

Boston University  
Department of Economics

**Economics 391  
International Trade  
Spring 2012**

*Syllabus*

Instructor

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Teaching Fellow

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Logistics

Lecture days and time: Tuesday-Thursday 9.30-11.00am  
Lecture location: KCB 106  
Course Webpage: on Blackboard

Course Overview

This course analyzes the causes and consequences of international trade. We will study why nations trade, what they trade, the role of firms in international trade, and who gains from trade. The first part of the semester will be devoted to acquire the skills to answer the questions above. Equipped with the tools of trade theory, we will then move on to analyze trade policy, the effects of trade on the labor market, and related topics like multinational production, foreign direct investment, outsourcing, and migration.

The starting point of the analysis will be the understanding of past and current events in the world economy. We will use formal modeling to understand these events. I will sometimes outline empirical procedures to test the theories.

### Background and Prerequisites

Students should have completed the following courses:

- MA 121 or 123 or 127 (calculus)
- EC 201 (Intermediate Microeconomics)
- EC 202 (Intermediate Macroeconomics)

Calculus is a necessary prerequisite, as the techniques of unconstrained and constrained optimization will be used extensively in this course. If you have not taken yet either EC 202 or EC 201, you may take it concurrently as a co-requisite. Previous background in Statistics is not required, but can be helpful.

### Readings

The principal textbook for this course is:

- Robert C. Feenstra and Alan M. Taylor, *International Trade*. Worth Publishers, Second Edition.

The textbook is available at Barnes and Noble's bookstore. Students should also have a copy of an Intermediate Microeconomics textbook (Varian, Perloff, or equivalent) as a reference.

The articles listed in the Syllabus will be posted on Blackboard.

### Grading

The course grade will be based on problem sets and exams:

|               |     |
|---------------|-----|
| Problem Sets: | 20% |
| Midterm:      | 35% |
| Final:        | 45% |

Class participation will be also evaluated at the end of the semester and will help me assigning grades to the border 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 8<sup>th</sup>, during class time. The Final exam's date has not yet been announced by the College. The final is comprehensive and closed-book.

### 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](http://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 (Jan 17)**

- Feenstra, Chapter 1.1.
- Krugman, P. (1993). "What do Undergrads Need to Know about Trade?". *The American Economic Review, Papers and Proceedings*, 83(2): 23-26.
- 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.

#### ♦ **Microeconomics Preliminaries: Endowment Economies and Production Economies (Jan 19 – Feb 7)**

- Varian, Chapters 2-5, or Perloff, Chapter 3, or equivalent.

#### ♦ **The Ricardian Model: Comparative Advantage and the Gains from Trade (Feb 9 – 23)**

- Feenstra, Chapter 2.
- Ricardo, D. (1821). "On the Principles of Political Economy and Taxation", Chapter 7: "On Foreign Trade".
- Dornbusch, R., S. Fischer, and P. Samuelson (1977). "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods". *The American Economic Review* 67(5): 823-839.

- ♦ **Technology and Factor Endowments (I): the Specific Factors Model (Feb 28-Mar 6)**
  - Feenstra, Chapter 3.
  
- ♦ **MIDTERM EXAM (Mar 8)**
  
- ♦ **Technology and Factor Endowments (II): the Heckscher-Ohlin Model (Mar 20-29)**
  - Feenstra, Chapter 4.
  
- ♦ **The “New Trade Theory”: Increasing Returns to Scale and Imperfect Competition (Apr 3 - 12)**
  - Feenstra, Chapter 6.
  - Krugman, P. (1980). “Scale Economies, Product Differentiation and the Pattern of Trade”. *The American Economic Review* 70(5): 950-959.
  - Krugman, P. (2008). “The Increasing Returns Revolution in Trade and Geography”. Nobel Prize Lecture.
  - 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.
  
- ♦ **Topics (Apr 17- 24)**
  - 1) Trade, Wages, and the Labor Market**
    - Krugman, P., and R. Lawrence (1994). “Trade, Jobs, and Wages”. *Scientific American*.
    - 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* (2006). Survey: “A World Economy. More Pain than Gain”. September 14.
    - *The Economist* (2008) Economic Focus: “Krugman’s Conundrum”. April 17.

## **2) Multinational Firms and Foreign Direct Investment**

- Feenstra, Chapters 1.2, 5.2
- Markusen, J.R. (1995). "The Boundaries of Multinational Enterprises and the Theory of International Trade". *Journal of Economic Perspectives*, 9(2): 169-189.
- 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.

## **3) Outsourcing and Trade in Intermediates**

- Feenstra, Chapter 7.
- 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>
- *The Economist* (2004). Survey: "Outsourcing". November 11.

## **4) Migration**

- Feenstra, Chapters 1.2, 5.1.
- *The Economist* (2008). Special Report: "Migration". January 3.

### **♦ Trade Policy (Apr 26 - May 1)**

- Feenstra, Chapters 8-9.

### **♦ FINAL EXAM (to be scheduled between May 7 and May 11).**