Office hours

Monday 9.45-12.20. Room 500, 264 Bay State Rd.

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 midterm examination, a final examination and class participation.

The mid-term examination will be held during class time on Wednesday October 23rd.
The final examination is cumulative; data and time to be set by Registrar.

Both examinations are required. The only excuses for missing an exam are serious illness or a family emergency. No make-up exam will be set for the midterm. Instead, students unable to attend the midterm examination for a legitimate reason will receive a course grade determined by performance on the final examination. Students entitled to extra time on examinations should inform Professor Lucas of this in the first two weeks of classes.

Class participation includes: attending every class (unless excused), arriving on time, and contributing to class discussions/question time (which will be at the beginning of each class).

The grade for this course is divided up as follows:

Midterm examination  35%
Final examination     55%
Class participation   10%
Academic conduct

You need to read the CAS Academic Conduct Code, which you can pick up in room CAS B3. Academic misconduct involves not only direct cheating on tests, but some more subtle acts as well. All work handed in for credit must be your own, with the exception that you may quote or paraphrase from other sources if you also cite the reference and page number. (It is not permissible, however, to use another student's work even if you cite that work.) Your consultations with classmates should be limited to general discussions. I will report cases of suspected academic misconduct to the Dean's Office. Confirmed cases of misconduct will result in a failing grade on the exam or assignment.

Reading materials

There is no text book assigned for this course. Instead readings will be placed on Blackboard. Note that the references to Salvatore’s, International Economics, are intended for those who prefer to read a more elementary introduction prior to tackling graduate level material. Salvatore’s book will be placed on reserve in Mugar Library.
Topics and Readings

1. Comparative Advantage and the Gains from Trade.

   a. Constant costs and Ricardian theory
      Dominick Salvatore, *International Economics*, (7th edition), sections 2.4-2.6, appendix A2.1
      Jagdish N. Bhagwati, Arvind Panagariya and T.N. Srinivasan,

   b. The general case of increasing costs
      Salvatore, chapters 3 and 4.
      Bhagwati, Panagariya and Srinivasan, 18.1-18.4 and chapter 19.

   c. Factor endowments and the Heckscher-Ohlin Theorem
      Salvatore, sections 5.1-5.5, appendix A5.1-5.3 and A7.1
      Bhagwati, Panagariya and Srinivasan, sections 5.1-5.3 6.1-6.3

   d. Specific factors model
      Salvatore, appendix A5
      Bhagwati, Panagariya and Srinivasan, chapter 7.
      Wolfgang Mayer, "Short-run and long-run equilibrium for a small open economy",

   e. Many goods, many factors
      Bhagwati, Panagariya and Srinivasan, sections 8.1-8.3

   f. Scale economies and imperfect competition
      Salvatore, sections 6.3-6.4 and appendix A6.1
      Paul Krugman, “Increasing returns, imperfect competition and the positive theory
      Leamer and Levinsohn, section 4.

2. Empirical Explorations and Extensions

   a. Empirical tests, factor content and factor intensity reversals
      Salvatore, section 5.6 appendix A5.5-5.7
      Bhagwati, Panagariya and Srinivasan, section 8.4
      Edward E. Leamer and James Levinsohn, “International trade theory: the
      Jeffrey D. Sachs and Howard J. Shatz, “US trade with developing countries and


b. Technology gaps, technology transfer and trade
Salvatore, section 6.5

c. Transport costs, distance and geography.
Salvatore, sections 6.6a and 6.6b
Leamer and Levinsohn, section 6.


a. Tariffs
Salvatore, chapter 8
Bhagwati, Panagariya and Srinivasan, sections 12.2-12.4

b. Quotas and other non-tariff barriers
Salvatore, sections 9.1-9.3
Bhagwati, Panagariya and Srinivasan, chapter 14.

c. Effective protection
Salvatore, section 8.3
Bhagwati, Panagariya and Srinivasan, chapter 15.
4. Motivating Trade Interventions

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

b. Strategic trade interventions.
Salvatore, section 9.5

c. Learning and industrial policy.

5. Trade and the Exchange Rate

a. Basic mechanisms
Salvatore, sections 14.1-14.4; chapter 16.

b. Imperfect substitutes and estimating price elasticities in trade
Kemal Devis, Jaime de Melo and Sherman Robinson, General Equilibrium Models for Development Policy, 1982, sections 7.2-7.3

c. Dutch disease

6. Trading Blocs
Salvatore, chapter 10.
Bhagwati, Panagariya and Srinivasan, chapter 31.

7. Reform, Development and Political Economy
Dani Rodrik, “Trade and industrial policy reform”, chapter 45 in Handbook of