

Course Outline for Economics 2300: International Trade
Fall, 2003
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Course Orientation

This is a practical course that takes students through the main theories in international trade, their empirical relevance, and their role for Canada's economy.

Course Requirements

The final grade will be calculated as follows.

- 30% mid-term
- 20% short term paper
- 50% final exam

Required Texts

There is no textbook for this course. However, material is often drawn from the following sources:

Leamer, E. E., *Sources of International Comparative Advantage: Theory and Evidence*, Cambridge: MIT Press, 1984. This is out of print, but bound photocopies will be made available from the bookstore.

Helpman, E. and P.R. Krugman, *Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition, and the International Economy*, Cambridge: MIT Press, 1985.

Ph.D. students would do learn from the more mathematical treatment in:

Dixit, A.K. and V. Norman, *Theory of International Trade: A Dual, General Equilibrium Approach*, Cambridge: Cambridge University Press, 1980.

Ph.D. students must look at the excellent and brand new book by Robert Feenstra available at:

<http://www.econ.ucdavis.edu/faculty/fzfeens/textbook.html>

In addition, readings indicated by a (+) are to be found in the following (as well as on JSTOR):

Bhagwati, J.N. ed., *International Trade: Selected Readings*, 2nd edition, Cambridge: MIT Press, 1988.

If you have any doubts about the suitability of your background, I urge you to find (and buy) a good undergraduate textbook to supplement the readings of this course. Students repeatedly note that an undergraduate background is helpful for about half of the material covered in this course, particularly the material covered early on. There are many good ones. In this outline, I will be referring to (and giving handouts from)

Ethier, W.J., *Modern International Economics*, 3rd edition, New York: W.W. Norton 1995.

Great Books

Jared Diamond, *Guns, Germs, and Steel*, New York: Norton, 1997.

David S. Landes, *The Wealth and Poverty of Nations*, New York: Norton, 1998.

Nathan Rosenberg, *Inside the Black Box: Technology and Economics*, Cambridge: Cambridge University Press, 1982, chapters 3 and 6.

Assigned Readings

Readings with a double asterisk (**) are required. Readings with a single asterisk. (*) are highly recommended. Unmarked readings are for those with a particular interest in the subject. References to Dixit and Norman are exclusively for Ph.D. students - M.A. students should definitely not bother. I have not

assigned any chapters from Feenstra's textbook. It is essential that Ph.D. students keep up with the relevant chapters from his book.

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➤ WEEK 1

INTRODUCTION

Handouts: Course outline, student names.

GLOBALIZATION

Handouts: Global stakeholders.

Sylvia Ostry, "Dissent.com: How NGOs are Re-making the WTO," *Policy Options*, June 2001, www.irp.org/po/index.htm.

Paul Krugman, "[Enemies of the WTO: Bogus Arguments Against the World Trade Organization](#)," *Slate Magazine*, Nov. 24, 1999. <http://slate.msn.com//Dismal/99-11-23/Dismal.asp>

Abdul Moyeen Khan, "[Globalization, Environmental Crisis and Social Change: The Unfair Case on the South](#)," *Megh Barta: Online Forum For Activism*. <http://www.economics.utoronto.ca/trefler/eco2300/Khan.doc>

Mohammad Reazuddin, "[Globalization and its Environmental Dimensions: A Bangladesh Perspective](#)" *Megh Barta: Online Forum For Activism*. www.economics.utoronto.ca/trefler/eco2300/Reazuddin.doc

Zeke Minaya and Jim Downing, "Matamoros: Toxic Legacy," <http://journalism.berkeley.edu/projects/border/matamoros.htm>

"Toxics and Birth Defects," Texas Environmental Almanac, Chapter 9, Industrial Waste, Page 7, <http://www.texascenter.org/almanac/Waste/INDUSTRIALCH9P7.HTML#BIRTH>

CANADIAN TRADE EMPIRICS

Handouts: Growth of trade.

➤ WEEK 2

THE GAINS FROM TRADE (15)

Handouts: Lecture notes, Ethier

Ethier, 1.1-1.8, 7.1-7.3 (*)

Dixit and Norman, figure 1.1. (Ph.D. only)

THE THEORY OF COMPARATIVE ADVANTAGE (25)

Handouts: Lecture notes, MacDougall.

Dixit and Norman, ch. 4.1. (Ph.D. only)

THE CASE AGAINST SPECIALIZATION OF PRODUCTION (10)

Handouts: Lecture notes, problem set 1, Jacobs, Suzuki.

Jane Jacobs *The Death and Life of Great American Cities*, Vintage Books: New York, 1961, chapters 7 and 8 (*).

Abdul Moyeen Khan, "[Globalization, Environmental Crisis and Social Change: The Unfair Case on the South](#)," *Megh Barta: Online Forum For Activism*. <http://www.economics.utoronto.ca/trefler/eco2300/Khan.doc>

David Suzuki, "Global Economics: In Conflict with the Earth," chapter 7 in *Earth Time*, Stoddart: Toronto, 1998.

RICARDIAN MODEL (50)

Handouts: Boxes, lecture notes, problem set 2.

Ethier, 1.1-1.4 (*).

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

Dixit and Norman pp. 36-38, 82-85. (Ph.D. only)

➤ **WEEK 3**

FACTOR PRICE EQUALIZATION (100)

Handouts: Lecture notes, problem set 3.

Leamer, ch. 1 (**)

Helpman and Krugman, ch. 1.1 1.2. (**)

➤ **WEEK 4**

THE HECKSCHER-OHLIN MODEL ($F \times G$ 90; 2×2 25)

Handouts: Lecture notes, sample mid-term exam, problem set 4, Ethier 5.1-5.7.

Leamer ch. 1 (**)

Jones "The Structure of Simple General Equilibrium Models," *Journal of Political Economy* 73 (1965):557-572. + (**), sections I-IV.

Helpman, E. and P.R. Krugman, ch. 1.1-1.7

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

Rudiger Dornbusch, Stanley Fischer, and Paul A. Samuelson. "Heckscher-Ohlin Trade Theory with a Continuum of Goods," *Quarterly Journal of Economics*, 95 (September, 1980), pp. 203-224.

➤ **WEEK 5**

STOLPER-SAMUELSON THEOREM (20)

Handouts: Handout on Stolper-Samuelson, problem set 4.

THE SPECIFIC FACTORS MODEL (50)

Handouts: Lecture notes, Dixit and Norman pages 38-43, McDougal, Immigrant labour force, problem set 5 (M.A. students only do 1c, 1e, 2, and 3), Krugman and Obstfeld ch. 3.

Dixit and Norman pp. 38-43 (**). (Ph.D. only)

Dixit and Norman pp. 85-87, 102-106. (Ph.D. only)

Zhu and Trefler, "Trade and Wages in Developing Countries: Catch-up as a Catalyst," available on my website.

Feenstra and Hanson, "Foreign Investment, Outsourcing, and Relative Wages," in *The Political Economy of Trade Policy: Papers in Honor of Jagdish Bhagwati*, edited by Feenstra, Grossman and Irwin.

O'Rourke and Williamson, *Globalization in History*.

POLITICAL ECONOMY: STOLPER-SAMUELSON VS. SPECIFIC FACTORS (30)

Handouts: Brock *et. al.*

➤ WEEK 6

TUTORIAL (Time to be arranged)

Handouts: sample exam answers, answers to problem set 7.

EXAM

ESSAY TOPICS

Handouts: Essay topics.

➤ WEEK 7

HECKSCHER-OHLIN EMPIRICAL WORK: OVERVIEW

What is a test?

Leamer, ch. 2 (**).

Leamer, E. "Factor-Supply Differences as a Source of Comparative Advantage." *American Economic Review Papers and Proceedings* 83 (May 1993):436-439 (**).

2×2 Factor Content Studies (25)

Handouts: Baldwin [1971] + Leamer [1980].

Leontief, W., "Domestic Production and Foreign Trade: The American Capital Position Re-Examined," reprinted in R. Caves and H.G. Johnson (eds.) *Readings in International Economics*, Homewood IL: Irwin, 1968.

Baldwin, R., "Determinants of the Commodity Structure of U.S. Trade," *American Economic Review*, 61 (1971):126-146 (*).

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

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

Vanek Empirical Work (125)

Handouts: Leamer [1984], Trefler [1993, JPE], Trefler [1993 mimeo], problem set 8.

Leamer ch. 4, 6, appendix D (**).

Leamer ch. 5, appendix C.

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

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

Trefler, D., "The Case of the Missing Trade and Other HOV Mysteries," *American Economic Review*, Dec. 1995 (**).

Davis, D.R., D.E. Weinstein, S.C. Bradford, and K. 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 (*).

Helpman, E. (1999). "The Structure of Foreign Trade" *Journal of Economic Perspectives* (*).

Technology in an HOV Framework (Time permitting) DAN - Get citations right.

Antweiler, W. and D. Trefler, "Increasing Returns and All That: A View from Trade," *American Economic Review*, March 2002.

- Hakura, D. (1997). "A Test of the General Validity of the Heckscher-Ohlin Theorem for Trade in the European Community," *Journal of International Economics*, 2001.
- Davis, D.R. and D.E. Weinstein (1999). "An Account of Global Factor Trade," NBER WP 6785.
- Harrigan, J. (1998) "Technology, Factor Supplies, and International Specialization: Testing the Neoclassical Model," *American Economic Review*.
- Bernard, A, and J. Jensen (1995). "Exporters, jobs, and Wages in U.S. Manufacturing, 1976-1987." *Brookings Papers on Economic Activity, Microeconomics*. Washington D.C.
- Daniel Trefler and Susan Zhu (2000). "Beyond the Algebra of Explanation: HOV for the Technology Age," *American Economic Review*, 90 (May 2000), pp. 145-49

➤ WEEK 8

THE TRADE AND WAGES DEBATE (100)

Handouts: Lecture notes, problem set.

- Krugman, Paul, and Robert Z. Lawrence. 1994. "Trade, Jobs and Wages." *Scientific American* (April): 44-49 (**).
- Katz, Lawrence F., and Kevin M. Murphy. 1992. "Changes in Relative Wages, 1963-1987: Supply and Demand Factors." *Quarterly Journal of Economics* 107 (February): 35-78 (**).
- Berman, Eli, John Bound, and Zvi Griliches. 1994. "Changes in the Demand for Skilled Labor Within U.S. Manufacturing Industries: Evidence from the Annual Survey of Manufacturing." *Quarterly Journal of Economics* 109(2): 367-97 (*).
- Bernard, Andrew B., and J. Bradford Jensen. 1997. "Exporters, Skill Upgrading, and the Wage Gap." *Journal of International Economics*, 42 (February): 3-32 (*).
- Freeman, Richard B. 1995. "Are Your Wages Set in Beijing?" *Journal of Economic Perspectives*, 9 (Summer): 15-32 (*).
- Davis, Steven J., and John Haltiwanger. 1991. "Wage Dispersion between and within U.S. Manufacturing Plants, 1963-1986." *Brookings Papers on Economic Activity: Microeconomics*: 1991: 115-180, especially pages 129-139.
- Wood, Adrian. 1995. "How Trade Hurt Unskilled Workers." *Journal of Economic Perspectives*, 9 (Summer): 57-80.
- Leamer, Edward. 2000. "What's the Use of Factor Contents?" *Journal of International Economics*, 50(1): 17-50.
- Gaston, Noel, and Daniel Trefler. 1995. "Union Wage Sensitivity to Trade and Protection." *Journal of International Economics* 39 (August): 1-25.
- Hejazi, Walid, and Daniel Trefler. 1995. "Canada and the Asian Pacific: Views from the Gravity, Monopolistic Competition, and Heckscher-Ohlin Models." Forthcoming in *The Growing Importance of the Asia-Pacific Region in the World Economy: Implications for Canada*, section 2.
- Zhu and Trefler, "Trade and Wages in Developing Countries: Catch-up as a Catalyst," available on my website.

WEEK 9

INCREASING RETURNS TO SCALE: AN OVERVIEW (40)

Handouts: Lecture notes, problem set 9.

Helpman, E. and P.R. Krugman, ch. 2 (**).

Helpman, E., "Increasing Returns, Imperfect Markets, and Trade Theory," in R.W. Jones and P.B. Kenen eds. *Handbook of International Economics* Vol. I, Amsterdam: North-Holland, 1984. Ch. 7.1-7.3 (*).

Markusen, J.R., "Canadian Gains From Trade in the Presence of Scale Economies and Imperfect Competition," in J. Whalley ed. *Canada-United States Free Trade* Toronto: U. of T. Press, 1985 (**).

EXTERNAL ECONOMIES AND PERFECT COMPETITION (10)

Handouts: Lecture notes, problem set 10.

Helpman and Krugman ch. 3 (*).

Helpman and Krugman ch. 4, 5.

OLIGOPOLY AND STRATEGIC TRADE POLICY (50)

Handout: Lecture notes, problem set 11.

Krugman, Paul R., "Is Free Trade Passé?," *Journal of Economic Perspectives*, 1:131-144 (**).

Brander, J.A. and B.J. Spencer, "Export Subsidies and International Market Share Rivalry," *Journal of International Economics*, 18 (1985):83-100 (**).

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

Marc L. Busch, *Trade Warriors: States, Firms, and Strategic-Trade Policy in High-Technology Competition*.

WEEK 10

MONOPOLISTIC COMPETITION

Krugman's Taste for Variety (50)

Handouts: Lecture notes.

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

Helpman and Krugman ch. 6, 7, 8.

The CES Model (10)

Handouts: Taste for variety.

Computable General Equilibrium Models (30)

Handouts: Lectures notes, Harris (AER), Cox and Harris (JPE).

Harris, R. "Applied General Equilibrium Analysis of Small Open Economies with Scale Economies and Imperfect Competition," *American Economic Review* 74 (1984).

Cox, D., and R. Harris, "Trade Liberalization and Industrial Organization: Some Estimates for Canada," *Journal of Political Economy* 93 (1985): 115-145.

The Gravity Model (30)

- Intra-industry trade, simple bilateral predictions, and empirical implementation. Harrigan, Helpman, Hummels and Levinsohn.
- Gravity models: Customs unions (Rose); Intra-provincial trade (Helliwell, McCallum); Tariffs; IPR
- Problem sets: explain problem of gravity models e.g., deriveable from homotheticity plus data identity; interpretation of the fixed effect, etc.
- Hummels D., and J. Levinsohn, "Monopolistic Competition and International Trade," *Quarterly Journal of Economics* 110(1995): 799-836 (*).
- Harrigan, J. (1996) "Openness to Trade in Manufactures in the OECD," *Journal of International Economics*, 40, 23-39.
- Harrigan, J. (1993). "OECD Imports and Trade Barriers in 1983," *Journal of International Economics*, 35:91-111.
- Evenett, S.J. and W. Keller (1998). "On Theories Explaining the Success of the Gravity Equation." Mimeo.
- Helpman, Elhanan (1987). "Imperfect Competition and International Trade: Evidence from Fourteen Industrial Countries," *Journal of the Japanese and International Economics*, 1:62-81.
- Lai, H., and Daniel Trefler, "The Gains From Trade: Standard Errors with the CES Monopolistic Competition," mimeo on Trefler's website.

WEEK 11

TRADE AS A SOURCE OF PRODUCTIVITY GAINS IN MODELS OF IMPERFECT COMPETITION

- Handouts: Lecture notes.
Tybout, NBER
Keller, Spillovers survey

WEEK 12

ASSESSING THE CANADA-U.S. FREE TRADE AGREEMENT

- Handouts: Lecture notes.
Daniel Trefler, "[The Long and Short of the Canada-U.S. Free Trade Agreement](#)," on my website.
Keith Head and John Ries, "Rationalization Effects of Tariff Reductions," *Journal of International Economics*, 47 (April 1999), pp. 295-320

WEEK 13

THE POLITICAL ECONOMY OF PROTECTION

- Handouts: Lecture notes, Ethier, 8.1-8.4
George Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science*, 2 (Spring 1971), pp. 3-21.
Krueger, Anne O., "Trade Policy and Economic Development: How We Learn," *American Economic Review*, March 1997, 87 (1), 391—409.
Gene M. Grossman and Elhanan Helpman, *Special Interest Politics*.
Trefler, Daniel, "Trade Liberalization and the Theory of Endogenous Protection: An Econometric Study of U.S. Import Policy," *Journal of Political Economy*, February 1993, 101 (1), 138—160.

THE WTO

Handouts: Lecture notes

Readings:

Michael J. Trebilcock and Robert Howse, *The Regulation of International Trade*. This is an excellent book on international trade law.