

EC 591. INTERNATIONAL ECONOMICS
Professor R Lucas: Fall 2020
Monday and Wednesday 10.10-11.25
Classes and office hours will be held on-line.
Class meetings will also be available as recordings on Zoom.

Class meetings.

All class meetings will be held on-line, using Zoom through Blackboard. The meeting will be recorded and posted on Blackboard after a short delay. To enter the class meeting, go to Blackboard for this course and click on 591 Zoom on the top portion of the left-hand panel.

Office hours: By appointment.

Monday 8-9, Tuesday 4-5, and Friday 2-3.

Email a request for a 15 minute Zoom appointment to Professor Lucas (rlucas@bu.edu).

Your email request should indicate any time constraints within the set office hours.

Only requests received more than 24 hours in advance will be given any priority.

Those in Asian time-zones will be given priority for Monday appointments.

Asking questions about class material.

Questions may be posed in any of three ways.

1. They may be sent to Professor Lucas by email, using your BU email only, after the class. These questions will be gathered and either responded to at the beginning of the next class or referred to an individual office hour appointment.
2. There will be occasional breaks for brief questions during the class-meeting, though chat will be turned off.
3. If you have a more urgent question that cannot wait for our next break then try to catch my attention by raising and waving your hand.

Course content

EC591 addresses the theory of international trade, tests of those theories and policy issues arising from these theories. Topics include comparative advantage and the gains from trade, strategic and other trade interventions, trading blocs, and the political economy of trade reform and development.

Prerequisites

Students entering this course will be assumed to possess a sound background in micro-economics and differential calculus.

Requirements

The requirements for this course are threefold: a literature review, an original paper, and a series of problem sets.

The grade for this course is divided up as follows:

Literature review	40%
Original paper	45%
Problem sets	15%

A few words on each of these components.

The literature review is to be a critical summary of any two or three, connected, items listed below in the readings. This should consider any limitations or strengths of the theory or empirical evidence in each reference, whether and how this is useful to understanding the real world, and any policy implications that you can derive from this set of references. You are certainly welcome to incorporate other material relevant to your review; it need not be confined to the items listed.

The original paper must address some aspect of international trade as covered by this course. Also, it must include some form of data presentation or analysis. Some of you will not yet have taken Econometrics, so we are looking for sensible use of these data, not necessarily involving multivariate regressions. The choice of topic is entirely up to you as is locating appropriate data. The raw data must be submitted at the same time as the paper (preferably zipped), as must your calculations in any excel sheets or other statistical analysis adopted.

Both the literature review and the original paper should be **no longer than 20 pages**, including and tables and references.

Most countries report their own trade statistics.

More global data can be obtained from the IMF Direction of Trade Statistics

<https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85>

The World Bank's World Development Indicators has more aggregate data.

<https://databank.worldbank.org/reports.aspx?source=world-development-indicators>

The WTO Trade and Tariff Data also includes both tariff and non-tariff data.

https://www.wto.org/english/res_e/statis_e/statis_e.htm

All students are encouraged to discuss their plans for the literature review and original paper with Professor Lucas at an early date, during office hours. Make an appointment.

A series of problem sets will be based on the content of recent class material. Each problem set will be placed on Blackboard and an email will be sent to all registered students announcing the posting.

All papers will be tested for plagiarism. The Boston University Academic Conduct Code defines plagiarism as:

“Representing the work or ideas of another as one’s own; and/or using another’s work or ideas without crediting the source. Plagiarism includes, but is not limited to, the following: copying the answers of another student on an examination; copying or restating the work or ideas of another person or persons in any oral or written work (printed or electronic) without citing the appropriate source; using audio or video footage that comes from another source (including work done by another student) without permission and/or acknowledgement of that source; and collaborating with someone else in an academic endeavor without acknowledging their contribution. Plagiarism can consist of acts of commission (appropriating the words or ideas of another as one’s own), or omission (failing to acknowledge/document/credit the source or creator of words or ideas).”

Submission due dates.

All submissions should be sent by email to Professor Lucas (rlucas@bu.edu).

The literature review should be sent to arrive **no later than 4pm (16.00) US_EST on Monday, November 23.**

The original paper (with accompanying data and analysis) should be sent to arrive **no later than 4pm (16.00) US_EST on Wednesday, December 2.**

The due date for each problem set will be announced at the time of posting.

Submissions of any materials arriving after these deadlines will receive a grade of zero.

Topics and Readings

There is no text book assigned for this course. Instead, all readings are on Blackboard.

The purpose of the following list of materials is as a potential guideline for your original paper, as required material for your literature review, and as background to the lectures and hence the problem sets.

1. Comparative Advantage and the Gains from Trade.

a. Constant costs and Ricardian theory

Jagdish N. Bhagwati, Arvind Panagariya and T.N. Srinivasan,
Lectures on International Trade, (2nd edition), 1998, sections 2.1-2.5, 4.2 and 4.6.

b. The general case of increasing costs

Bhagwati, Panagariya and Srinivasan, 18.1-18.4 and chapter 19.

c. Factor endowments and the Heckscher-Ohlin Theorem

Bhagwati, Panagariya and Srinivasan, sections 5.1-5.3 6.1-6.3

d. Specific factors model

Bhagwati, Panagariya and Srinivasan, chapter 7.
Wofgang Mayer, "Short-run and long-run equilibrium for a small open economy",
Journal of Political Economy, Sept./Oct., 1974, 966-967.

e. Many goods, many factors

Bhagwati, Panagariya and Srinivasan, sections 8.1-8.3

f. Scale economies and imperfect competition

Paul Krugman, "Increasing returns, imperfect competition and the positive theory
of international trade", chapter 24 in *Handbook of International Economics, Vol. 3*, G. Grossman and K. Rogoff (eds.),
1995, sections 1.1-2.1.
Bhagwati, Panagariya and Srinivasan, pp. 178-187.

Paul Krugman, "Intra-industry specialization and the gains from trade", *Journal of Political Economy*, October 1981, 959-973.
Leamer and Levinsohn, section 4.

2. Empirical Explorations and Extensions

a. Empirical tests, factor content and factor intensity reversals

Bhagwati, Panagariya and Srinivasan, section 8.4

Edward E. Leamer and James Levinsohn, "International trade theory: the empirical evidence", chapter 26 in *Handbook of International Economics, Vol. 3*, G. Grossman and K. Rogoff (eds.), 1995, sections 3.6-3.15 and 5.

Jeffrey D. Sachs and Howard J. Shatz, "US trade with developing countries and wage inequality", *American Economic Review*, May 1996, 234-239.

Eli Berman, John Bound and Stephen Machlin, "Implications of skill-biased technological change: international evidence", *Quarterly Journal of Economics*, November 1998, 1245-1279.

Robert C. Feenstra and Gordon H. Hanson, "Globalization, outsourcing and wage inequality", *American Economic Review*, May 1996, 240-245.

b. Technology gaps, technology transfer and trade

Paul Krugman, "A model of innovation, technology transfer, and the world distribution of income", *Journal of Political Economy*, April 1979, 253-266.

David T. Coe and Elhanan Helpman, "International R&D spillovers", *European Economic Review*, May 1995, 859-887.

Jonathan Eaton and Samuel Kortum, "Measuring technology diffusion and the international sources of growth", *Eastern Economic Journal*, Fall 1996, 401-410.

Jonathan Eaton, "Technology and the global economy", *NBER Reporter*, Summer 1999, 12-15.

c. Transport costs, distance and geography.

Leamer and Levinsohn, section 6.

James Rauch, "Networks versus markets in international trade", *Journal of International Economics*, 1999, 7-35.

Robert E.B. Lucas, "The Migration-Trade Link in Developing Economies: A Summary and Extension of Evidence". In: Lucas, R.E.B. (Ed.), *International Handbook on Migration and Economic Development*. Edward Elgar, Cheltenham and Northampton, (2014).

3. Trade Interventions: The Basics.

a. Tariffs

Bhagwati, Panagariya and Srinivasan, sections 12.2-12.4

b. Quotas and other non-tariff barriers

Bhagwati, Panagariya and Srinivasan, chapter 14.

Jagdish N. Bhagwati, "On the equivalence of tariffs and quotas", chapter 9 in J.N.Bhagwati, *Trade, Tariffs and Growth*, 1969.

James Levinsohn, "Carwars: trying to make sense of US-Japan trade frictions in the automobile and automobile parts markets", chapter 1 in R.C. Feenstra, (ed.), *The Effects of US Trade Protection and Promotion Policies*, 1997.

c. Effective protection

Bhagwati, Panagariya and Srinivasan, chapter 15.

Michael Michaely, *Theory of Commercial Policy*, 1977, chapter 4.

4. Motivating Trade Interventions

a. Market distortions

Bhagwati, Panagariya and Srinivasan, chapters 21, 25, 26, 27 and section 28.1.

b Strategic trade interventions.

Jonathan Eaton and Gene M. Grossman, "Optimal trade and industrial policy under oligopoly", *Quarterly Journal of Economics*, May, 1986, 383-406.

Santiago Levy and Sean Nolan "Trade and foreign investment policies under imperfect competition: lessons for developing countries," *Journal of Development Economics*, November 1991, 31-62.

c. Learning and industrial policy.

Robert E. Baldwin, "The case against infant industry protection", *Journal of Political Economy*, May 1969, 295-305.

5. Trade and the Exchange Rate

a. Basic mechanisms.

Kemal Devis, Jaime de Melo and Sherman Robinson, *General Equilibrium Models for Development Policy*, 1982, sections 7.2-7.3

Morris Goldstein and Moshin S. Khan, "Income and price effects in foreign trade", chapter 20 in *Handbook of International Economics, Vol. 2*, R. Jones and P. Kenen (eds.), 1985, sections 2 and 4.

Robert E.B. Lucas, "Demand for India's manufactured exports", *Journal of Development Economics*, July 1988, 63-75.

b. Dutch disease

J. Peter Neary and Sweder J. G. van Wijnbergen, "Natural Resources and the Macroeconomy: A Theoretical Framework", in J. Peter Neary and Sweder J. G. van Wijnbergen (eds.), *Natural Resources and the Macroeconomy*, MIT Press: Cambridge, MA and Blackwell: Oxford, 1986: 13-45.

6. Trading Blocs

Bhagwati, Panagariya and Srinivasan, chapter 31.

7. Reform, Development and Political Economy

Robert E.B. Lucas, "On the theory of DRC criteria", *Journal of Development Economics*, April 1984, 407-417, sections 1 and 2.

Ann Harrison, "Openness and growth: a time-series, cross-country analysis for developing countries", *Journal of Development Economics*, March 1996, 419-447.

Dani Rodrik, "Trade and industrial policy reform", chapter 45 in *Handbook of Development Economics, Vol. 3B*, J. Behrman and T.N. Srinivasan (eds.), 1995.

Dani Rodrik, "Political economy of trade policy", chapter 28 in *Handbook of International Economics, Vol. 3*, G. Grossman and K. Rogoff (eds.), 1995, sections 4, 5 and 6.