

Boston University
Department of Economics

Economics 791 – International Trade
Fall 2024
Stefania Garetto

Syllabus

Contact Information

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Office hours: Mondays, 1:00-2:30pm
Course Website: <http://people.bu.edu/garettos/teaching.html>

Lectures take place on Mondays, 2:30-5:15pm, in room 546.

Course Overview

This course is an advanced course in International Trade, targeted to second year PhD students.

The first part of the course introduces students to the main theories of international trade, with a special emphasis on the role of firms. We cover the traditional theories that explain trade based on comparative advantage (driven by factor endowments or productivity differences) and on love for variety and increasing returns to scale. We explore the theories' more recent developments and applications, and their implications for the welfare gains from trade. The second part of the course is dedicated to topics at the intersection of international trade and macroeconomics. We will talk about trade dynamics, and about international trade under conditions of uncertainty and risk. We will conclude the semester by studying the relationship between international trade and the organization of the firm.

Grading and Assignments

A second-year topic class should introduce students to independent research and facilitate the transition from coursework to writing a PhD Thesis. For this reason, the course grade is based on separate components:

- Three problem sets (30%)

- A referee report (optional)
- An individual research project, to be presented in class in December (25%) and handed in at the end of the semester (45%)

Problem Sets. The goal of this assignment is to promote an active, hands-on approach to learning the main models used in the field of international trade. The problem sets must be completed individually. Each student must submit all the problem sets to pass the course. Late assignments will not be accepted.

Referee Report. The goal of this assignment is to introduce students to think critically about the literature in the field. Each student can choose a paper to referee on a topic of their choice (subject to instructors' approval). I encourage students to choose a topic related to their research project. A sample referee report will be provided.

Individual Research Project Presentation and Write-up. The goal of this assignment is to introduce students to the process of developing a research project in international trade. The assignment is meant to be contained within the Fall semester, but I will be happy to advise students who want to extend it into their second-year paper. Students will choose a topic of their choice (subject to instructor's approval) as early as possible into the semester and will work on it under my supervision. Each student will present their research progress at the end of the semester and hand in a written version of their project.

The presentations are tentatively scheduled for **December 2-9**. Each student will give a short presentation of their work. All students are required to attend all presentations. The final submission of the written research project will be due on **December 20**. A successful research project should include (1) an original research question, (2) a survey of the relevant literature and a statement of the contribution of the project, (3) a detailed plan of the body of the paper. For theoretical papers, this means developing a baseline model and making some conjectures about its predictions. For empirical papers, this means describing the data, empirical framework, and preliminary empirical results.

When developing a research project, it is crucial to receive feedback from other people. For this purpose, each student should meet with me at least twice prior to the final submission. We will coordinate the meeting time outside the lecture slots in **mid-October** and **mid-November** (precise dates and times TBA). Prior to each meeting, students will have to submit a one-page summary of the status of the three points above.

Reading list

There is no required textbook for this course. However, we will sometimes draw from the following:

- Feenstra, R. (2015). *Advanced International Trade: Theory and Evidence*. Second Edition. Princeton University Press. [Henceforth, F]
- Helpman, H., and P. Krugman (1995). *Market Structure and Foreign Trade*. Cambridge, MIT Press. [Henceforth, HK]

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.

Course Outline (Tentative: may be subject to changes)

Items marked with (**) are essential and will be covered extensively in class. Items marked with (*) are required readings. We will briefly talk about them in class, but you are required to go through them on your own. The remaining items are suggested readings, which you should be familiar with if you plan to do research in this area. Finally, items marked with (R) are papers that review a particular aspect of the field. These papers are particularly useful to frame the discussion in class and to start research projects on a topic.

I. Trade patterns and the gravity equation (Sept. 9)

(R) Helpman, H (1999). "The Structure of Foreign Trade". *Journal of Economic Perspectives* 13(2): 121-144.

(**) F, Chapter 5, pp. 132-144.

(*) McCallum, J. (1995). "National Borders Matter: Canada-US Regional Trade Patterns". *The American Economic Review* 85(3): 615-623.

(*) Anderson, J., and E. van Wincoop (2003). "Gravity with Gravitas: A Solution to the Border Puzzle". *The American Economic Review* 93(1): 170-192.

(R) Head, K. and T. Mayer (2014). "Gravity Equations: Workhorse, Toolkit, and Cookbook". *Handbook of International Economics*, Chapter 3. Editors: Gita Gopinath, Elhanan Helpman, Kenneth Rogoff. Elsevier, Volume 4, Pages 131-195.

(R) Anderson, J. (2011). "The Gravity Model". *Annual Review of Economics* 3: 133-160.

II. Trade Theories

1. Factor endowments: the Heckscher-Ohlin model (Sept. 9-16)

(**) F, Chapters 1-2. HK, Chapters 1-2.

Jones, R. (1965). "The Structure of Simple General Equilibrium Models". *Journal of Political Economy* 73(6): 557-572.

Helpman, H. (1984). "The Factor Content of Foreign Trade". *Economic Journal* 94: 84-94.

2. Comparative advantage: Ricardian Trade Theory (Sept. 23-Oct. 7)

F, Chapter 1.

(**) Dornbusch, R., S. Fischer, and P. Samuelson (1977). "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods". *The American Economic Review* 67(5): 823-839.

(**) Eaton, J., and S. Kortum (2002). "Technology, Geography and Trade." *Econometrica* 70(5): 1741-1779.

(*) Alvarez, F., and R.E. Lucas, Jr. (2007). "General Equilibrium Analysis of the Eaton-Kortum Model of International Trade". *Journal of Monetary Economics* 54 (6): 1726-1768.

Costinot, Arnaud (2009). "An Elementary Theory of Comparative Advantage". *Econometrica* 77(4): 1165-1192.

Costinot, A., D. Donaldson, and I. Komunjer (2012). "What Goods Do Countries Trade? A Quantitative Exploration of Ricardo's Ideas". *Review of Economic Studies* 79(2): 581-608.

(*) Bernard, A.B., J. Eaton, J.B. Jensen, and S. Kortum (2003). "Plants and Productivity in International Trade". *The American Economic Review* 93(4): 1268-1290.

3. Monopolistic Competition and Increasing Returns

a) With Homogeneous Firms (Oct. 7)

(**) Krugman, P. (1979). "Increasing Returns, Monopolistic Competition, and International Trade". *Journal of International Economics* 9(4): 469-479.

(**) Krugman, P. (1980). "Scale Economies, Product Differentiation and the Pattern of Trade". *The American Economic Review* 70(5): 950-959.

Dixit, A., and J. Stiglitz (1977). "Monopolistic Competition and Optimum Product Diversity". *The American Economic Review* 67(3): 297-308.

Dhingra, S., and J. Morrow (2019). "Monopolistic Competition and Optimum Product Diversity under Firm Heterogeneity". *Journal of Political Economy* 127(1).

F, Chapter 5. HK, Chapters 6-9.

b) With Heterogeneous Firms (Oct. 15)

(**) Melitz, M. J. (2003). "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity". *Econometrica* 71(6): 1695-1725.

(*) Melitz, M. J., and G.I.P. Ottaviano (2008). "Market Size, Trade, and Productivity". *Review of Economic Studies* 75 (1): 295–316.

Helpman, E., M. J. Melitz, and S. R. Yeaple (2004). "Exports versus FDI with heterogeneous firms". *American Economic Review* 94 (1), 300–316.

Chaney, T. (2008). "Distorted Gravity: the Intensive and Extensive Margins of International Trade". *The American Economic Review* 98(4): 1707-1721.

Arkolakis, C. (2010). "Market Penetration Costs and the New Consumers Margin in International Trade". *Journal of Political Economy* 118 (6): 1151-1199.

Gains from Trade (Oct. 21)

(*) Arkolakis, C., P. Klenow, S. Demidova and A. Rodriguez-Clare (2008). "Endogenous Variety and the Gains from Trade". *American Economic Review Papers and Proceedings* 98 (4): 444- 450.

(*) Arkolakis, C., A. Costinot, and A. Rodriguez-Clare (2012). "New Trade Models, Same Old Gains?". *The American Economic Review* 102(1):94-130.

Arkolakis, C., A. Costinot, D. Donaldson, and A. Rodriguez-Clare (2019). "The Elusive Pro-Competitive Effects of Trade". *Review of Economic Studies* 86: 46–80.

III. Trade Dynamics (Oct. 28- Nov 4)

(R) Alessandria, G., Arkolakis, C., and Ruhl, K.J. (2021). "Firm Dynamics and Trade". *Annual Review of Economics* 13:253–80.

(*) Roberts, M., and J. Tybout (1997). "The Decision to Export in Colombia: An Empirical Model of Entry with Sunk Costs". *The American Economic Review*, 87(4): 545-565.

Das, S., M. Roberts, and J. Tybout (2007). "Market Entry Costs, Producer Heterogeneity and Export Dynamics". *Econometrica* 75(3): 837-873.

(*) Alessandria, G., and H. Choi (2007). "Do sunk costs of exporting matter for net exports dynamics?" *Quarterly Journal of Economics* 122:289–336.

Ruhl, K.J., and J.L. Willis (2017). "New exporter dynamics". *International Economic Review* 58:703–26.

(*) Fitzgerald, D., S. Haller, and Y. Yedid-Levi (2023). "How exporters grow". *Review of Economic Studies* 91: 2276-2306.

IV. Trade, Uncertainty, and Risk

a) Trade Policy Uncertainty (Nov. 4)

(R) Handley, K., and N. Limao (2022). "Trade Policy Uncertainty". *Annual Review of Economics* 14:363–395.

Handley, K., and N. Limao (2015). "Trade and investment under policy uncertainty: theory and firm evidence". *American Economic Journal: Economic Policy* 7(4):189–222.

(*) Handley, K., and N. Limao (2017). "Policy uncertainty, trade, and welfare: theory and evidence for China and the United States". *American Economic Review* 107(9):2731–2783.

b) Aggregate Uncertainty and Risk (Nov.11)

Dixit, A. K., and R. S. Pindyck (1994). "Investment under uncertainty". Princeton University Press. Chapters 6-7.

(*) Fillat, J.L., and S. Garetto (2015). "Risk, returns, and multinational production". *Quarterly Journal of Economics* 130: 2027–2073.

Fillat, J. L., S. Garetto, and L. Oldenski (2015). "Diversification, cost structure, and the risk premium of multinational corporations." *Journal of International Economics* 96 (1), 37–54.

Esposito, F. (2022). "Demand risk and diversification through international trade". *Journal of International Economics* 135.

V. Organizations and Trade (Nov. 18-Dec. 2)

Antràs, P., and E. Rossi-Hansberg (2009). "Organizations and Trade". *Annual Review of Economics* 1: 43-64.

(*) Antràs, P., L. Garicano, and E. Rossi-Hansberg (2006). "Offshoring in a Knowledge Economy". *Quarterly Journal of Economics* 121(1): 31-77.

Caliendo, L., and E. Rossi-Hansberg (2012). "The Impact of Trade on Organization and Productivity". *Quarterly Journal of Economics* 127(3): 1393-1467.

Garetto, S., and J.L. Fillat (2024). "On the Origins of the Multinational Premium". Mimeo, Boston University.

Student presentations: December 2-9.

Final research project due December 20.