

International Economics 518

Syllabus

Fall 2005

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Course description

This course will analyze the causes and consequences of international trade. The first part of the course covers economic models used for the analysis of international trade policy issues. The second part of the course examines policies that governments adopt towards international trade and discusses more specific trade topics that have attracted special attention in recent years.

Some of the questions that will be addressed are: Why do countries trade? Are countries better off because they trade? Are both trading partners better off? Who gains and who loses within a country? What is the impact of trade on income inequality? Is there a role for strategic trade policy? How does trade affect the economies of developed and developing countries?

Course Grading

There will be a mid-term exam, counting for 40% of the grade and a final exam, counting for 60% of your grade.

I will hand out problems from time to time. We will discuss some of these in class. The midterm exam and the final exam will be drawn from these problems.

Course Materials

Required Reading

Krugman, Paul and Maurice Obstfeld (2005) *International Economics: Theory and Policy*, Seventh Edition (New York: Addison-Wesley-Longman Publishers). Hereafter referred to as **KO**.

Optional

One of the most influential trade economists proves that the antiglobalization movement has exaggerated claims that globalization has done little good for poor countries:

- Jagdish Bhagwati (2004) *In Defense of Globalization*, (Oxford University Press).

A Nobel Prize winner and former chief economist and senior vice-president at the World Bank, Joseph Stiglitz presents a critical analysis of the main institutions that promote globalization--the International Monetary Fund, the World Bank, and the World Trade Organization:

- Joseph Stiglitz (2003) *Globalization and Its Discontents* (W.W. Norton & Company).

Course outline

Session 1. What Is International Economics About? World Trade Overview

Chapters 1-2 - KO

Krugman, Paul. "Growing World Trade: Causes and Consequences." *Brookings Papers on Economic Activity*. 1995, 1, 327-342.

Session 2. Comparative Advantage: The Ricardian Model

Chapter 3 - KO

Daniel M. Bernhofen and John C. Brown. "A Direct Test of the Theory of Comparative Advantage: The Case of Japan", *Journal of Political Economy*, 2004, Vol. 112, 1, 48-67.

Sessions 3-4. Specific Factors and Income Distribution. Resources and Trade: The Heckscher-Ohlin Model

Chapter 4 - KO

Paul Krugman. "Does Third World Growth Hurt First World Prosperity?" *Harvard Business Review* (July-August 1994), 113-121.

Markusen, et al. *International Trade: Theory and Evidence*. 1996. chapter 14: "Empirical Studies of Comparative Advantage Models," 216-228.

Session 5. The Standard Trade Model

Chapter 5 - KO

Sessions 6-7. Economies of Scale, Imperfect Competition, and International Trade

Chapter 6 - KO

Elhan Helpman. "The Structure of Foreign Trade", *Journal of Economic Perspectives*, Vol. 13, No.2 (1999), 121-144.

Session 8. Midterm exam

Session 9. International Factor Movements. Migration and Foreign Direct Investment.

Chapter 7- KO

Carkovic and Levine. "Does Foreign Direct Investment Accelerate Economic Growth?", June 2002. U of Minnesota Department of Finance Working Paper.

Beata S. Javorcik, 2004. "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages," *American Economic Review*, 94(3): 605-627.

Jeffrey G. Williamson. "Globalization, Labor Markets and Policy Backlash in the Past", *Journal of Economic Perspectives*, Vol. 12, No.4 (1998), 51-72.

Session 10. The Instruments of Trade Policy

Chapter 8 - KO

Gary Clyde Hufbauer and Kimberly Ann Elliot. *Measuring the Costs of Protection in the United States*. Washington DC: Institute for International Economics, 1994.

Anne O. Krueger. "Are Preferential Trading Arrangements Trade-Liberalizing or Protectionist?", *Journal of Economic Perspectives*, Vol. 13, No. 4 (1999), 105-124.

Feenstra, Robert C. "How Costly is Protectionism?" *Journal of Economic Perspectives*, Summer 1992, 159-178.

Session 11. The Political Economy of Trade Policy

Chapter 9 – KO

Robert E. Baldwin. "The Political Economy of Trade Policy", *Journal of Economic Perspectives*, Vol.3, No.4 (1989), 119-135.

Markusen, et al. *International Trade: Theory and Evidence*. 1996. chapter 19: "The Political Economy of Trade Policy," 324-340.

Session 12. Trade Policy in Developing Countries

Chapter 10 KO

Paul Krugman. "Does Third World Growth Hurt First World Prosperity?", *Harvard Business Review*, 1 August 1994, 113-121.

L. Alan Winters, Neil McCulloch, and Andrew McKay. "Trade Liberalization and Poverty: The evidence so far", *Journal of Economic Literature*, Vol. XLII (March 2004), 72-115.

Session 13. Controversies in Trade Policy

Chapter 11 - KO

Dani Rodrik. "How Far Will International Economic Integration Go?", *Journal of Economic Perspectives*, Vol.14, No.1 (2000), 177-186.

Robert C. Feenstra. "Integration of Trade and Disintegration of Production in the Global Economy", *Journal of Economic Perspectives*, Vol. 12, No.4 (1998), 31-50.