

Boston University
Department of Economics
Economics 598
The Economics of Globalization
Spring 2023

Syllabus

Instructor

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Teaching Fellow

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Logistics

Lecture days and time: Tuesday-Thursday 11.00am-12.15pm

Lecture location: CAS 237

Course Webpage: on Blackboard

Course Overview

This course is an advanced course in International Economics, targeted to MA students with a background in International Trade at the master or at the undergraduate level. We study various aspects of globalization, both theoretically and empirically, using standard tools from trade theory.

After reviewing background material, we will focus on the drivers of trade at the firm-level. What determines if firms export, and which foreign markets they enter? More generally, what is the role of firms' heterogeneity in shaping export decisions? The emphasis on firm-level behavior will be useful to introduce important alternative modes of foreign operations: multinational production, foreign direct investment and offshoring. We will introduce multinational production as an additional/alternative possibility for firms to serve foreign markets. We will study the classical theory of multinational firms, based on

the proximity-concentration trade-off, and the firm-level decision between trade and multinational production. We will then move to more recent theories of the international organization of the firm, vertical specialization, outsourcing, and offshoring. We will explore the effects of multinational production on the labor markets and on welfare.

The last sessions of the semester will be devoted to other topics related to globalization, like migration, international technology diffusion, and global banking.

The starting point of the analysis of each topic will be the understanding of past and current events in the world economy, often by reading articles from the press. We will then use formal modeling to understand these events, and we will outline empirical procedures to test the theories. The lectures will attempt to make the papers, which are sometimes advanced, accessible to the students.

Background and Prerequisites

Students should have completed the following courses:

- EC391 or EC591 or equivalent (International Trade)
- EC201 or EC501 or equivalent (Intermediate Microeconomics)
- MA121 or MA123 or MA127 or EC505 or equivalent (Calculus)
- EC 203 or EC305 or EC507 or equivalent (Statistics).

Grounding in microeconomic theory and a previous course in international trade are required, since the course is built on the main models of trade usually taught in intermediate level courses. Calculus is used to develop the theories covered in this course; in particular, the techniques of unconstrained and constrained optimization will be used extensively. Basic knowledge of Statistics is required for the understanding of some empirical aspects of the subject; further knowledge of Econometrics (EC414 or EC508 or equivalent) is desirable. Prerequisites may be waived by the instructor.

Readings

There is no textbook assigned for this course. The papers and newspaper articles which we will cover will be posted on the Blackboard website. Most papers are also available at <http://www.jstor.org> and may usually be found using <http://scholar.google.com>. I will sometimes distribute class notes, also via Blackboard.

For those who feel the need of refreshing the main background concepts in trade theory, good references are:

- Robert C. Feenstra and Alan M. Taylor, *International Trade*. Worth Publishers, Fourth Edition.
- John McLaren, *International Trade*. Wiley.
- Dominick Salvatore, *International Economics*. Wiley, Eight Edition.

Grading

The course grade will be based on problem sets, a midterm exam, and a final exam.

Problem Sets: 25%
Midterm Exam: 35%
Final Exam: 40%

Class participation will be also evaluated at the end of the semester and will be taken into account when assigning grades in borderline 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 2nd**. **The Final exam's date has not yet been announced by the College.**

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 download on <https://www.bu.edu/academics/policies/academic-conduct-code/>. Misconduct can involve subtler 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: Some Ideas about Trade and Globalization. (Jan 19)**

- 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.

- Krugman, P., R.N. Cooper, and T.N. Srinivasan (1995). "Growing World Trade: Causes and Consequences". *Brookings Papers on Economic Activity* 1:327-377.
 - Antràs P. *Global Production. Firms, Contracts, and Trade Structure*. Princeton University Press. Chapter 1, pp. 3-9.
- ◆ **Background in International Trade: Comparative Advantage, Technology, and Factor Endowments. (Jan 24- Feb 7)**
- Feenstra, Chapter 2-4, or Salvatore, Chapters 2 and 5.
 - Bernhofen, D.M., and J.Brown (2004). "A Direct Test of the Theory of Comparative Advantage: The Case of Japan". *Journal of Political Economy* 112(1): 48-67.
- ◆ **Background in International Trade: The "New Trade Theory". (February 9-14)**
- Feenstra, Chapter 6, or Salvatore, Chapter 6.
 - Krugman, P. (2008). "The Increasing Returns Revolution in Trade and Geography". Nobel Prize Lecture.
 - Krugman, P. (1980). "Scale Economies, Product Differentiation and the Pattern of Trade". *The American Economic Review* 70(5): 950-959.
- ◆ **The "New" New Trade Theory: A Firm-Level Perspective. (Feb 16-28)**
- 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.
 - Bernard, A.B., J.B. Jensen S. Redding, and P.K. Schott (2012). "The Empirics of Firm Heterogeneity and International Trade". *Annual Review of Economics* 4: 283-313.
 - Bernard, A.B. and J.B. Jensen (1999). "Exceptional Exporter Performance: Cause, Effect, or Both?" *Journal of International Economics* 47(1): 1-25.
 - Bernard, A., and J.B. Jensen (2004). "Why Some Firms Export". *The Review of Economics and Statistics*, 86(2): 561-569.
 - Melitz, M. J. (2008). "International Trade and Heterogeneous Firms". *The New Palgrave Dictionary of Economics*. 2nd Edition. Eds. Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan.
 - Melitz, M. J. (2003). "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity". *Econometrica* 71(6): 1695-1725.

- Eaton, J., S. Kortum, and F. Kramarz (2011). "An Anatomy of International Trade: Evidence from French Firms". *Econometrica*.
- Lu, D. (2010). "Exceptional Exporter Performance? Evidence from Chinese Manufacturing Firms". Mimeo, University of Rochester.

◆ **MIDTERM EXAM (Mar 2)**

◆ **Multinational Firms, Foreign Direct Investment, Intrafirm Trade (March 14-23)**

- 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.
- Yeaple, S.R. (2013). "The Multinational Firm". *Annual Review of Economics* 5(1): 193-217.
- Brainard, S.L. (1997). "An Empirical Assessment of the Proximity-Concentration Trade-off between Multinational Sales and Trade". *The American Economic Review* 87(4): 520-544.
- Helpman, E., M.J. Melitz, and S.R. Yeaple (2004). "Exports versus FDI with Heterogeneous Firms". *The American Economic Review* 94(1): 300-316.
- Garetto, S., L. Oldenski, and N. Ramondo (2019). "Multinational Expansion in Time and Space". NBER Working Paper 25804.
- Antràs, P. (2003). "Firms, Contracts, and Trade Structure". *Quarterly Journal of Economics*, 118 (4): 1375-1418.
- Nunn, Nathan, and Daniel Trefler (2008). "The Boundaries of the Multinational Firm: An Empirical Analysis." In E. Helpman, D. Marin, and T. Verdier (eds.), *The Organization of Firms in a Global Economy*, 55–83. Cambridge, MA: Harvard University Press.

◆ **Global Value Chains, Trade in Intermediates, and Vertical Specialization. (March 28-April 4)**

- *The Economist* (2004). Survey: "Outsourcing". November 11.

- 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>
 - Feenstra, R.C. (1998). "Integration of Trade and Disintegration of Production in the Global Economy." *Journal of Economic Perspectives* 12(4): 31–50.
 - Hanson, G.H., R.J. Mataloni, and M.J. Slaughter (2005). "Vertical Production Networks in Multinational Firms." *The Review of Economics and Statistics* 87 (4): 664-678.
 - Timmer, M. P., A. A. Erumban, B. Los, R. Stehrer, and G. J. de Vries (2014). "Slicing Up Global Value Chains". *Journal of Economic Perspectives* 28(2): 99-118.
 - Johnson, R.C. (2014). "Five Facts about Value-Added Exports and Implications for Macroeconomics and Trade Research". *Journal of Economic Perspectives* 28(2): 119-142.
- ◆ **Offshoring. (Apr 6-11)**
- Grossman, G.M, and E. Rossi-Hansberg (2006). "The Rise of Offshoring: It's not Wine for Cloth Anymore". *The New Economic Geography: Effects and Policy Implications*, Jackson Hole Conference Volume, Federal Reserve Bank of Kansas City.
 - Grossman, G., and E. Rossi-Hansberg (2008). "Trading Tasks: A Simple Theory of Offshoring". *The American Economic Review* 98(5): 1978-1997.
 - Amiti, M. and S. Wei (2009). "Service Offshoring and Productivity: Evidence from the US". *The World Economy* 32(2): 203-220.
- ◆ **Knowledge and Technology Diffusion (Apr 13)**
- Comin, D., and B. Hobijn (2004). "Cross-country Technological Adoption: Making the Theories Face the Facts". *Journal of Monetary Economics* 51: 39-83.

- Comin, D., B. Hobijn, and E. Rovito (2006). "Five Facts You Need to Know About Technology Diffusion". NBER Working paper 11928.
- Comin, D., and B. Hobijn (2009). "The CHAT Dataset". Harvard Business School Working Paper 10-035.

◆ **Migration (Apr 18-20)**

- Clemens, M. (2011). "Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?" *Journal of Economic Perspectives* 25(3): 83-106.
- Gibson, J., and D. McKenzie (2011). "Eight Questions about Brain Drain". *Journal of Economic Perspectives* 25(3): 107-28.
- Docquier, F. and H. Rapoport (2012). "Globalization, Brain Drain, and Development". *Journal of Economic Literature* 50(3): 681-730

◆ **Globalization and the Labor Markets. (Apr 25-27)**

- Krugman, P., and R. Lawrence (1994). "Trade, Jobs, and Wages". *Scientific American*.
- *The Economist* (2008) Economic Focus: "Krugman's Conundrum". April 17.
- Feenstra, R., and G. Hanson (1999). "The Impact of Outsourcing and High Technology Capital on Wages: Estimates for the United States, 1970-1990". *Quarterly Journal of Economics* 114(3): 907-940.
- Feenstra, R., and G. Hanson (2005). "Global Production and Inequality: A Survey of Trade and Wages". In E.K. Choi and J. Harrigan, eds., *Handbook of International Trade*. Oxford: Basil-Blackwell.
- Autor, D., and D. Dorn, and G. Hanson (2013). "The China Syndrome: Local Labor Market Effects of Import Competition in the United States". *The American Economic Review*, 103(6): 2121-2168.
- Autor, D., and D. Dorn, and G. Hanson (2016). "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade". *Annual Review of Economics*, 8: 205-240.

Global Banking (May 2)

- Goldberg, L. S. (2009). "Understanding Banking Sector Globalization". IMF Staff Papers.
- Cetorelli, N., and L.S. Goldberg (2012). "Follow the Money: Quantifying Domestic Effects of Foreign Bank Shocks in the Great Recession". The American Economic Review Papers and Proceedings 102(3): 213-218.
- Fillat, J.L, S. Garetto, and A. Smith (2021). "What are the Consequences of Global Banking for the International Transmission of Shocks? A Quantitative Analysis". Mimeo, Boston University.
- ◆ **FINAL EXAM** (to be scheduled between May 8 and May 12).