

BOSTON COLLEGE
Department of Economics

EC 871
International Trade Theory
TTh 10:30

Prof. Anderson

Fall 2004

office hours: T 1:30-2:30 Th 4:30-5:30
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Syllabus

Course Requirements are:

- (1) a series of homework assignments
- (2) a mid-term exam Nov. 2
- (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, the political economy of trade, and the institutions of trade. Institutions include the international policy system (including the WTO and regional trade arrangements), and small new literature on the informal institutions facilitating trade. Some attention will be paid to empirical work; the Feenstra textbook is a great resource here.

The reading list is small compared to many graduate reading lists. 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 has 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. One sort is written mathematical and intuitive exercises. The other sort is programming exercises with simple computable general equilibrium models.

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. Thus I have assigned a Mathematica-based exercise.

Textbooks

- A. A. Dixit and V. Norman, Theory of International Trade, Cambridge University Press, 1980. A key reference for core theory material:
- B. R. Feenstra Advanced International Trade: Theory and Evidence, Princeton University Press, 2003. It is particularly outstanding for treatment of empirical work in the context of theory.

A good theory text 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 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. MA 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.

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.

Web sites: this course teaches theory and some applications and we tend to lose sight of why we study the stuff. These sites give information on the application of ideas to the policy issues:

WTO: www.wto.org vast amount of information about the WTO and its dispute settlement processes. (How secretive is this organization?)

Trade negotiations web page: www.cid.harvard.edu/cidtrade/ lots of news and opinion on a wide range of trade negotiation issues.

USTR reports: <http://www.ustr.gov/reports/index.html>. USTR is the negotiation arm of US trade; these are its briefs for disputes.

The Economist: www.economist.com. Lots of their current stories and opinion are free.

Deardorff's glossary of international economics terms: <http://www-personal.umich.edu/~alandear/glossary/>

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

Course Outline

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:

*DN, Ch. 2

*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

*Feenstra, ch. 2

*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.

*Feenstra, ch. 3

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

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

C. Empirical Work on Core Trade Models

Readings:

Do Endowments and Technology Explain Trade?

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

*Feenstra, chs. 2,3

*Leamer and Levinsohn, Handbook, vol. 3.

Does Trade Affect Factor Prices?

*Feenstra, ch. 4

D. Trade Costs

readings:

*"Trade Costs", J. Anderson and E. van Wincoop, JEL, 2004.

*"Gravity with Gravitas: A Solution to the Border Puzzle", J. Anderson and E. van Wincoop, AER March 2003.

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

Feenstra, ch. 5.

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

V. Imperfect Competition and Scale Economies

A. Product Differentiation, Monopolistic Competition and Trade

Readings: 1) *Helpman and Krugman, Chs. 6-11.

*Feenstra, ch. 5

B. 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.

C. Geography Again: Agglomeration

*P. Krugman, Geography and Trade

*Krugman, Venables and Fujita, The Spatial Economy: Cities, Regions and International Trade, 2000.

VI. Commercial Policy

A. Theory

Readings

- 3,6,7. *Anderson, JE and JP Neary, Measuring Trade Restrictiveness, (2004) chs. 3,6,7.
- *Anderson, JE and JP Neary, "Welfare vs. Market Access: The Implications of Tariff Structure for Tariff Reform" (2004)
- Anderson, JE, "The Theory of Protection" in D. Greenaway and LA Winters Surveys
- A. Dixit, "Taxation in Open Economies," Chapter in Handbook of Public Finance

B. Empirical work

readings:

- *Feenstra, ch. 7
- *R. Feenstra, "Estimating the Effects of Trade Policy", 1995 Handbook, vol. 3.
- Anderson and Neary Measuring Trade Restrictiveness, chs. 11, 12, 14.

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.