

Economics 791: Topics in International Trade
Syllabus: Fall 2008

Instructor: Marianne Baxter, office: 270 Bay State Rd., Room 505.
Telephone: 617-353-2417. e-mail: mbaxter@bu.edu

Time and location: Monday, 5:30 – 8:30, SSW 315

Office hours: Monday, 2:30-3:30, Tuesday, 11:30-12:30 and other times by appointment.

Description: This course covers the field of international trade. The focus is on combining insights from theoretical and empirical analyses.

Requirements and grading: First, and most important, is the requirement that you read the assigned papers in advance and arrive in class ready to discuss the readings.

Component 1: Class participation. Class participation is of the utmost importance, and will account for 35% of your grade. Class participation involves arriving at class having read the assigned papers, and being ready to engage in discussion of the papers. There is an additional component to the class participation component of your grade. Most weeks we will have an additional assigned paper that is important but will not be the main focus of the class that week. A student will present a concise discussion of the important points of the paper and the way in which the paper fits into the literature. With 4 students in the class, you will each present three times. Each of these presentations should take about 30 minutes.

Component 2: Students will critique a specific topic in international economics. The choice is up to you—I have included reading lists for several areas from which you can choose, or you can propose something else. The critique includes the following: (i) prepare a list of central papers in the area: at least 4, but no more than 8; (ii) write a survey of the research area; (iv) develop a research plan for a new contribution to this area. The planned research can be empirical or theoretical or, ideally, both. The research proposal will take the format of an NSF proposal, which includes a summary sheet (1 page) and a 10-page description of the proposed research. This part of the grade counts for 35% of the total.

Component 3: There will be an open-book, cumulative exam during finals week. This will account for 30% of your grade.

Academic Conduct: It is your responsibility to know and understand the provisions of the CAS Academic Conduct Code (copies are available in room CAS 105). Cases of suspected academic misconduct will be referred to the Dean's Office.

Books: The following books may be useful; most are available in paperback. If still in print, they can be found at <http://www.amazon.com> and other online booksellers.

Feenstra, Robert. (2003) “Advanced International Trade: Theory and Evidence,” published by Princeton University Press. Not required, but the book provides a very good overview of several of the topics that we will cover.

Dixit, A. and V. Norman, Theory of International Trade, (Cambridge, Cambridge University Press), 1980.

Jones, R.W. and P.B. Kenen (eds.), Handbook of International Economics, Vol. I, (Amsterdam, North Holland), 1984.

Leamer, E.E., Sources of International Comparative Advantage, (Cambridge, MA, and London, The MIT Press), 1984. (out of print)

Helpman, E. and P. Krugman, Market Structure and Foreign Trade, (Cambridge, MA, and London, The MIT Press), 1985.

Helpman, E. and P. Krugman, Trade Policy and Market Structure, (Cambridge, MA, and London, The MIT Press), 1989.

Grossman, G.M. and E. Helpman, Innovation and Growth in the Global Economy, (Cambridge, Ma, and London, The MIT Press), 1991.

Grossman, G.M. and K. Rogoff (eds.), Handbook of International Economics, Vol. III, (Amsterdam, North Holland), 1995.

Course Outline

Note: Required readings through Section 5 are indicated by an asterisk (*).
Required readings will not always be covered in class, but may be covered on the final exam.

Section I: Basics

1: Preliminaries; The Ricardian Model

- * Feenstra, Chapter 1
- * Jones, Ronald (1965) "The Structure of Simple General Equilibrium Models," *Journal of Political Economy*, December 1965, 557-562. (just the first part of the paper)
- * Dornbusch, R., S. Fischer and P. Samuelson (1977), "Comparative Advantage, Trade, and Payments with a Continuum of Goods," *American Economic Review* 67: 823-839.
- Jones/Neary, "The Positive Theory of International Trade," Chapter 1 of *Handbook in International Economics*, Vol. 1

2. The Heckscher-Ohlin Model

- * Feenstra, Chapter 2
- * Leamer, Edward "The Leontief Paradox Reconsidered," *Journal of Political Economy* 88:3 (1980), 495-503.
- Helpman and Krugman (1985), Chapter 1.

3. Empirical Evidence on Aspects of International Trade: Testing the Theories

- * Trefler, D., "International Factor Price Differences: Leontief was Right!," *Journal of Political Economy*, December, 1993, 101(6), 961-87.
- * Trefler, D., "The Case of the Missing Trade and Other Mysteries," *American Economic Review*, December 1995, 85(5), 1029-46
- * Bowen, Harry; Edward Leamer and Leo Sveikauskas, "Multicountry, Multifactor Tests of the Factor Abundance Theory," *American Economic Review* 1987, 791-809.
- Harrigan, J. (1997) "Technology, Factor Supplies, and International Specialization," *American Economic Review* 87: 475-494.
- * Helpman, E. "The Structure of Foreign Trade," *Journal of Economic Perspectives*, Spring 1999, 13(2), 121-44.
- * Y.-S. Choi and P. Krishna, "The factor content of bilateral trade: An empirical test," *Journal of Political Economy* 2004, 887-914.
- Davis, D.R. and D.W. Weinstein, "An Account of Global Factor Trade," *American Economic Review*, December 2001, 91(5), 1423-53.
- * Baxter, M. and M. Kouparitsas, (2006), "What Determines International Trade Flows?," NBER Working Paper 12188.

4: Increasing Returns and the Gravity Equation

- * Krugman, P. (1980) "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review* 70, 950-959.

- * Hummels , D. and J. Levinsohn “Monopolistic Competition and International Trade: Reconsidering the Evidence” *Quarterly Journal of Economics* 1995.
- * P. Debaere, “Monopolistic competition and trade, revisited: Testing the model without testing for ‘gravity,’” *JIE* 2005, 249-266.
- J. Romalis, “Factor proportions and the structure of commodity trade,” *AER* March 2004, 67-97.
- * E. Helpman, M. Melitz, and Y. Rubinstein, “[Trading partners and trading volumes](#),” manuscript.
- Evenett, S.J. and W. Keller, "On Theories Explaining the Success of the Gravity Equation," *Journal of Political Economy*, April 2002, 110(2), 281-316.
- * Helpman and Krugman, 1985, Chs. 6-11, especially chs. 7, 8.

5: Modern Ricardian Theories of International Trade

- * Baxter, M. “Fiscal policy, specialization, and trade in the two-sector model: The return of Ricardo?” *Journal of Political Economy* 100:4 (August 1992), 713-744.
- * Eaton, J. and S. Kortum, "Technology, Geography, and Trade," *Econometrica*, September 2002, 70 (5), 1741-1779.
- * Bernhofen, Daniel and John C. Brown, “A Direct Test of the Theory of Comparative Advantage: The Case of Japan,” *Journal of Political Economy*, 2004, also available at <http://black.clarku.edu/~dbernhof/catest.pdf> .
- * Bernhofen, Daniel and John C. Brown, “An empirical assessment of the comparative advantage gains from trade: evidence from Japan”, *American Economic Review*, 95(1), 208-225, also available at: <http://black.clarku.edu/~dbernhof/cagains.pdf>
- Alvarez, F. and R. E. Lucas, Jr., “General Equilibrium Analysis of the Eaton-Kortum Model of International Trade,” manuscript, University of Chicago, April 2004.

Section II: Topics in International Trade

Note: Not all of these will be covered: it depends on student choices for presentation topics and our collective interests. For some topics, there will be additional readings that should be added in order for the topic references to be complete.

Trade in Intermediate Inputs and Wages

Feenstra, Chapter 4.

Feenstra, R. and G. Hanson “Foreign Investment, Outsourcing, and Relative Wages”

Feenstra, R., and G. Hanson “The Impact of Outsourcing and High-Technology Capital on Wages: Estimate for the United States, 1979-1990”

Feenstra, R. "Integration of Trade and Disintegration of Production in the Global Economy," Lawrence, R. and M. Slaughter, (1993) "International Trade and American Wages in the 1980's: Giant Sucking Sound or Small Hiccup?" Brookings Papers on Economic Activity: Microeconomics, 1993, 161-226.

Oligopoly and Dumping

Brander, J. and P. Krugman "A 'Reciprocal Dumping' Model of International Trade," Journal of International Economics 15 (November 1983), 313-323. Reprinted in: Imperfect Competition and International Trade, G. Grossman, ed., MIT Press, 1992.

Goldberg, P.K. (1995) "Product Differentiation and Oligopoly in International Markets: The Case of the U.S. Automobile Industry," Econometrica 63: 891-951.

Blonigen, Bruce: Many contributions on dumping; primarily empirical. Go to the NBER Website and search for his name in the working papers.

Industrial Organization and International Trade

Melitz, M. (2003) "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," Econometrica 71: 1695-1726.

P. Krugman and A. Venables, "[Globalization and the inequality of nations](#)," QJE 1995, 857-880.

A. Bernard, S. Redding, and P. Schott, "Comparative advantage and heterogeneous firms," NBER Working Paper No. 10668, 2004.

Yeaple, S.R. (2002) "A Simple Model of Firm Heterogeneity, International Trade, and Wages," manuscript, University of Pennsylvania, (<http://www.ssc.upenn.edu/~snyeapl2/papers/hetero.PDF>)

Bernard, A.B., J. Eaton, J.B. Jensen, and S. Kortum (2003) "Plants and Productivity in International Trade," American Economic Review 93 (September 2003), 1268-1290.

Eaton, J., S. Kortum and F. Kramarz (2003), "An Anatomy of International Trade: Evidence from French Firms, manuscript, NYU. (<http://www.econ.nyu.edu/user/eatonj/EKK5.pdf>)

Helpman, E., M. Melitz and S. Yeaple (2003) "Exports vs. FDI" NBER Working Paper 9439 (January 2003).

Antras, Pol (2002) "Firms, Contracts, and Trade Structure," Quarterly Journal of Economics 118, 1375-1418.

Antras, Pol (2002) "Incomplete Contracts and the Product Cycle," NBER Working Paper 9945.

G. Grossman and G. Maggi, "Trade and diversity," AER 2000, 1255-1275.

There are newer readings in this area that will be added later on.

Multinational Corporations

Feenstra, Chapter 11.

Ekholm, K., R. Forslid and J.R. Markusen (2003) "Export Platform Foreign Direct Investment," NBER

J. Markusen, "[The boundaries of multinational enterprises and the theory of international trade](#)," *Journal of Economic Perspectives*, 1995, 169-189

Innovation and Technology Diffusion

Eaton, J. and S. Kortum (1996) "International Technology Diffusion: Theory and Measurement," *International Economic Review* 40, 537-570.

Eaton, J. and S. Kortum (2001) "Trade in Capital Goods," *European Economic Review* 45, 1195-1235.

Benhabib, J. and M. Spiegel (2002) "Human Capital and Technology Diffusion," manuscript, NYU (<http://www.econ.nyu.edu/user/benhabib/growthhandbook10.pdf>).

Political Economy of Trade Policy

Feenstra, Chapter 9.

Grossman, G.M. and E. Helpman, "The Politics of Free Trade Agreements," *American Economic Review*, September 1995, 84(4), 667-90.

Grossman, G.M. and E. Helpman, "Protection for Sale," *American Economic Review*, September 1994, 84(4), 833-50.

Koujianou Goldberg, P. and G. Maggi, "Protection for Sale: An Empirical Investigation," *American Economic Review* 89(5): 1135-55, December 1999.

Import Quotas and Export Subsidies

Feenstra, Chapter 8.

Dixit and Stiglitz (book) have material on this also, at a more technical level in some places.

Feenstra, R. "Quality Change under Trade Restraints: Theory and Evidence from Japanese Autos," *Quarterly Journal of Economics* 101:3, February 1988, 131-146.

Berry, S., J. Levinsohn and A. Pakes (1999) "Voluntary Export Restraints on Automobiles: Evaluating a Trade Policy," *American Economic Review* 89, 400-430.

Feenstra, R. "How Costly is Protectionism?" *Journal of Economic Perspectives*, Summer 1992, 159-178.

Gains from Trade and Regional Arrangements

Feenstra, Chapter 6. (based on Dixit and Norman Chapter 5).

Markusen, James R. "Trade and the Gains from Trade with Imperfect Competition," *Journal of International Economics* 11 (November 1981), 531-551. Reprinted in: [Imperfect Competition and International Trade](#), G. Grossman, ed., MIT Press, 1992.

Dixit, A. and V. Norman, (book) Chapter 3, especially pp. 74-81.

Location and Trading Costs

C. Engel and J.H. Rogers, "How wide is the border," AER 1996, 1112-1125, reprinted in L. Hummels, David (several papers....to be added)

J. Anderson and E. van Wincoop, "Trade costs," JEL 2004, 691-751.

E. Rossi-Hansberg, "[A spatial theory of trade](#)," AER forthcoming.

Trade and the Environment

B. Copeland and S. Taylor, "North-South trade and the environment," QJE 1994, 755-787.

B. Copeland and S. Taylor, "[Trade and transboundary pollution](#)," AER 1995, 716-737.

B. Copeland, S. Taylor and W. Antweiler, "Is free trade good for the environment?" AER 2001, 877-908.