

BOSTON COLLEGE
Department of Economics

EC 871
International Trade Theory
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Fall 1997

Syllabus

Course Requirements are:

- (1) a series of homework assignments
- (2) a mid-term exam Oct. 16
- (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 topics given short shrift here will be covered in Ec875, Political Economy of Trade and Development.

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 I have found to be quite useful for my research. The template models are available on [Sleek2, Sleekshare, SleekExchange, Anderson/CGE,EC871].

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. Shimpko, "Using International and Japanese regional data to determine when the factor abundance theory works", AER, 1997, 421-446.

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

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

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, "Productivity 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.

C. Geography and Trade

readings:

P. Krugman, *Geography and Trade*

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.

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

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.

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

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 1996, "Judge Bowker's Argument for Protection", AER