

The Theory of International Trade

István Kónya

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The course is designed to introduce students to the positive theory of International Trade. In the first two-thirds of the semester we will go through the core theory of trade: the “classical” model with constant returns to scale and the so-called “New Trade Theory” that explores the role of increasing returns. In the last part of the course I plan to cover two additional topics. One is the connection between trade and growth, including open-economy versions of endogenous growth models and models of North-South trade. The second, more amorphous, topic will concentrate on trade, migration and wages. This has received considerable attention lately, and I think it is a good exercise in applied trade theory to look at the debate on the effects of globalization.

There is no single book that covers all of the topics. I will use two books for the core material: *The Theory of International Trade* by A. Dixit and V. Norman and *Market Structure and Foreign Trade* by E. Helpman and P. Krugman. An alternative book, which is currently being written by Robert Feenstra, covers much of the same material, and more. It is somewhat less detailed on the theory than DN and HK, but the main concepts are there. Its main strength is the inclusion of many empirical applications, which are – fortunately – also very up-to-date. You are strongly encouraged to read the appropriate chapters, and I will also use the problems and empirical exercises from that

book. There are other books that I found useful and I list them under the References. At each topic I also indicated articles that I plan to cover, though we will see what time allows. Most of them are available online either through JSTOR or NBER, so you should have no problems to get them. Some of the articles are also reprinted in the monographs on the book list. The reading list is deliberately short, because Feenstra (2002) has a very extensive list of references. I strongly recommend checking the relevant papers for each topic. You should also go to the course web page regularly for announcements and solutions : <http://www2.bc.edu/~konya/teaching/intrade.html>.

There will be an exam after the core topics 2 and 3, which you could call a Midterm. I will also assign regular homework, one for each topic. These will include both theoretical questions and empirical ones, since data is readily available through the Feenstra book. For the homework, you should form study groups of 2, and hand in solutions as a group. Finally, you should write a research proposal by the end of the semester. Your proposal should be based on one of the topics discussed in the class, and it should be 3-5 pages long. If your proposal is theoretical, briefly summarize the existing literature, state your planned contribution, and sketch a model briefly that you think would capture your ideas. If your proposal is empirical, again summarize the literature, state your planned contribution, outline the empirical approach you want to follow and discuss how you will get the data. The final grade will be calculated as follows: Midterm (50%), Homework (20%), Proposal (30%).

Topics

1. Introduction, plan of the course

2. The “classical” theory of international trade
 - a. Basic issues, analytical tools (DN Ch.1, DN Ch.2)
 - b. The Heckscher-Ohlin model (DN Ch.2, F Ch.1-2, Jones 1965)
 - c. The Ricardian model (DN Ch.2, F Ch.1, Dornbusch et. al 1977)
 - d. The Specific Factors model (DN Ch.2, F Ch.3, Neary 1978)
 - e. International equilibrium and the gains from trade (DN Ch.3, F Ch.3)
 - f. Factor price equalization and the pattern of trade (DN Ch.4, HK Ch.1, F Ch.3)
 - g. Comparative statics, welfare and protection (DN Ch 5, DN Ch.6, F Ch.6)
 - h. Empirical results (F Ch.2-3, Davis – Weinstein 2001, Helpman 1998, Trefler 1995)

3. The “New Trade Theory”
 - a. External economies of scale (HK Ch 3)
 - b. Cournot-oligopoly and strategic trade policy (HK Ch.5, F Ch.7)
 - c. Differentiated products (HK Ch. 6-8, F Ch.5)
 - d. Transportation costs and the home market effect (HK Ch.10, Krugman 1980)
 - e. Trade and Geography (Krugman-Venables 1995, Puga-Venables 1996)

- f. The gravity equation and the border effect (F. Ch.5, Anderson – Van Wincoop 2001)
- g. Empirical studies (F Ch.5, Helpman 1998, Davis-Weinstein 2002, Overman et al. 2001)

4. Trade, Growth and North-South Trade

- a. Trade and growth under constant returns (Findlay 1995, HB I. Ch.4)
- b. Learning-by-doing (Krugman 1987, Brezis et.al. 1993, Matsuyama 1992)
- c. Endogenous innovation (F Ch.10, GH)
- d. North-South trade (Young 1991, GH)
- e. Trade and growth: the evidence (F Ch.10, Rodriguez-Rodrik 1999, Bhagwati-Srinivasan 1999, Keller 2000)

5. International Trade, Migration and Wages

- a. Immigration and trade – theory (DN Ch. 5, Trefler 1997)
- b. Globalization, migration and trade: evidence from history (Collins et al. 1997, Lindert and Williamson 2001)
- c. The effect of trade on wages: factor contents (Borjas et al. 1997, Krugman 2000, Leamer 2000)
- d. Trade and wages: alternative explanations (F Ch.4, Feenstra-Hanson 1995, Acemoglu 1999)
- e. The effect of immigration on wages (Borjas et al. 1997, Hanson-Slaughter 1999)

References

Abbreviations:

AER: American Economic Review

JPE: Journal of Political Economy

QJE: Quarterly Journal of Economics

JDE: Journal of Development Economics

JIE: Journal of International Economics

JJIE: Journal of the Japanese and International Economies

EJ: The Economic Journal

NBER: National Bureau of Economic Research

BPEA: Brookings Papers on Economic Activity

Books:

A. Dixit and V. Norman (DN): *Theory of International Trade*, Cambridge University Press, 1980

E. Helpman and P. Krugman (HK): *Market Structure and Foreign Trade*, The MIT Press, 1985

R. Feenstra (F): *Advanced International Trade: Theory and Evidence*, <http://www.econ.ucdavis.edu/faculty/fzfeens/textbook.html>

R. Jones and P. Kenen (HB I): *Handbook of International Economics, Volume I*, North-Holland, 1984

G. Grossman and K. Rogoff : *Handbook of International Economics, Volume III*, North-Holland, 1995

P. Krugman: *Rethinking International Trade*, The MIT Press, 1994

M. Fujita, P. Krugman and A. Venables: *The Spatial Economy*, The MIT Press, 1999

R. Findlay: *Factor Proportions, Trade and Growth*, The MIT Press, 1995

G. Grossman and E. Helpman (GH): *Innovation and Growth in the Global Economy*, The MIT Press, 1991

A.D. Woodland: *International Trade and Resource Allocation*, North-Holland, 1982

K. Wong: *International Trade in Goods and Factor Mobility*, The MIT Press, 1995

J. Bhagwati, A. Panagariya and T.N. Srinivasan: *Lectures on International Trade*, The MIT Press, 1998

Articles:

1. The “classical” theory of international trade

R. Dornbusch, S. Fischer and P. Samuelson: *Comparative advantage, trade and payments in a Ricardian model with a continuum of goods*, AER 1977, p.823-839 (JSTOR)

J.P. Neary: *Short-run capital specificity and the pure theory of international trade*, EJ 1978, p.488-510 (JSTOR)

R. Jones: *The structure of simple general equilibrium models*, JPE 1965, p.557-572 (JSTOR)

E. Helpman: *The structure of foreign trade*, NBER 6752, 1998

D. Trefler: *The case of the missing trade and other misteries*, AER 1995, p.1029-1046 (JSTOR)

D. Davis and D. Weinstein: *An account of global factor trade*, AER 2001, p.1423-1453

2. The “New Trade Theory”

P. Krugman: *Scale economies, product differentiation and the pattern of trade*, AER 1980, p.950-959 (JSTOR)

P. Krugman and A. Venables: *Globalization and the inequality of nations*, QJE 1995, p.857-880 (JSTOR, FKV)

D. Puga and A. Venables: *The spread of industry: spatial agglomeration in economic development*, JJIE 1996, p.440-464 (FKV)

J. Anderson and E. Van Winkoop: *Gravity with gravitas: a solution to the border puzzle*, NBER 8079, 2001

D.R. Davis and D. Weinstein: *Market access, economic geography and comparative advantage: an empirical assessment*, JIE 2002, Forthcoming

H. Overman, S. Redding and A. Venables: *The economic geography of trade production and income: a survey of empirics*, Mimeo, 2001

3. Trade, Growth and North-South Trade

P. Krugman: *The narrow moving band, the Dutch Disease and the competitive consequences of Mrs. Thatcher*, JDE 1987, p.41-55 (K)

A. Young: *Learning-by-doing and the dynamic effects of international trade*, QJE 1991, p.369-405 (JSTOR)

E. Brezis, P. Krugman and D. Tsiddon: *Leapfrogging in international competition: A theory of cycles in national technological leadership*, AER 1993, p.1211-1219 (JSTOR)

H. Flam and E. Helpman: *Vertical product differentiation and North-South trade*, AER 1987, p.810-822 (JSTOR)

K. Matsuyama: *Agricultural productivity, comparative advantage, and economic growth*, JET 1992, p.317-334

W. Keller: *Geographic localization of international technology diffusion*, AER 2002, p.120-142

F. Rodriguez and D. Rodrik: *Trade policy and economic growth: a skeptic's guide to the cross-national evidence*, NBER 7081, 1999

T.N. Srinivasan and J. Bhagwati: *Outward-orientation and development: are revisionists right?*, Mimeo, 1999

4. International Trade, Migration and Wages

D. Trefler: *Immigrants and natives in general equilibrium trade models*, NBER 6209, 1997

W. Collins, K. O'Rourke and J. Williamson: *Were trade and factor mobility substitutes in history?*, NBER 6059, 1997

P. Lindert and J. Williamson: *Does globalization make the world more unequal?*, NBER 8228, 2001

G. Borjas, R. Freeman and L. Katz: *How much do immigration and trade effect labor market outcomes?*, BPEA 1997, p.1-90 (JSTOR)

P. Krugman: *Technology, trade and factor prices*, JIE 2000, p.51-71

E. Leamer: *What's the use of factor contents?*, JIE 2000, p.17-49

R. Feenstra and G. Hanson: *Foreign investment, outsourcing and relative wages*, NBER 5121, 1995

D. Acemoglu: *Patterns of skill premia*, NBER 7018, 1999

G. Hanson and M. Slaughter: *The Rybczynski Theorem, factor-price equalization, and immigration: evindence from U.S. states*, NBER 7074, 1999