

Economics 160
INTERNATIONAL TRADE THEORY

OVERVIEW

This course analyzes the causes and consequences of international trade and international factor movements. The main themes are the determinants of the volume and composition of trade and trade's effects on economic welfare and income distribution. Topics include international migration, foreign direct investment, outsourcing, tariffs and nontariff protection of domestic industries, preferential trading, and international agreements relating to trade.

Course prerequisites are Economics 80a and Econ 83a, or permission of instructor.

READING ASSIGNMENTS

The required text is Robert C. Feenstra and Alan M. Taylor, *International Trade* (Worth, 2008) **OR** *International Economics* (Worth, 2008), a larger text also covering international macroeconomics. Other required readings, including a few new ones that cover the most recent developments, will be accessible on LATTE or distributed in class. Some journal articles are available through JSTOR (www.jstor.org). Most optional readings (marked *) use advanced mathematics or econometrics. Don't be intimidated. Skim the hard parts and look for the author's main points.

Because policy issues evolve rapidly, readings selected in advance can never cover the latest changes. Economics students are encouraged to read periodicals such as *The Financial Times*, *The Wall Street Journal*, *The New York Times*, or *The Economist* on a regular basis. Recent issues are accessible free on the internet; older material is available through the Brandeis Library website (its.brandeis.edu/research/articles/index.html). Recent developments are also featured on the web sites of the Peterson Institute for International Economics (www.iie.com), World Trade Organization (www.wto.org/), World Bank (www.worldbank.org/), European Union (http://europa.eu/index_en.htm) and OECD (www.oecd.org/). For a more skeptical view of government and international-organization initiatives to promote trade, check Heritage Foundation (www.heritage.org) and Cato Institute (www.cato.org). For a more skeptical view of globalization, check Economic Policy Institute (www.epinet.org).

ACADEMIC HONESTY

You are expected to be familiar with and to follow the University's policies on academic integrity (www.brandeis.edu/studentlife/sdc/ai/). Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University. **If you have any questions about expectations, please ask.** Academic dishonesty will not be tolerated and will be vigorously prosecuted.

COURSEWORK, EXAMS, AND GRADES

Course material will be covered through assigned readings, lectures, problem sets, and class discussion. There will be a midterm exam in class on **Wednesday October 28** and a cumulative three-hour final exam on **Wednesday December 9** at 1:30 p.m. (the Registrar's scheduled time for K block—this is based on the preliminary final exam schedule). Please note the exam dates before deciding to register. See below for course policy on make-up exams.

A short paper will be due by 2 p.m. on **Tuesday December 1**. Late papers will be penalized. A detailed proposal will be due by 2 p.m. on **Tuesday November 10**. All students will make brief in-class presentations based on their papers.

The course grade will be a weighted average of grades for exams, problem sets, class participation, and paper and presentation (final exam 40%, midterm 30%, problem sets and class participation 10%, paper and presentation 20%).

HOMEWORK

It is acceptable and often helpful to discuss answers to assigned problems with other students (or with the professor or TA), but you should do this only *after* reviewing relevant text material and attempting to do each problem independently.

Each student must write up homework answers independently!

Homework handed in after the due date will not be graded. Students are still encouraged to complete each assignment even if the due date has passed. Detailed answers will be posted on LATTE so students can use these to check their own work and then seek help if necessary.

MAKE-UP EXAMS

There is no make-up for a missed midterm exam. In the event of an *excused* absence from the scheduled midterm, the exam portion of the student's final grade will be based on the final exam grade. The grade for an unexcused absence is zero.

University policy does not allow final exams to be given in advance of the published exam time. The make-up for an excused absence from the scheduled final exam will be administered by the Registrar, either on the "conflict resolution" day, December 14, or after classes resume in January (January 20, 21, or 26). University regulations do not allow students to take the final exam early.

For a planned absence from the final (one that does not entail an emergency), the student seeking an excused absence must request an "excused absence from a final exam" *in advance* through the Office of Undergraduate Academic Affairs.

ACCOMMODATION FOR DISABILITY

If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see Professor McCulloch immediately. Accommodation will not be provided retroactively.

CLASS MEETINGS

Attendance: You are expected to attend every class meeting. Classes will begin promptly at 2:10 and end promptly at 3:30. Students who expect to miss part or all of any class meeting should consult with Prof. McCulloch in advance.

Missed classes: Students who miss any class are responsible for making arrangements promptly to get complete lecture notes including any announcements regarding problem sets, exams, etc.

Class participation: Together with homework, class participation determines a small part of the course grade. Please understand that while attendance is a pre-condition for class participation, it does not constitute participation.

Absence during class: Once in class, students are expected to remain in the room until the end of class. A student with a physical problem that requires absence during the class should provide documentation by the second class meeting (9/2).

Cell phones: No cell phones should be used during class. Please turn off phones before class begins and keep them off until class is over.

Laptops: Lecture notes with diagrams are important in this course. If laptops are brought into the classroom, they should remain closed once class begins. A student with a learning disability that requires use of a laptop should provide documentation by the second class meeting (9/2).

LECTURE OUTLINE

(Please note that some textbook chapters are assigned out of numerical order.)

August 31: *Introduction and overview*. What international trade theory is about, the changing global environment, globalization versus regional integration, trade effects of the global recession, status of the Doha Round and other current policy issues.

Feenstra and Taylor, Chapter 1.

World Trade Report 2008: Trade in a Globalizing World, World Trade Organization 2008. Executive Summary, pages xiii-xxiii. On the WTO website (http://www.wto.org/english/res_e/booksp_e/anrep_e/wtr08-0d_e.pdf).

“U.S. International Trade in Goods and Services Highlights,” from U.S. Census Bureau (updated monthly). On the U.S. Census Bureau website (www.census.gov/indicator/www/ustrade.html).

Jean Pisani-Ferry and Indhira Santos, “Reshaping the Global Economy,” *Finance and Development*, March 2009. On the IMF website (<http://www.imf.org/external/pubs/ft/fandd/2009/03/pisani.htm>).

Alan Deardorff, “Glossary of International Economics.” On Deardorff’s website (www-personal.umich.edu/~alandear/glossary).

September 2, 9: *The Ricardian trade model*. Comparative advantage and gains from trade in a one-factor model; labor productivity, comparative advantage, and competitiveness.

Feenstra and Taylor, Chapter 2.

“The Benefits of Open Trade and Investment Policies,” Chapter 4 in *Economic Report of the President 2009*, pp. 79-95. On the Government Printing Office website (www.gpoaccess.gov/eop/2009/2009_erp.pdf).

*Rudiger Dornbusch, Stanley Fischer, and Paul Samuelson, “Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods,” *American Economic Review*, December 1977. On JSTOR.

September 14, 16: *Specific-factors model of trade and distribution*. Trade and income distribution with one mobile factor and two industry-specific or immobile factors.

Feenstra and Taylor, Chapter 3.

Howard F. Rosen, “Strengthening Trade Adjustment Assistance,” *Policy Brief* 08-2, Peterson Institute for International Economics, January 2008. On the PIIE website (<http://iie.com/publications/pb/pb08-2.pdf>).

*Michael Mussa, “Tariffs and the Distribution of Income: Importance of Factor Specificity, Substitutability, and Intensity in the Short and Long Run,” *Journal of Political Economy*, December 1974. On JSTOR.

September 21, 23: *Heckscher-Ohlin and related models*. Trade and income distribution with two mobile factors, empirical tests.

Feenstra and Taylor, Chapter 4, including appendix.

World Trade Report 2008: Trade in a Globalizing World, World Trade Organization 2008. “Distributional Consequences of Trade,” pages 123-134. On the WTO website (http://www.wto.org/english/res_e/booksp_e/anrep_e/wtr08-2e_e.pdf).

Paul A. Samuelson, “International Factor Price Equalization Once Again,” *Economic Journal*, June 1949. On JSTOR.

*Edward E. Leamer, “The Leontief Paradox, Reconsidered,” *Journal of Political Economy*, June 1980. On JSTOR .

*Ronald W. Jones, “The Structure of Simple General Equilibrium Models,” *Journal of Political Economy*, December 1965. On JSTOR.

September 29, 30: *International factor movements*. Trade as a substitute for international factor movements, immigration, direct foreign investment, intertemporal trade.

Feenstra and Taylor, Chapter 5.

“Immigration,” Chapter 9 in *Economic Report of the President 2007*, pp. 189-206. On the Government Printing Office website (http://www.gpoaccess.gov/eop/2007/2007_erp.pdf).

Thomas Dorsey, “A Capital Story,” *Finance and Development*, June 2008. On the International Monetary Fund website (<http://www.imf.org/external/pubs/ft/fandd/2008/06/dorsey.htm>).

*David Card, “Is the New Immigration So Bad?” *Economic Journal*, November 2005. On Card’s UC-Berkeley homepage (<http://emlab.berkeley.edu/users/card/papers/new-immig.pdf>).

*James R. Markusen, “The Boundaries of Multinational Enterprises and the Theory of International Trade,” *The Journal of Economic Perspectives*, Spring 1995. On JSTOR.

*Robert A. Mundell, “International Trade and Factor Mobility,” *American Economic Review*, June 1957. On JSTOR.

October 7, 12, 14: *Policies toward trade under perfect competition*. Effects of tariffs, quotas, and subsidies on trade flows; gains from trade and income distribution within and across countries; effective protection, discriminatory trade, Doha Round.

Feenstra and Taylor, Chapter 8, Chapter 11 (pp. 391-406 only).

Michael Mussa, “Making the Practical Case for Freer Trade,” *American Economic Review*, May 1993. On JSTOR.

“What is the WTO?” On the WTO web site web (www.wto.org/english/thewto_e/whatis_e/whatis_e.htm#intro).

Chad Bown, “Trade policy toward China,” Bloomberg , 28 July 2009 (http://www.youtube.com/watch?v=vYhJwQd_Smc).

World Trade Report 2009: Trade Policy Commitments and Contingency Measures, World Trade Organization 2009. “Executive Summary,” pp. xiii-xxiii. On the WTO website (http://www.wto.org/english/res_e/booksp_e/anrep_e/wtr09-0d_e.pdf.)

*Arvind Panagariya, “Cost of Protection: Where Do We Stand?” *American Economic Review Papers and Proceedings*, May 2002. On JSTOR.

October 19, 21: *Economies of scale and departures from perfect competition*. Scale economies, monopolistic competition with differentiated products, intra-industry trade, dumping and reciprocal dumping, the gravity model.

Feenstra and Taylor, Chapter 6.

*Keith Head and Thierry Mayer, “The Empirics of Agglomeration and Trade,” February 2003. On the UBC website (<http://strategy.sauder.ubc.ca/head/Papers/neat.pdf>).

*Paul Krugman, “The Increasing Returns Revolution in Trade and Geography,” *American Economic Review*, June 2009.

October 26: *Pre-midterm review*.

Midterm exam: Wednesday October 28 (covering chapters 1-6, 8, and 11 (pp. 391-406 only)).

November 2, 4: *Policies toward trade under imperfect competition*. Home and foreign monopoly, infant-industry protection, anti-dumping.

Feenstra and Taylor, Chapter 9.

N. Gregory Mankiw and Phillip L. Swagel, "Antidumping: The Third Rail of Trade Policy," *Foreign Affairs*, December 2005. On Mankiw's website (<http://www.economics.harvard.edu/faculty/mankiw/files/Dumping%20-%20Foreign%20Affairs%20JulyAug%202005%20MankiwSwagel.pdf>).

Arvind Subramanian, "Mauritius: A Case Study," *Finance and Development*, December 2001. On the International Monetary Fund website (www.imf.org/external/pubs/ft/fandd/2001/12/subraman.htm).

Paper proposal due: Tuesday, November 10, 2 p.m.

November 9, 11: *Export subsidies*. Agricultural export subsidies, strategic subsidies.

Feenstra and Taylor, Chapter 10.

"Agricultural Negotiations: Export Subsidies and Competition" On the WTO website (http://www.wto.org/english/tratop_e/agric_e/negs_bkgnd08_export_e.htm).

Philip I. Levy, "People in Glass Houses (Subsidies Edition)," July 2, 2009, On the American Enterprise Institute website (<http://www.aei.org/article/100714>).

*Robert E. Baldwin, "Are Economists' Traditional Trade Policy Views Still Valid?" *Journal of Economic Literature*, June 1992. On JSTOR.

November 16, 18: *Foreign outsourcing*. Effects of foreign outsourcing on domestic labor.

Feenstra and Taylor, Chapter 7.

N. Gregory Mankiw and Philip Swagel, "On the Politics and Economics of Offshore Outsourcing," March 2006. On Mankiw's website (<http://www.economics.harvard.edu/faculty/mankiw/files/Outsourcing%20-%20march%207%202006.pdf>).

November 23, 25: *Trade, labor, and the environment*. Use of trade agreements to achieve national and global goals.

Feenstra and Taylor, Chapter 11, pages 406-429.

Kimberly Ann Elliott, "Dealing with Labor and Environment Issues in Trade," Institute for International Economics, Policy Brief 01-8, July 2001. On the Peterson Institute website (www.iie.com/publications/pb/pb.cfm?ResearchID=76).

Paper due: Tuesday, December 1, 2 p.m.

November 30, December 2 (plus additional meetings to be scheduled as required): *Student presentations*.

Final exam: Wednesday December 9 at 1:30 p.m.