

EC 591. INTERNATIONAL ECONOMICS
Professor R Lucas: Fall 2009
Monday & Wednesday 11-12.30
SSW 315

Office hours

Monday 1-2 & Friday 8-10, 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:

a mid-term examination during class time on **Wednesday October 21st**

and a final examination on **Thursday December 17th 3-5.**

(Final date to be confirmed by Registrar).

The mid-term examination result will comprise 40 percent of the total grade. The final examination (which is cumulative) will comprise the remaining 60 percent of the grade.

Both examinations are required. The only excuses for missing an exam are serious illness or a family emergency. Students who have a legitimate excuse to miss an exam must provide documentation. Failure to provide such documentation will result in a grade of zero on that exam. No make-up exam will be set for the midterm. Instead, students unable to attend the midterm examination for a documented reason will receive a course grade determined by performance on the final examination.

Reading materials

There is no text book assigned for this course. Instead journal articles and chapters from various books will be placed on reserve at Mugar Library. 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. If you wish to invest in Bhagwati, Panagariya and Srinivasan, *Lectures on International Trade*, this is available at the MIT Press Bookshop in Kendall Sq, Cambridge.

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.

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,
Lectures on International Trade, (2nd edition), 1998, sections 2.1-2.5, 4.2
and 4.6.

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.

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

Salvatore, sections 6.3-6.4 and appendix A6.1

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

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 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

- Salvatore, section 6.5
- 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.

- Salvatore, sections 6.6a and 6.6b
- Leamer and Levinsohn, section 6.
- James Rauch, "Networks versus markets in international trade", *Journal of International Economics*, 1999, 7-35.

3. Trade Interventions: The Basics.

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.
- 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

Salvatore, section 8.3
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.

Salvatore, section 9.5

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

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

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.

c. 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

Salvatore, chapter 10.

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.