

# ADVANCED INTERNATIONAL TRADE

## Instructors:

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## Course Description

This course is divided into three parts, each with one main goal. The objective of the first part is to describe the nature of trade, its causes and welfare effects. We discuss trade tools and concepts, the gains from trade and their measurement, different causal explanations for trade (comparative advantage from technological differences, comparative advantage from endowment differences, increasing returns to scale internal and external to the firm, trade in intermediate goods and other explanations), the determinants of the pattern of trade, and trade's effect on factor rewards. The emphasis in this section of the course is on explaining why we trade and what the effect of trade is on wages, prices, and production.

The objective of the second part of the course is to understand the effects of different types of commercial policies. We examine the impact of different trade policy instruments, including tariffs and quotas, on firm profits, domestic and world prices. The welfare effects of preferential trade agreements are also discussed.

Finally, the goal of the third part is to explore some topics at the frontier of research in international trade and make each student an "expert" in one of the topics.

## Course requirements

There will be a final written exam as well as some student presentations.

## Final grade

The final grade will be a combination of the grade obtained in the final written exam (counting for 70% of the final grade) and of the student presentations (counting for 30% of the final grade).

## Reading list

While there is no assigned text for the course, we highly recommend the textbook by Bob Feenstra, which is a good blend of theory and empirical applications:

Feenstra Robert C. (2004), *Advanced International Trade* Princeton, Princeton University Press.

The following list includes alternative graduate textbooks on international trade:

Wong, K. (1995), *International Trade in Goods and Factor Mobility*, Cambridge, MA: The MIT Press.

Bhagwati, J.N., A. Panagariya, and T.N. Srinivasan (1998), *Lectures on International Trade*, Cambridge, MA: The MIT Press, 2<sup>nd</sup> Edition, 1998.

- Dixit, A.K. and V. Norman (1980), *Theory of International Trade: A Dual, General Equilibrium Approach*, Cambridge: Cambridge University Press.
- Grossman, G.M. and K. Rogoff, eds. (1995), *Handbook of International Economics*, Vol. 3, Amsterdam: North-Holland.
- Helpman, E. and P. Krugman (1989), *Trade Policy and Market Structure*, Cambridge, MA: The MIT Press.
- Grossman, G.M. and E. Helpman (2002), *Interest Groups and Trade Policy* Princeton and Oxford UK: Princeton University Press.
- Grossman, G. M. ed. (1992), *Imperfect Competition and International Trade*, Cambridge, MA: The MIT Press.
- Krugman, P.R. (1994), *Rethinking International Trade*, Cambridge, MA: MIT Press.
- Leamer, E. E. (2001), *International Economics*, New York: Worth Publishers.

## COURSE OUTLINE

### **PART I: TRADE AND ITS EFFECTS (Giovanni Facchini)**

Note: The papers highlighted will be discussed in class

- **The Static Gains from Trade and their measurement**

- Grinols, E., *Essential International Trade and the Theory of Policy*, Lecture Notes Chapter 1.
- Grandmont, J.M. and D. McFadden (1972), "A Technical Note on Classical Gains from Trade," *Journal of International Economics*, 2, 109-125.
- Magee C. (2001), "Administered protection for workers: an analysis of the trade adjustment assistance program," *Journal of International Economics*, 105-125.
- Grinols, E. (1991), "An Exact Measure of Welfare Change," *Canadian Journal of Economics*, 24, 428-449.
- Kemp, Murray C. and Henry Y. Wan, Jr. (1986), "Gains from Trade With and Without Lump-Sum Compensation," *Journal of International Economics*, 21, 99-110.
- Chipman John S. and J.C. Moore (1972), "Social Utility and the Gains from Trade," *Journal of International Economics*, 2, 157-172.
- Dixit, A. and V. Norman (1986), "Gains from Trade without Lump-Sum Compensation," *Journal of International Economics*, 21, 111-122.
- Hammond, P. J. and J. Sempere (1995), "Limits to the Potential Gains from Economic Integration and Other Supply Side Policies," *Economic Journal*, 105, 1180-1204.
- Facchini, G. and G. Willmann (1999), "The Gains from Duty Free Zones," *Journal of International Economics* 49, 403-412.
- Magee C. (2003), "Endogenous tariffs and trade adjustment assistance" *Journal of International Economics*, 203-222.
- Smith, M.A.M., (1979), "Intertemporal Gains from Trade," *Journal of International Economics*, 9, 2, 239-248.

- **Trade and its effects: Differences in Technology**

- Dornbusch, R., S. Fischer and P.A. Samuelson (1977), "Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review*, 47, 823-839.
- Eaton, J. and S. Kortum (2002), "Technology, Geography and Trade" *Econometrica* 70, 1741-1779.
- Davis, D. R. (1995), "Intra-Industry Trade: A Heckscher-Ohlin-Ricardo Approach," *Journal of*

*International Economics*, 39, 201-226.

Jones, R.W. (1979), "Technical Progress and Real Incomes in a Ricardian Trade Model," in *International Trade: Essays in Theory*, Amsterdam: North-Holland.

Takayama, A. (1972), *International Trade*. New York: Holt, Rinehart and Winston, Inc., Ch. 4, 6.

Wilson, C. A. (1980), "On the General Structure of Ricardian Models with a Continuum of Goods: Applications to Growth, Tariff Theory, and Technical Change," *Econometrica*, 48, 7, 1675-1702.

- **Trade and its effects: Specific Factors**

Jones, R. W. (1971), "A Three Factor Model in Theory, Trade and History," in Bhagwati, J., R.W. Jones, R. Mundell and J. Vank, eds. *Trade, Balance of Payments and Growth: Essays in Honor of Charles P. Kindleberger*, Amsterdam: North-Holland, 3-21.

- **Trade and Its Effects: Differences in Endowments (2x2 Heckscher-Ohlin Model)**

Jones, .W. (1965), "The Structure of Simple General Equilibrium Model," *Journal of Political Economy*, 73, 557-572.

Mussa, M. (1979), "The Two-Sector Model in Terms of Its Dual: A Geometric Exposition," *Journal of International Economics*, 9, 513-526.

Stolper W. and P.A. Samuelson (1941) "Protection and Real Wages," *Review of Economic Studies*, 9, 58-73.

- **Extensions of the 2x2 Model**

Bhagwati J.N. and Panagariya A (1998), *Lectures on International Trade*, Ch. 8.

Deardorff, A. V. (1979), "Weak Links in the Chain of Comparative Advantage," *Journal of International Economics*, 9, 197-209.

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

Jones, R.W. and J. Scheinkman (1977), "The Relevance of the Two-Sector Production Model in Trade Theory," *Journal of Political Economy*, 85, 909-936.

Deardorff, A. V. (1994), "The Possibility of Factor Price Equalization, Revisited," *Journal of International Economics*, 36, 167-175.

Deardorff, A.V (1982), "The General Validity of the Heckscher-Ohlin Theorem," *American Economic Review*, 72, 683-694.

Ethier, W. (1984), "Higher Dimensional Trade Theory," in Jones, R. W. and P. B. Kenen, eds. *Handbook of International Economics*, Vol. 1, Amsterdam: North-Holland, 131-184.

Vanek, J. and T. Bertrand (1971), "Trade and Factor Prices in a Multi-Commodity World," in *Trade, Balance of Payments and Growth*, Bhagwati, J. and R.W. Jones, *et al.* eds, Amsterdam: North-Holland, 49-65.

Markusen, J. and L. Svensson (1985), "Trade in Goods and Factors with International Differences in Technology," *International Economic Review*, 26.

Neary, J. P. (1985), "Two-by-Two International Trade Theory with Many Goods and Factors," *Econometrica*, 53, 1233-1247.

Mussa, M. (1978), "Dynamic Adjustment in the Heckscher-Ohlin-Samuelson Model," *Journal of Political Economy*, 86, 775-791.

Horiba, Y. (1972), "General Equilibrium and the Heckscher-Ohlin Theory of Trade: The Multi-Country Case," *International Economic Review*, 440-449.

Deardorff, A.V. (1980), "The General Validity of the Law of Comparative Advantage," *Journal of Political Economy*, 88, 941-957.

- **Empirical Tests of Heckscher-Ohlin Theory**

Davis, D. R., David E. Weinstein, Scott C. Bradford and Kazushige Shimpo (1997) "Using International and Japanese Regional Data to Determine When the Factor Abundance Theory of Trade Works," *American Economic Review*, 87, 3, 421-446.

Debaere, P. (2003), "Relative factor abundance and trade," *Journal of Political Economy* 111, 589-610

Trefler, D. (1993), "International Factor Price Differences: Leontief Was Right!" *Journal of Political Economy*, 6, 101, 961-987.

Trefler, D. (1995), "The Case of the Missing Trade and Other Mysteries," *American Economic Review*, 85, 5, 1029-1046.

Brecher, R. A. and E. V. Choudri (1982), "The Leontief Paradox Continued," *Journal of Political Economy*, 90, 820-823.

Bowen, H. P., E. E. Leamer and L. Sveikauskas (1987), "Multicountry, Multi-factor Tests of the Factor Abundance Theory," *American Economic Review*, 77, 791-809.

Davis D.R. and D. Weinstein (2001), "An account of global factor trade," *American Economic Review*, 91, 1423-1453.

Hunter, L. (1991), "The Contribution of Non-Homothetic Preferences to Trade," *Journal of International Economics*, 30, 345-358.

Harrigan, J. (1997), "Technology, Factor Supplies and International Specialization: Testing the Neoclassical Model," *American Economic Review*, 87, 475-494.

Leamer, E. E. (1980), "The Leontief Paradox, Reconsidered," *Journal of Political Economy*, 88, 495-503.

Leamer, E. E. and J. Levinsohn (1995), "International Trade Theory: The Evidence," in Grossman, G. M. and K. Rogoff, eds. *Handbook of International Economics*, Vol. 3, Amsterdam, North-Holland.

Leamer, E. E. (1984), *Sources of International Comparative Advantage*, Cambridge, MA: The MIT Press.

Romalis, J. (2004), "Factor Proportions and the Structure of Commodity Trade," *American Economic Review*, 94, 67-97.

## Increasing Returns to Scale, Variety and the Gravity Equation

- Krugman, P. (1979), "Increasing Returns Monopolistic Competition, and International Trade," *Journal of International Economics*, 9, 469-479.
- Krugman, P. (1981), "Intra-Industry Specialization and the Gains from Trade," *Journal of Political Economy*, 89, 959-973.
- Feenstra R.C. *Advanced International Trade*, Ch. 5.
- Anderson J. and E. Van Wincoop (2003), "Gravity with Gravitas: A solution to the border puzzle," *American Economic Review* 93, 170-192.
- Ethier, W. (1982), "Decreasing Costs in International Trade and Frank Graham's Argument for Protection," *Econometrica*, 50, 1243-1268.
- Krugman, P. (1995), "Increasing Returns, Imperfect Competition and the Positive Theory of International Trade," in G. Grossman and K. Rogoff (eds.) *Handbook of International Economics*, Volume III. New York: Elsevier, 1243-1277.

## PART II: COMMERCIAL POLICY (Maurizio Zanardi)

### • Import Tariffs and Quotas

Dixit, A. (1985), "Tax Policy in Open Economies," in A. Auerback and M. Feldstein (eds.), *Handbook of Public Economics*, Basil Blackwell.

### • Strategic Trade Policy

Brander, J. (1995), "Strategic Trade Policy," in G. Grossman and K. Rogoff (eds.), *Handbook of International Economics*, vol. III, Basil Blackwell.

Eaton, J. and G.M. Grossman (1986), "Optimal Trade and Industrial Policy under Oligopoly," *Quarterly Journal of Economics*, 101, 383-406.

Maggi, G. (1996), "Strategic Trade Policies with Endogenous Mode of Competition," *American Economic Review*, 86, 237-258.

### • Contingent Protection

Bagwell, K. and R.W. Staiger (1990), "A Theory of Managed Trade," *American Economic Review*, 80, 779-795.

Knetter, M.M. and T.J. Prusa (2003), "Macroeconomic Factors and Antidumping Filings: Evidence from Four Countries," *Journal of International Economics*, 61, 1-17.

Tabakis, C. (2005), "Free Trade Areas and Managed Trade," mimeo.

### • Antidumping

Anderson, J.E. (1992), "Domino Dumping I: Competitive Exporters," *American Economic Review*, 82, 65-83.

Blonigen, B.A. and J-H. Park, J-H. (2004), "Dynamic Pricing in the Presence of Antidumping Policy: Theory and Evidence," *American Economic Review*, 94, 134-154.

Blonigen, B.A. and C. Bown (2003), "Antidumping and Retaliation Threats," *Journal of International Economics*, 60, 249-273.

Blonigen, B.A. and T.J. Prusa (2001), "Antidumping," in K. Choi E. and J.C. Hartigan (eds.), *Handbook of International Trade*, vol. I, Basil Blackwell.

Brander, J. and P. Krugman (1983), "A 'Reciprocal Dumping' Model of International Trade," *Journal of International Economics*, 15, 313-321.

Martin, A. and W. Vergote (2005), "Antidumping: Welfare Enhancing Retaliation?," mimeo.

Zanardi, M. (2004), "Antidumping Law as a Collusive Device," *Canadian Journal of Economics*, 37, 95-122.

- **The Cost of Protection**

Feenstra, R.C. (1992), "How Costly is Protectionism?," *Journal of Economic Perspectives*, 6, 159-178.

Gallaway, M.C., Blonigen, B.A., and J.E. Flynn, (1999), "Welfare Costs of the US Antidumping and Countervailing Duty Laws", *Journal of International Economics*, 49, 211-244.

Hufbauer G.C. and K.A. Elliott (1994), *Measuring the Costs of Protection in the United States*, Institute for International Economics.

Miyagiwa, K. and Y. Ohno (1995), "Closing the Technology Gap Under Protection," *American Economic Review*, 85, 755-770.

Vandenbussche, H. and M. Zanardi (2006), "The Global Chilling Effects of Antidumping Proliferation," CEPR Discussion Paper. 5597.

- **Preferential Trade Agreements**

Panagariya, A. (2000), "Preferential Trade Liberalization: the Traditional Theory and New Developments," *Journal of Economic Literature*, 38, 287-331.

Maggi, G. and A. Rodriguez-Clare (1998), "The Value of Trade Agreements in the Presence of Political Pressures," *Journal of Political Economy*, 106, 574-601.

### **PART III: TOPICS IN INTERNATIONAL TRADE (Paola Conconi)**

Below you can find a list of the topics you can choose from, as well as of the relevant readings for each topics papers (though your readings need not be confined to those indicated in the syllabus).

During the course, *you will lead one discussion* in the class dedicated to the topic of your choice. There is no need to present entire models, but you should understand them at a level that allows you to discuss them clearly and concisely. In your discussion, you should give serious thought to what the main issues in this field are. You should address the models' realism or lack thereof, their testable implications and ways that they could be extended or replaced with better models. The quality of the discussion will have a major impact on everyone's learning, so students are expected to come to class having read the required readings for that session.

- **International Factor Movements**

- Benhabib, J. (1996). "On the political economy of immigration" *European Economic Review* 40:1737-1743
- Bhagwati, J. N., and T.N. Srinivasan (1983), "On the Choice between Capital and Labor Mobility", *Journal of International Economics* 14, 209-222.
- Borjas, G. J. (2003), "The Labor Demand Curve is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market", *Quarterly Journal of Economics* 118, 1335–1374.
- Borjas, G. J. (1995), "The Economic Benefits from Immigration", *Journal of Economic Perspectives* 9, 3–22.
- Chen, N., C. Conconi, and P. Perroni (2006). "Does Migration Empower Married Women?", CEPR Discussion Paper No. 5559.
- Ethier, W. J. and L.E.O. Svensson (1986), "The Theorems of International Trade with Factor Mobility" *Journal of International Economics* 20, 21-42.
- Facchini, G. and G. Willmann (2005) "The Political Economy of International Factor Mobility," *Journal of International Economics* 67, 201–219.
- Grossman, G. M. (1984), "The Gains from International Factor Movements", *Journal of International Economics* 17, 73–83.
- Markusen, James (1983), "Factor Movements and Commodity Trade as Complements", *Journal of International Economics*, 14, 341–356.
- Mayda, A. (forthcoming), "Who is against immigration? A Cross Country Investigation of Attitudes towards Immigrants," forthcoming in *Review of Economics and Statistics*.
- Ottaviano, G. and Peri G. (forthcoming) "Cities and Cultures" forthcoming in the *Journal of Urban Economics*.
- Perotti, Roberto (2001), "Is a Uniform Social Policy Better? Fiscal Federalism and Factor Mobility," *American Economic Review* 91, 596-610.

- **Theory of the firm and the multinational enterprise**

- Aghion, P. and J. Tirole (1997) "Formal and Real Authority in organizations," *Journal of Political Economy* 105, 1-29.
- Antras, P., L. Garicano and E. Rossi-Hansberg (2006), "Offshoring in a Knowledge Economy," *Quarterly Journal of Economics*, February 121, 31-77.
- Grossman, S. and O. Hart (1986), "The cost and benefits of organization: A theory of vertical and lateral integration," *Journal of Political Economy* 94, 691–719.
- Hart, O. and J. Moore (1990), "Property rights and the nature of the firm," *Journal of Political Economy* 98, 1119–1158.
- Helpman, E. (1984), "A Simple Theory of Trade with Multinational Corporations," *Journal of Political Economy*, 92, 451-471.
- Horstmann, I. and J. Markusen (1987), "Licensing vs. direct investment: A model of internalization by the multinational enterprise," *Canadian Journal of Economics* 20, 464–478.
- Horstmann, I. and J. Markusen (1996), "Exploring New Markets: Direct Investment, Contractual Relations and the Multinational Enterprise," *International Economic Review* 37, 1–20.
- Markusen, J. (1995), "The Boundaries of Multinational Enterprises and the Theory of International Trade," *Journal of Economic Perspectives* 2, 169–189.
- McCalman P. (2004), "Foreign direct investment and Intellectual Property rights: Evidence from Hollywood's global distribution of movies and videos," *Journal of International Economics* 62, 107-123.

- **Networks and Trade**

- Gould (1994), "Immigrant links to the Home Country: Empirical Implications for US bilateral trade flows," *Review of Economics and Statistics* 76, 302–316.
- McLaren, J. (1999), "Supplier relations and the market context: A theory of Handshakes," *Journal of International Economics* 48, 121–138.
- Rauch, J. (1999), "Networks vs. markets in International Trade," *Journal of International Economics* 48, 7-35.
- Rauch, J. and V. Trindade (2003), "Information, International Substitutability and Globalization," *American Economic Review* 93, 775–791.
- Rauch, Jim and V. Trindade (2002), "Ethnic Chinese Networks in International Trade," *Review of Economics and Statistics* 84, 116–130.

- **Preferential Trading Arrangements**

- Alesina, A., Ignazio Angeloni and Federico Etro (2005), "International Unions," *American Economic Review*, 95: 602-15.
- Bagwell, K. and R. W. Staiger (1997), "Multilateral tariff cooperation during the formation of Customs Unions," *Journal of International Economics* 42, 91-123.
- Bond, E. and R. Riezman and C. Syropulos "A strategic and welfare theoretic analysis of free trade areas," *Journal of International Economics* 64, 1–27.
- Chang, W. and L. A. Winters (2002), "How Regional Blocs Affect Excluded Countries: The Price Effects of MERCOSUR," *American Economic Review* 93, 889-904.
- Grossman, G. M. and E. Helpman (1995), "The Politics of Free-Trade Agreements," *American Economic Review* 85, 667-690.
- Krishna, P. (1998), "Regionalism and Multilateralism: A Political Economy Approach," *Quarterly Journal of Economics* 113, 227–251.
- Krishna, P. and A. Panagariya (2002), "On Welfare-Enhancing Free Trade Areas," *Journal of International Economics* 57, 353-367.
- Krugman, P., "Is Bilateralism Bad?," in E. Helpman and A. Razin (eds.), *International Trade and Trade Policy*, MIT Press, 9-24.
- Levy, I. (1997), "A Political-Economic Analysis of Free Trade Agreements," *American Economic Review* 87: 506-519.
- Limao, N. (2006), "Preferential Trade Agreements as Stumbling Blocks for Multilateral Trade Liberalization: Evidence for the U.S," *American Economic Review* 96, 896-914.
- Perroni C. and J. Whalley (1996), "How Severe is Global Retaliation Risk under Increasing Regionalism?," *American Economic Review* 86, 57-61.
- Yi, S.-S. (1996). "Endogenous Formation of Customs Unions under Imperfect Competition: Open Regionalism Is Good", *Journal of International Economics* 41, 151-75.

- **New Economic Geography**

- Davis, D. R. and D. Weinstein (1999), "Economic Geography and Regional Production Structure: An Empirical Investigation," *European Economic Review*, 43, 379–407.
- Hanson G. (1997), "Localization Economies, Vertical Organization and Trade" *American Economic Review* 87, 1266-1278.
- Martin P. and G. Ottaviano (2001), "Growth and Agglomeration" *International Economic Review* 42, 947–968.
- Neary J. P. (2001), "Of Hype and Hyperbolas: Introducing the New Economic Geography," *Journal of Economic Literature* 39, 536-561.
- Puga, D. and A. J. Venables (1997), "Preferential trading arrangements and industrial Location," *Journal of International Economics* 43, 347–368.

- **Trade, Environment and Labor Standards**

- Antweiler W., B. Copeland and M. S. Taylor (2001), "Is free trade good for the environment?" *American Economic Review* 91, 877–908.
- Basu K, and P.H. Van (1998), "The Economics of Child Labor," *American Economic Review* 88, 412-427.
- Brown, D. (2001), "Labor standards: Where do they belong in the international agenda?" *Journal of Economic Perspectives* 15, 89–111.
- Chichilniski, G. (1994) "North South Trade and the Global Environment," *American Economic Review* 84, 851–874.
- Conconi, P. (2003), "Green Lobbies and Transboundary Pollution in Large Open Economies," *Journal of International Economics* 59, 399–422.
- Conconi, P. and C. Perroni (2002), "Issue Linkage and Issue Tie-in in International Negotiations," *Journal of International Economic* 57, 423-447.
- Conconi, P. and C. Perroni (2005), "Conditionality, Separation, and Open Rules in Multilateral Institutions," in J.C. Hartigan and E.K. Choi (eds.), *Handbook of International Trade: Economic and Legal Analysis of Laws and Institutions*, Blackwell.
- Edmonds, E. and N. Pavcnik (2005), "The Effect of Trade Liberalization on Child Labor," *Journal of International Economics* 65, 401–41.
- Edmonds, E. and N. Pavcnik (2006), "International Trade and Child Labor: Cross Country Evidence," *Journal of International Economics* 68, 115-140.

- **Trade and Growth**

- Frankel, J. A. and D. Romer (1999), "Does Trade Cause Growth?" *American Economic Review* 89, 379–399.
- Grossman, G. and E. Helpman (1990), "Trade, Innovation, and Growth," *American Economic Review* 80, 86–91.
- Grossman, G. (1995), "Technology and Trade," *Handbook of International Economics Vol. 3*, G. Grossman and K. Rogoff, eds., New York: Elsevier Science.
- Irwin, D. and P. Klenow (1994), "Learning by Doing Spillovers in the Semiconductor Industry," *Journal of Political Economy* 102, 1200-1227.
- Matsuyama, K. (1992), "Agricultural Productivity, Comparative Advantage, and Economic Growth," *Journal of Economic Theory* 58, 317-334.
- Rivera-Batiz, L. and P. Romer (1991), "Economic Integration and Endogenous Growth," *Quarterly Journal of Economics* 109, 531–555.
- Romer, P. (1994), "New Goods, Old Theory, and the Welfare Costs of Trade Restrictions," *Journal of Development Economics* 43, 5–38.
- Rivera-Batiz, L. and P. Romer (1991), "International Trade with Endogenous Technological Progress," *European Economic Review* 35, 971–1004.
- Young, A. (1991), "Learning by Doing and the Dynamic Effects of International Trade," *Quarterly Journal of Economics* 106, 369–405.
- Young, A. (1998), "Growth without Scale Effects," *Journal of Political Economy* 106, 41–63.