

BOSTON COLLEGE

**Department of Economics**

EC 871  
International Trade Theory

Prof. Anderson  
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Syllabus

Course Requirements are:

- (1) a series of homework assignments
- (2) a mid-term exam Oct. 27
- (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. The traditional sort is written mathematical and intuitive exercises. The less traditional sort is programming exercises with simple computable general equilibrium models. This will involve adaptation of models which run on Excel spreadsheets, a vehicle which has a relatively low fixed cost of entry to the analysis. The template models are available on [Sleek2, Sleekshare, SleekExchange, Anderson/CGE,EC871].

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.

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.

A good undergraduate text for review or supplement is Markusen, Maskus, Melvin and Kaempfer, The Theory of International Trade, Ethier, Modern International Economics, Krugman and Obstfeld, International Economics: Theory and Policy, or Caves, Frenkel and Jones, World Trade and Payments.

### Surveys

1. Surveys of International Trade, D. Greenaway and L.A. Winters eds. Oxford: Basil Blackwell, 1994. Graduate level surveys.
2. Handbook of International Economics, Vol 1, North-Holland, eds. Jones and Kenen; Volume 3, eds Grossman and Rogoff, 1995. Graduate level surveys.
3. The Economics of Trade Protection, Neil Vousden, Cambridge UP, 1990.
4. Imperfect Competition and International Trade, G. Grossman ed, MIT Press, 1992. Collection of key essays.
5. Protectionism, J. Bhagwati, MIT Press, 1989.

### Important Monographs

Helpman and Krugman, Market Structure and Foreign Trade, MIT 1985.  
 Helpman and Krugman, Trade Policy and Market Structure, MIT 1989.  
 Helpman and Grossman, Innovation and Growth in the Global Economy, MIT 1991.  
 E.E. Leamer, Sources of International Comparative Advantage, MIT 1984.

### Journal Notations

AER = American Economic Review  
 JPE = Journal of Political Economy  
 JIE = Journal of International Economics  
 RES = Review of Economic Studies  
 REStat = 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

\*A. Woodland, (1980), "Direct and Indirect Trade Utility Functions", RES, 47,907-26.

### 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

\*R. Jones, "The Structure of Simple General Equilibrium Models," JPE Dec. 1965.

DN, ch. 4

##### 2. Extensions of the Model

Readings

\*Ethier, W.J., "Higher Dimensional Issues in Trade Theory," Handbook.

\*Dixit-Norman, Chs. 2, 4.

\*Neary, JP and AS Schweinberger, "Factor Content Functions and the Theory of International Trade", RES, 1986.

Dixit-Woodland, "The Relationship Between Factor Endowments and Commodity Trade," JIE, May 1982

Neary, JP, 1985, "Twoness and Trade Theory", Econometrica, 53

### 3. Empirical Work

#### Readings:

##### *On adequacy of factor proportions model*

Leamer, E., Sources of International Comparative Advantage, M.I.T., 1984,

Chs. 1, 2, 6.

Leamer, Bowen, Sveikauskas, AER, Dec. '87, "Multicountry, Multifactor Tests of the Factor Abundance Theory"

Trefler, D, "Leontief was Right!" JPE, 1994.

\*Trefler, D., "The Case of the Missing Trade", AER, 1995.

\*D. Davis, D. Weinstein, S. Bradford and K. Shimpo, "Using International and Japanese regional data to determine when the factor abundance theory works", AER, 1997, 421-446.

\*D. Davis and D. Weinstein (1998), "An Account of Global Factor Trade", NBER WP No. 6785

X. Gabaix, (1998) "xxx"

J. Markusen, "Explaining the Volume of Trade", AER Dec. '87.

\*Leamer and Levinsohn, Handbook, vol. 3.

\*Elhanan Helpman (1998), "The Structure of Foreign Trade", NBER WP No. 6752.

##### *On trade and factor prices*

\*Leamer, "A Trade Economist's view of US Wages and 'Globalization'", working paper, 1995.

Robert C. Feenstra,, Gordon H. Hanson, "Prouctivity Measurement and the Impact of Trade and Technology on Wages: Estimates for the U.S., 1972-1990" NBER Working Paper No. 6052, 06/01/97.

\*James Harrigan and Rita Balaban (1999), "US Wages in General Equilibrium: the Effects of Prices, Technology and Factor Supplies, 1963-1991".

### C. Geography and Trade

#### readings:

##### Transactions costs

\*J. Anderson (1999) "Why Do Nations Trade (So Little)?" forthcoming in Pacific Economic Review

\*J. Rauch (1999), "Networks vs. Markets in International Trade", JIE 48, 7-37.

J. Anderson (1979), "A theoretical Foundation for the Gravity Equation", AER

J. Bergstrand (1985), "The gravity equation in international trade: some microeconomic foundations and empirical evidence", REStat

M. Gersovitz (1989), "Transportation, State Marketing and the Taxation of the Agricultural Hinterland", JPE, 97,1113-37.

\*McCallum, John (1995), "National Borders Matter: Canada-US Regional Trade Patterns", American Economic Review, 85, 615-23, June 1995.

P. Courant and A. Deardorff (1992), "International Trade with Lumpy Countries", JPE, 198-210.

J. Anderson and D. Marcouiller (1999), "Trade, Insecurity and Home Bias: An Empirical Investigation" NBER WP No. 7000.

D. Hummels (1998), "Toward a Geography of Transport Costs", mimeo

## V. Imperfect Competition and Scale Economies

### A. overview

\*Alasdair Smith, "imperfect competition 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:

1) \*Ethier, W., "National and International Returns to Scale in the Modern Theory of International Trade" AER, June 1982, also in G. Grossman Imperfect Competition and International Trade.

2) J. Markusen, "Trade in Producer Services and Other Specialized Intermediate Inputs", AER 1989.

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

\*Krugman, Venables and Fujita, The Spatial Economy: Cities, Regions and International Trade, forthcoming.,

## VI. Commercial Policy

### A. Theory

Readings

\*Dixit-Norman, Ch. 5,6.

\*Anderson, JE, "The Theory of Protection" in D. Greenaway and LA Winters Surveys

N. Vousden, The Economics of Trade Protection, Cambridge: Cambridge University Press.

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

### B. Empirical work

readings:

\*R. Feenstra, "Estimating the Effects of Trade Policy", 1995 Handbook, vol. 3.

J. Anderson, "The theory of protection", op. cit.

J. Anderson (1988), The Relative Inefficiency of Quotas, MIT Press

\*Anderson and Neary, 1994, "Measuring Trade Restrictiveness", World Bank Economic Review, May 1994.

\*Anderson and Neary (1996), "A New Approach to Evaluating Trade Policy", Review of Economic Studies

\*J. Anderson (1998), "Trade Restrictiveness Benchmarks", Economic Journal

J. Anderson (1998), "Effective Protection Redux", Journal of International Economics.

J. Anderson (1998), "The Uruguay Round and Welfare in Some Distorted Agricultural Economies", Journal of Development Economics

J. Anderson and JP Neary (1999), "The Mercantilist Index of Trade Policy", NBER WP No. 6870

## VII. Strategic Trade Policy

Readings:

\*J. Brander, "Strategic Trade Policies" in Handbook, vol. 3.

\*G. Maggi, "Strategic Trade Policies with Endogenous Modes of Competition", AER, 1996, 237-58.

Brander and Spencer, "Tariff Protection and Imperfect Competition" and

Eaton and Grossman, "Optimal Trade and Industrial Policy under Oligopoly", chs. 6 and 7 in Grossman, Imperfect Competition and International Trade.

J. McLaren 1997, "Size, Sunk Cost and Judge Bowker's Objection to Free Trade", AER, 400-420.