

ECONOMICS 825

INTERNATIONAL TRADE THEORY

Winter 2012

Instructor

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and by appointment (send me an email message to make an appointment).

Teaching Assistant

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Course Website

The Econ 825 website is accessible to students registered in the course through Moodle @ Queen's at <https://moodle.queensu.ca/>

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Class Times and Location

Tuesdays: 2:30-3:50 and Thursdays: 2:30-3:50

Mackintosh-Corry Hall, Room A516

Course Objectives

The primary objectives of this course are to rigorously examine the theory of international trade through the following general areas:

- Classical and Neoclassical Theories of International Trade with Perfect Competition
- Theories of International Trade with Increasing Returns and Imperfect Competition
- The Gravity Model of Trade
- Heterogeneous Firms, Productivity, and International Trade
- Migration and Foreign Direct Investment
- Empirical Issues in Trade
- International Trade Policy

Supplementary Materials

The recommended text for the course is:

Advanced International Trade by Robert C. Feenstra, Princeton University Press, Princeton, 2004.

Useful undergraduate reference texts include:

International Economics: by Robert C. Feenstra and Alan B. Taylor, Second Edition, Worth Publishers, New York, 2011.

International Trade: Theory and Evidence by James Markusen, James Melvin, William Kaempfer, and Keith Maskus, McGraw Hill, Boston, 1995.

Both texts are on reserve at Stauffer Library. The Feenstra textbook is available for purchase at the campus bookstore. The Markusen et al. textbook can be downloaded from <http://spot.colorado.edu/markusen/textbook.html>.

We will also make use of other reserve material in Stauffer Library.

Evaluation

Students' performance is evaluated through assignments, a class presentation, a midterm exam, and a final exam. Grades will be determined according to the following criteria:

Assignments:	20 %
Presentation:	5 %
Midterm:	30 %
Final:	45 %

Notes:

- Late assignments will not be accepted.
- Students are encouraged to work together on assignments but each student must submit their own completed assignment (no photocopies!)
- There will be no changes to the weighting scheme.
- The midterm is **tentatively** scheduled for Tuesday, March 6, 2012; in class.
- The final exam is scheduled by the Economics Graduate Office and the date will be announced later.

Econ 825 Course Outline – Winter 2012

Course Outline is subject to change.

Reference codes refer to the items on the Related Reading List.

I. Introduction

- A. Empirical Observations
- B. Overview of General Equilibrium Approach
- C. Review of Producer and Consumer Theory (Presented in a separate tutorial)

FT: 1; MMKM: 1

II. Classical (Ricardian) Model of Trade

- A. Description
- B. Closed Economy Equilibria (Autarkic Equilibria)
- C. Absolute Advantage, Comparative Advantage, and the Pattern of Trade
- D. Open Economy Equilibria (Trading Equilibria)

F: 1, p.2-4; FT: 2

III. Gains from Trade

- A. The Gains From Trade Theorem
- B. Distributional Concerns

F: 6, p. 179-183 MMKM: 4,5, Appendix 2 DN: 3; W: 7, 9

IV. Specific-Factors Model of Trade

- A. Description
- B. Closed Economy Equilibrium
- C. Open Economy Equilibrium

FT: 3; MMKM: 9

V. Aggregation of Consumers

- A. Income Measures
- B. Aggregate Demand
- C. Preference Aggregation

VI. Factor Proportions Models of Trade

A. Heckscher-Ohlin-(Samuelson) Model

- (i). Description
- (ii). Pattern of Comparative Advantage
- (iii). Discussion of Diversified Production
- (iv). Heckscher-Ohlin-(Samuelson) Theorem
- (v). The Leontief Paradox
- (vi). Trade and Factor Prices

B. Heckscher-Ohlin-Vanek Model

- (i). Description
- (ii). Factor Contents of Trade
- (iii). The Factor Content Theorems
- (iv). Combining Factor Supply Differences with Technology Differences

F: 1, p. 10-30 and 2, p. 31-35; F: 4; MMKM 8, Appendix 3
DN: 4; W: 7

VII. Empirical Tests of Trade Patterns

A. The Leamer Test

B. Tests of Factor Content Theorems

F: 2, p. 35-56; 3, p. 93-97; and 4, p. 101-117; FT: 4; MMKM 13
Trefler (1995); Davis and Weinstein (2001)

VIII. International Factor Movements

A. Migration

B. Foreign Direct Investment

FT: 5; MMKM: 21-22

IX. Trade with Imperfect Competition and Increasing Returns

A. Imperfect Competition with Constant Returns to Scale

B. Imperfect Competition and Increasing Returns to Scale

C. Monopolistic Competition Model of Trade

F: 5, p. 137-144; MMKM: 11,12; DN: 9
Krugman (1980); Krugman (1979)

X. Gravity Model of Trade

- A. Description
- B. Empirical Applications

F: 5, p. 144-163; McCallum (1995); Anderson and van Wincoop (2003)

XI. Trade with Heterogeneous Firms

- A. Empirical Observations from Firm- or Plant-Level Data
- B. Basic Model Description

Melitz forthcoming(?) (2012) and (2003);
Bernard, Eaton, Jensen, and Kortum (2003)
Bernard, Jensen, Redding, and Schott (2007)

XII. Empirical Studies of Scale and Selection Effects

Head and Ries (1999); Trefler (2004)

XIII. Trade Policy under Constant Returns to Scale and Perfect Competition

- A. Import Tariffs
- B. Quotas
- C. Voluntary Export Restraints

F: 7, p. 209-220; and 8, p. 254-285; FT: 8; MMKM 15,16;
DN: 6; W: 10, 11

XIV. Trade Policy under Imperfect Competition

- A. Profit-Shifting Motives for Policy
- B. Infant Industry Protection
- C. Antidumping and Countervailing Duties
- D. Policy Implications of Trade Models with Heterogeneous Firms

F: 7; FT: 9; MMKM: 17

XV. Political Economy of Protection

F: 9; MMKM: 19