Syllabus

Course Requirements are:

1. a series of homework assignments
2. a mid-term exam Nov. 3
3. a final exam, date TBA

The purpose of this course is to acquaint the student with the basic tools of international trade theory. Some important topics skipped here will be covered in Ec875, Political Economy of Trade and Development. These include trade and growth, political economy of trade and the international policy system (including WTO and regional trade arrangements).

The reading list is small compared to many graduate reading lists. This is deliberate since I think less is more in learning the basics. In contrast, Ec875 assumes the basics and requires extensive reading of recent papers. The reading list also has many more papers by me than are justified by their pure merit. This is because I can communicate more about the creation of economics in discussing the work I (probably) know best.

Trade theory is the richest lode of applied general equilibrium theory. To develop skill and intuition in applied ge theory, I have two sorts of homework. One sort is written mathematical and intuitive exercises. The other sort is programming exercises with simple computable general equilibrium models.

Applied general equilibrium modeling is beyond the purview of this course (or Ec875) but students should be aware of it. Serious modeling is usually done with GAMS. Some modelers use GAUSS and a few use Mathematica. I have found Mathematica to be useful in small scale simulation models; Hal Varian’s Modeling textbook gives many examples. Thus I have assigned a Mathematica-based exercise.

There is no text but a key reference for core material is A. Dixit and V. Norman, Theory of International Trade, Cambridge University Press, 1980. It is now out of print, alas, and there is no really good substitute available. The library has a copy or two, and I have a copy. We shall have to do some xeroxing to make up the deficiency.

A good alternative covering much of the same ground is A. Woodland, International Trade and Resource Allocation, Amsterdam: North Holland, 1982. A defect is its high price.

A recent comprehensive graduate text is K-Y. Wong International Trade and Factor Mobility, MIT 1995.

Surveys


Important Monographs


Web sites: this course teaches theory and some applications and we tend to lose sight of why we study the stuff. These sites give information on the application of ideas to the policy issues:

**WTO**: [www.wto.org](http://www.wto.org) vast amount of information about the WTO and its dispute settlement processes. (How secretive is this organization?)

**Trade negotiations web page**: [www.cid.harvard.edu/cidtrade](http://www.cid.harvard.edu/cidtrade) lots of news and opinion on a wide range of trade negotiation issues.

**USTR reports**: [http://www.ustr.gov/reports/index.html](http://www.ustr.gov/reports/index.html). USTR is the negotiation arm of US trade; these are its briefs for disputes.

**The Economist**: [www.economist.com](http://www.economist.com). Lots of their current stories and opinion are free.

Deardorf’s glossary of international economics terms: [http://www-personal.umich.edu/~alandear/glossary/](http://www-personal.umich.edu/~alandear/glossary/)

Journal Notations

AER = American Economic Review
JPE = Journal of Political Economy
JIE = Journal of International Economics
RES = Review of Economic Studies
RESStat = Review of Economics and Statistics
QJE = Quarterly Journal of Economics
OEP = Oxford Economic Papers
EJ = Economic Journal
IER = International Economic Review
Syllabus

Citations marked with an asterisk are basic starting points and fundamental to the lectures.

I. Introduction and A Simplified Trade Model
   Readings:
   *Dixit-Norman, Ch. 1.

II. Supply and Demand with Duality
   Readings
   *DN, ch. 2

III. The Gains from Trade
   Readings
   *DN, ch. 3

IV. Explorations of Special Cases

   A. The Ricardian Theory
      readings:
      Dornbusch, Fischer and Samuelson, 1977, AER, “The Ricardian model with a continuum of goods”.

   B. The Factor Proportions Theory
      1. The Heckscher-Ohlin-Samuelson Model
         Readings:
         *Handbook, ch. 1
         DN, ch. 4
      2. Extensions of the Model
         Readings
         *Dixit-Norman, Chs. 2, 4.
3. **Empirical Work**

Readings:

*On adequacy of factor proportions model*
Leamer, Bowen, Sveikauskas, AER, Dec. '87, "Multicountry, Multifactor Tests of the Factor Abundance Theory".
Trefler, D., "Leontief was Right!" *JPE*, 1994.

*On trade and factor prices*
*JIE symposium: June 2000 xxx

C. **Geography and Trade**

Readings:

*Transactions costs*
V. Imperfect Competition and Scale Economies

A. overview
*Alasdair Smith, "imperfect competion and international trade", in Greenaway and Winters Surveys

B. Product Differentiation, Monopolistic Competition and Trade
Readings: 1) *Helpman and Krugman, Chs. 6-11.

C. Division of Labor and Scale Economies
Readings:
3) *H. Marvel and E. Ray, "Intraindustry Trade: Sources and Effects of Protection", JPE Dec. '87

D. Geography Again: Agglomeration
*P. Krugman, Geography and Trade

VI. Commercial Policy

A. Theory
Readings
*Dixit-Norman, Ch. 5.6.

A. Dixit, "Taxation in Open Economies," Chapter in Handbook of Public Finance

B. Empirical work
readings:
J. Anderson (1988), The Relative Inefficiency of Quotas, MIT Press
VII. Strategic Trade Policy

Readings: