

POLITICAL ECONOMY OF TRADE AND DEVELOPMENT

EC 875
Carney 11

Spring 2001
W F 10:30-11:45

James E. Anderson
McGuinn 523, 552-3691
W F 1:30-3:00

Douglas Marcouiller, SJ
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M 10:30-12, W 1:30-3:00

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 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 exam 40%
Each paper 25%
Presentation 10%

READING LIST

I. TRADE AND GROWTH

Exogenous Technology: JEA 1/17, 1/19

- G. Grossman and E. Helpman, Section 1 of "Technology and Trade," in Chapter 25, *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: JEA 1/24

- 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 Investigations of Openness and Growth: DWM 1/26

- F. Rodriguez and D. Rodrik, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence," mimeo, revised May 2000.
- D. Dollar and A. Kraay, "Trade, Growth, and Poverty," mimeo, revised January 2001.
- D. Rodrik, "Comments on 'Trade, Growth, and Poverty' by D. Dollar and A. Kraay," mimeo, October 2000.
- A. Harrison and G. Hanson, "Who Gains from Trade Reform? Some Remaining Puzzles," *Journal of Development Economics*, June 1999, pp. 125-54.

II. BASIC MODELS OF POLICY-MAKING

Median Voter Models: DWM 1/31, 2/2

- W. Mayer, "Endogenous Tariff Formation," *American Economic Review* 74:5, December 1994, 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.

Lobbies as Principals, Government as Agent: DWM 2/7, 2/9, 2/14

- 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.
- G. Maggi and P. Goldberg, "Protection for Sale: an Empirical Investigation," *American Economic Review* 89:5, December 1999, pp. 1135-1155.
- K. Gawande and U. Bandyopadhyay, "Is Protection for Sale? Evidence on the Grossman-Helpman Theory of Endogenous Protection," *Review of Economics and Statistics* 82:1, February 2000, pp. 139-152.
- L. Branstetter and R. Feenstra, "Trade and Foreign Direct Investment in China: A Political Economy Approach," NBER Working Paper #7100, April 1999.

Government as Principal, Bureaucrats as Agents: DWM 2/16

- D. Acemoglu and T. Verdier, "The Choice Between Market Failures and Corruption," *American Economic Review* 90:1, March 2000, pp. 194-211.

Political Competition: DWM 2/21, 2/23

- 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.
- E. LaFerrera and R. Bates, "Political Competition in Weak States: Rent-Seeking, Violence and Identity Politics," mimeo, October 2000.

Micro-political Foundations: JEA 2/28

- 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.

III. TRADE AGREEMENTS

Bilateral Agreements: DWM 3/2

- 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: JEA 3/14, 3/16

- P. Krishna, "Regionalism and Multilateralism: A Political Economy Approach," *Quarterly Journal of Economics* 113:1, February 1998, pp. 227-51.
- W. Ethier, "The International Commercial System", Princeton: International Finance Section, 1998.
- C. Freund, "Multilateralism and the Endogenous Formation of Preferential Trade Agreements," *Journal of International Economics* 52:2, December 2000, pp. 359-76.
- R. Staiger and G. Tabellini, "Do GATT Rules Help Governments Make Domestic Commitments?" *Economics and Politics* 11:2, July 1999, pp. 109-144.
- 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.

IV. ADMINISTERED PROTECTION JEA 3/21, 3/23, 3/28

- R. Staiger, "International Rules and Institutions for Trade Policy", Chapter 29 in *Handbook of International Economics*, Volume III, Elsevier, 1995.
- R. Staiger and K. Bagwell, "A Theory of Managed Trade", *American Economic Review* 80:4, September 1990, pp. 779-795.

Anti-Dumping

- J. Anderson, "Domino Dumping, I: Competitive Exporters", *American Economic Review* 82:1, March 1992, pp. 65-83.
- T. Prusa, "Why Are So Many Antidumping Petitions Withdrawn?", *Journal of International Economics* 33:1-2, August 1992, pp. 1-20.
- M. Zanardi, "Antidumping Law as a Collusive Device", BC Working Paper No. 482.

V. MULTINATIONALS JEA 3/30

- D. Carr, J. Markusen, and K. Maskus, "Testing the Knowledge Capital Model of Multinational Enterprises," NBER Working Paper No. 6773, forthcoming, *American Economic Review*.
- I. Horstmann and J. Markusen, "Exploring New Markets: Direct Investment, Contractual Relations and the Multinational Enterprise". *International Economic Review* 37:1, February 1996, pp. 1-19.
- W. Ethier and J. Markusen, "Multinational Firms, Technology Diffusion and Trade," *Journal of International Economics* 41:1-2, August 1996, pp. 1-28.
- J. Markusen and A. Venables, "Multinational Firms and the New Trade Theory," *Journal of International Economics*. 46:2, December 1998, pp. 183-203.

VI. FACTOR FLOWS: FDI AND IMMIGRATION DWM 4/4, JEA 4/6

- R. Feenstra, "Facts and Fallacies about Foreign Direct Investment," December 1998, mimeo.
- B. Aitken and A. Harrison, "Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela," *American Economic Review* 89:3, June 1999, pp. 605-618.
- S. Wei, "How Taxing is Corruption on International Investors?" *Review of Economics and Statistics* 82:1, February 2000, pp. 1-11.
- G. Hanson and A. Spilimbergo, "Political Economy, Sectoral Shocks, and Border Enforcement," mimeo, July 1999.
- B. Blonigen and Y. Ohno, "Endogenous Protection, Foreign Direct Investment and Protection-Building Trade," *Journal of International Economics* 46:2, December 1998, 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.

VII. INFORMATION AND TRADE DWM 4/11

- J. Rauch, "Business and Social Networks in International Trade," mimeo, December 2000.
- J. Rauch and J. Watson, "Starting Small in an Unfamiliar Environment," NBER Working Paper 7053, revised September 2000.
- J. Rauch and V. Trindade, "Ethnic Chinese Networks in International Trade," NBER Working Paper 7189, revised December 2000, forthcoming, *Review of Economics and Statistics*.

VIII. SUNK COSTS AND TRADE JEA 4/18, 4/20

- 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," *American Economic Review* 90:5, December 2000, pp. 1239-1254.
- J. Anderson and L. Young, "Trade and the Rule of Law", draft 1999.
- J. Anderson and L. Young, "Trade and Contract Enforcement" draft, 2000.

IX. INSECURITY AND TRADE DWM 4/25

- J. Anderson and D. Marcouiller, "Trade and Security, I: Anarchy," NBER Working Paper 6223, revised December 1999.
- J. Anderson and D. Marcouiller, "Insecurity and Home Bias: An Empirical Investigation," NBER Working Paper 7000, revised August 2000.
- D. Marcouiller, "Hijacking, Hold-up, and International Trade," mimeo, revised February 2001.

X. ENDOGENOUS JURISDICTIONS JEA 4/27

- A. Alesina, E. Spolaore and R. Warciarg, "Economic Integration and Political Disintegration", *American Economic Review* 90:5, December 2000, pp. 1276-96.
- A. Alesina and E. Spolaore, "On the Number and Size of Nations", *Quarterly Journal of Economics* 1997, pp. 1027-56.