about the grading of a problem set/exam, please contact the teaching fellow within a week after you have received the graded work. Re-grading requests may raise or lower your score.

I will not accept submissions of homework past the due date, and I will not offer make-up exams. The Midterm exam will take place on **Thursday, March 6th**, during class time.

Preparation of course papers by the students will follow this timeline:

- By **February 15**: students choose a topic from a list (or propose a topic on their own), and discuss topic chosen with instructor.
- By **March 31**: check on progress made with instructor.
- **May 8th**: papers due.

(Non-exhaustive) list of possible topics:

- Case study on the operations of a multinational firm (Apple, Nike, Boeing, Mattel, etc.).
- Patterns of U.S. Intrafirm Trade: Empirical analysis with BEA or Census Data.
- Document/describe examples of vertical supply chains.
- Globalization and the effects of crises.
- Case study on the implications of outsourcing for labor markets in specific sectors and countries.
- Case study on international technology diffusion in specific sectors and countries.
- Global services (transportations, telecommunications, business services...).
- Global banking.

Academic Conduct Statement

It is your responsibility to know and understand the provisions of the CAS Academic Conduct Code. The encouragement to collaborate on homework assignments is not extended to tests. Read the CAS Academic Conduct Code, which you can pick up in room CAS B-3 or download on www.bu.edu/cas/academics/programs/conductcode.html. Misconduct can involve more subtle acts than direct cheating: for instance, submitting the

same work for several courses without the consent of instructors. I will report all cases of suspected academic misconduct to the Deans' Office.

Course Outline and (Tentative) Time Schedule

This schedule is tentative and will be adjusted depending on speed of progress and students' interests.

◆ **Introduction: Some Ideas about Trade and Globalization. (Jan 16)**

- Irwin, D. (1996). "The United States in a New Global Economy? A Century's Perspective". *The American Economic Review, Papers and Proceedings*, 86(2): 41-46.
- Krugman, P., R.N. Cooper, and T.N. Srinivasan (1995). "Growing World Trade: Causes and Consequences". *Brookings Papers on Economic Activity* 1:327-377.
- *The Economist* (2011). Survey: "The World Economy". September 22nd.
- *The Economist* (2008). Survey: "Globalization". September 20th.

◆ **Background in International Trade: Comparative Advantage, Technology, and Factor Endowments. (Jan 21-23)**

- Feenstra, Chapter 2-4, or Salvatore, Chapters 2 and 5.

◆ **Background in International Trade: The "New Trade Theory". (Jan 28)**

- Feenstra, Chapter 6, or Salvatore, Chapter 6.
- Krugman, P. (2008). "The Increasing Returns Revolution in Trade and Geography". Nobel Prize Lecture.
- Krugman, P. (1980). "Scale Economies, Product Differentiation and the Pattern of Trade". *The American Economic Review* 70(5): 950-959.

◆ **The "New" New Trade Theory: A Firm-Level Perspective. (Jan 30-Feb 13)**

- Bernard, A.B., J.B. Jensen S. Redding, and P.K. Schott (2007). "Firms in International Trade". *Journal of Economic Perspectives* 21(3): 105-130.
- Bernard, A.B. and J.B. Jensen (1999). "Exceptional Exporter Performance: Cause, Effect, or Both?". *Journal of International Economics* 47(1): 1-25.

- Bernard, A., and J.B. Jensen (2004). “Why Some Firms Export”. *The Review of Economics and Statistics*, 86(2): 561-569.
- Melitz, M. J. (2008). “International Trade and Heterogeneous Firms”. *The New Palgrave Dictionary of Economics*. 2nd Edition. Eds. Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan.
- Melitz, M. J. (2003). “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity”. *Econometrica* 71(6): 1695-1725.
- Eaton, J., S. Kortum, and F. Kramarz (2011). “An Anatomy of International Trade: Evidence from French Firms”. *Econometrica*.
- Bernard, A.B., J.B. Jensen S. Redding, and P.K. Schott (Forthcoming). “The Empirics of Firm Heterogeneity and International Trade”. *Annual Review of Economics*.

◆ **Multinational Firms, Foreign Direct Investment, Intrafirm Trade (Feb 13-27)**

- Bernard, A.B., J.B. Jensen, and P.K. Schott (2009). “Importers, Exporters, and Multinationals: A Portrait of Firms in the U.S. that Trade Goods”. In T. Dunne, J.B. Jensen and M.J. Roberts (eds.), *Producer Dynamics: New Evidence from Micro Data*. Chicago: University of Chicago Press.
- Markusen, J.R. (1995). “The Boundaries of Multinational Enterprises and the Theory of International Trade”. *Journal of Economic Perspectives*, 9(2): 169-189.
- Brainard, S.L. (1997). “An Empirical Assessment of the Proximity-Concentration Trade-off between Multinational Sales and Trade”. *The American Economic Review* 87(4): 520-544.
- Helpman, E., M.J. Melitz, and S.R. Yeaple (2004). “Exports versus FDI with Heterogeneous Firms”. *The American Economic Review* 94(1): 300-316.
- Antràs, P. (2003). “Firms, Contracts, and Trade Structure”. *Quarterly Journal of Economics*, 118 (4): 1375-1418.
- Nunn, Nathan, and Daniel Trefler (2008). “The Boundaries of the Multinational Firm: An Empirical Analysis.” In E. Helpman, D. Marin, and T. Verdier (eds.), *The Organization of Firms in a Global Economy*, 55–83. Cambridge, MA: Harvard University Press.

◆ **Outsourcing, Trade in Intermediates, Vertical Specialization. (Mar 4, Mar 18)**

- *The Economist* (2004). Survey: “Outsourcing”. November 11.
- Tempest, R. (1996). “Barbie and the World Economy”. *Los Angeles Times*, September 22.
- Linden, G., K. Kraemer, and J. Dedrick. (2007). “Who Captures Value in a Global Innovation System? The case of Apple’s iPod.” Unpublished Manuscript, Personal Computing Industry Center, UC Irvine.
- “Boeing 787 Dreamliner Will Provide New Solutions for Airlines, Passengers”, available at: <http://www.boeing.com/commercial/787family/background.html>
- Hanson, G.H., R.J. Mataloni, and M.J. Slaughter (2005). “Vertical Production Networks in Multinational Firms.” *The Review of Economics and Statistics* 87 (4): 664-678.

◆ **Offshoring. (Mar 20-25)**

- Amiti, M. and S. Wei (2009). “Service Offshoring and Productivity: Evidence from the US”. *The World Economy* 32(2): 203-220.
- Grossman, G., and E. Rossi-Hansberg (2008). “Trading Tasks: A Simple Theory of Offshoring”. *The American Economic Review* 98(5): 1978-1997.

◆ **Knowledge and Technology Diffusion (Mar 27-Apr 1)**

- Comin, D., and B. Hobijn (2004). “Cross-country Technological Adoption: Making the Theories Face the Facts”. *Journal of Monetary Economics* 51: 39-83.
- Comin, D., and B. Hobijn (2010). “An Exploration of Technology Diffusion”. *American Economic Review* 100 (5): 2031–59.
- Comin, D. and M. Mestieri (2013). “Technology Diffusion: Measurement, Causes, and Consequences”. NBER Working Paper 19052.

◆ **Globalization and the Labor Markets. (Apr 3-8)**

- Krugman, P., and R. Lawrence (1994). “Trade, Jobs, and Wages”. *Scientific American*.

- *The Economist* (2008) Economic Focus: “Krugman’s Conundrum”. April 17.
- Feenstra, R., and G. Hanson (1999). “The Impact of Outsourcing and High Technology Capital on Wages: Estimates for the United States, 1970-1990”. *Quarterly Journal of Economics* 114(3): 907-940.
- Feenstra, R., and G. Hanson (2005). “Global Production and Inequality: A Survey of Trade and Wages”. In E.K. Choi and J. Harrigan, eds., *Handbook of International Trade*. Oxford: Basil-Blackwell.

♦ **Migration (Apr 10-17)**

- *The Economist* (2008). Special Report: “Migration”. January 3.
- Clemens, M. (2011). “Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?” *Journal of Economic Perspectives* 25(3): 83-106.
- Gibson, J., and D. McKenzie (2011). “Eight Questions about Brain Drain”. *Journal of Economic Perspectives* 25(3): 107-28.
- Docquier, F. and H. Rapoport (2012). “Globalization, Brain Drain, and Development”. *Journal of Economic Literature* 50(3): 681-730.

♦ **Global Banking (Apr 22-29)**

- Aliber, R.Z. (1984). “International Banking: A Survey”. *Journal of Money, Credit, and Banking* 16(4): 661-678.
- Goldberg, L. (2009). “Understanding Banking Sector Globalization”. *IMF Staff Papers*.