

POLITICAL ECONOMY OF TRADE AND DEVELOPMENT

EC 875
Carney 11

Spring 2000
W F 10:30-12

James E. Anderson
McGuinn 523
W F 1:30-3:00

Douglas Marcouiller, S.J.
Carney 139, 552-3685
M 10:30-12, W 4-5:30

This course models international trade and economic growth as outcomes of the interaction of economic and political processes.

Students will be expected to work through the assigned reading before the class period in which it is discussed. The course grade will be based on a final exam, a class presentation, and two papers. The first paper will be a critical review of a paper selected from the second half of the reading list; the class presentation is to be based on that critical review. The second paper is to reflect original work either extending one of the models on the reading list or building something entirely new. More detailed instructions will be given in class.

Grading:

Final: 40%

Each paper: 25%

Presentation: 10%

Reading List:

The dates given are approximate. The reading list is ambitious. Some papers may not, in the end, be covered in class.

TRADE AND GROWTH

Exogenous Technology

- G. Grossman and E. Helpman, Section 1 of "Technology and Trade," Chapter 25 in Handbook of International Economics, Volume III, Elsevier, 1995, pp. 1281-1291;
- R. Findlay, Factor Proportions, Trade, and Growth, MIT Press, 1995, Chapters 1 and 2, pp. 1-68;

Endogenous Technology

- G. Grossman and E. Helpman, Sections 2 and 3 of "Technology and Trade," pp. 1292-1323;
- R. Findlay, Factor Proportions, Trade, and Growth, MIT Press, 1995, Chapters 3 and 4, pp. 69-120.

Empirical Overview of Openness and Growth

- F. Rodriguez and D. Rodrik, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence," April 1999, mimeo.
- A. Harrison and G. Hanson, "Who Gains from Trade Reform? Some Remaining Puzzles," Journal of Development Economics, June 1999, pp.125-54.
- *R. Feenstra, "Integration of Trade and Disintegration of Production in the Global Economy," Journal of Economic Perspectives, Fall 1998, pp.31-50.

TARIFFS SET BY A SINGLE INCUMBENT GOVERNMENT

Median Voter Models

- W. Mayer, "Endogenous Tariff Formation," American Economic Review 74:5, December 1984, pp. 970-985.
- R. Fernandez and D. Rodrik, "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty," American Economic Review 81:5, December 1991, pp. 1146-1155.

Menu Auction Models

- B. D. Bernheim and M. Whinston, "Common Agency," Econometrica 54:4, July 1986, pp. 923-942; B. D. Bernheim and M. Whinston, "Menu Auctions, Resource Allocation, and Economic Influence," Quarterly Journal of Economics 101:1, February 1986, pp. 1-31;
- G. Grossman and E. Helpman, "Protection for Sale," American Economic Review 84:4, September 1994, pp. 833-850.
- D. Mitra, "Endogenous Lobby Formation and Endogenous Protection: A Long Run Model of Trade Policy Determination", American Economic Review, 89:5, December 1999, pp.1116-1134..
- *A. Dixit, G. Grossman and E. Helpman, "Common Agency and Coordination: General Theory and Application to Tax Policy," Journal of Political Economy 105:4, August 1997, pp. 752-769.
- G. Maggi and P. Goldberg, "Protection for Sale: an Empirical Investigation", NBER Working Paper No. 5942, February 1997. AER Dec. 99

ELECTORAL COMPETITION

- L. Young and S. Magee, "Endogenous Protection, Factor Returns, and Resource Allocation, " Review of Economic Studies 53:3, July 1986, pp. 407-419;
- G. Grossman and E. Helpman, "Electoral Competition and Special Interest Politics," Review of Economic Studies 63:2, April 1996, pp.265-86.
- * G. Grossman and E. Helpman, "Competing for Endorsements," American Economic Review 89:3, June 1999, pp.501-524.

Micro-political foundations

- *D. Baron, "Service-induced Campaign Contributions and the Electoral Equilibrium", Quarterly Journal of Economics 104:1, February 1989, pp. 45-72.
- *J. E. Anderson, "The Market for Influence: a case of neglected micro-politics," mimeo 1996.

ADMINISTERED PROTECTION

- R. Staiger, "International Rules and Institutions for Trade Policy", ch. 29 in Handbook of International Economics, vol. 3.

R. Staiger and K. Bagwell, "A Theory of Managed Trade", American Economic Review 80:4, September 1990, pp. 779-795.

W. J. Ethier, XXXX

Anti-Dumping

J. E. Anderson, "Strategic Lobbying and Antidumping", Journal of Economic Integration (special issue on dumping) 9:2, 1994, pp.129-155.

J. E. Anderson, "Domino Dumping, II: Antidumping", Journal of International Economics, 35:1-2, August 1993, pp.133-150.

J. E. Anderson, "Domino Dumping, I: Competitive Exporters", American Economic Review 82:1, March 1992, pp. 65-83.

T. J. Prusa, "Why Are So Many Antidumping Petitions Withdrawn?", Journal of International Economics 33:1-2, August 1992, pp. 1-20.

R. Staiger and F. Wolak, "The Effect of Antidumping Law in the Presence of Foreign Monopoly", Journal of International Economics, 32:3-4, May 1992, pp. 265-87.

TRADE AGREEMENTS

Bilateral Agreements

G. Grossman and E. Helpman, "The Politics of Free Trade Agreements," American Economic Review 85:4, September 1995, pp.667-690.

G. Maggi and A. Rodriguez-Clare, "The Value of Trade Agreements in the Presence of Political Pressures", Journal of Political Economy 106:3, June 1998, pp. 574-601.

P. Levy, "Lobbying and International Cooperation in Tariff Setting," Journal of International Economics 47:2, April 1999, pp.345-70.

Multilateral Frameworks

P. Krishna, "Regionalism and Multilateralism: A Political Economy Approach," Quarterly Journal of Economics 113:1, February 1998, pp. 227-51.

R. Staiger and G. Tabellini, "Do GATT Rules Help Governments Make Domestic Commitments?" Economics and Politics 11:2 pp.109-144, July 1999.

- K. Bagwell and R. Staiger, "An Economic Theory of GATT," American Economic Review 89:1, March 1999, pp.215-48.
- G. Maggi, "The Role of Multilateral Institutions in International Trade Cooperation," American Economic Review 89:1, March 1999, pp.190-214..
- P. Krishna and D. Mitra, "A theory of unilateralism and reciprocity in trade policy," 1999, mimeo.

MULTINATIONALS

- Markusen, James R. "The Boundaries of the Multinational Firm and the Theory of International Trade", Journal of Economic Perspectives, 1995, 9, 169-190.
- Markusen, James R. and Anthony Venables, "Multinational Firms and the New Trade Theory", Journal of International Economics. Vol. 46 (2). 183-203. December 1998.
- Ethier, Wilfred J; Markusen, James R. "Multinational Firms, Technology Diffusion and Trade". Journal of International Economics. Vol. 41 (1-2). 1-28. August 1996.
- Horstmann, Ignatius J; Markusen, James R. "Exploring New Markets: Direct Investment, Contractual Relations and the Multinational Enterprise". International Economic Review. Vol. 37 (1). p 1-19. February 1996.

FOREIGN DIRECT INVESTMENT

- R. Feenstra, "Facts and Fallacies about Foreign Direct Investment," December 1998, mimeo.
- B. Blonigen and Y. Ohno, "Endogenous Protection, Foreign Direct Investment and Protection-Building Trade," Journal of International Economics 46:2, December 1008, pp.205-227.
- H. Konishi, K. Saggi and S. Weber, "Endogenous Trade Policy under Direct Foreign Investment," Journal of International Economics 48:2, December 1999, pp.288-308.
- B. Blonigen and D. Figlio, "Voting for Protection: Does Direct Foreign Investment Influence Legislator Behavior?" American Economic Review 88:4, September 1998, pp. 1002-1014.
- L. Branstetter and R. Feenstra, "Trade and Foreign Direct Investment in China: A Political Economy Approach," March 1999, mimeo.

INFORMATION AND TRADE

- J. Rauch, "Networks versus Markets in International Trade," Journal of International Economics 48:1, June 1999, pp.7-35.
- J. Rauch and J. Watson, "Starting Small in an Unfamiliar Environment," NBER Working Paper 7053, March 1999.
- J. Rauch and V. Trindade, "Ethnic Chinese Networks in International Trade," NBER Working Paper 7189, June 1999.

SUNK COSTS AND TRADE

- J. McLaren, "Supplier Relations and the Market Context: A Theory of Handshakes," Journal of International Economics 48:1, June 1999, pp. 121-138.
- J. McLaren, "Globalization and Vertical Structure," mimeo, May 1999.
- J. Anderson and L. Young, "Trade and the Rule of Law", draft 1999.
- J. Anderson and L. Young, "Trade and Contract Enforcement" draft, 2000

INSECURITY AND TRADE

- K. Konrad and S. Skaperdas, "Extortion," Economica 65, pp. 461-77, November 1998.
- J. Anderson and D. Marcouiller, "Trade and Security, I: Anarchy", mimeo, revised December 1999.
- J. Anderson and D. Marcouiller, "Insecurity and Home Bias: An Empirical Investigation," mimeo, revised January 2000.

DOMESTIC REDISTRIBUTION, STABILIZATION AND GROWTH

- A. Meltzer and S. Richard (1981), "A Rational Theory of the Size of Government," Journal of Political Economy 89:5, October, pp. 914-927;
- A. Alesina and D. Rodrik (1994), "Distributive Politics and Economic Growth," Quarterly Journal of Economics 109:2, May, 465-490.
- A. Alesina and A. Drazen (1991), "Why Are Stabilizations Delayed?," American Economic Review 81:5, December, pp. 1170-1188.

- T. Persson and L. Svenson (1989), "Why a Stubborn Conservative Would Run a Deficit: Policy With Time-Inconsistent Preferences," Quarterly Journal of Economics 104:2, May, pp. 325-345.
- T. Persson and G. Tabellini (1994), "Is Inequality Harmful for Growth?" American Economic Review 84:3, June, pp. 600-621.
- K. Deininger and L. Squire, "New Ways of Looking at Old Issues: Inequality and Growth," Journal of Development Economics, December 1998, pp.259-287.