



## Department of Economics Course Outline

		<b>Term:</b>	Winter 2009
<b>Course:</b>	Economics 621 International Trade Theory	<b>Section:</b>	01
<b>Time:</b>	14:30-15:45	<b>Place:</b>	SS 423 (subject to change)
<b>Instructor:</b>	M. Scott Taylor		
<b>Office:</b>	SS 428	<b>Telephone:</b>	220-8912
<b>Office Hours:</b>	Thursday 4:00-5:30	<b>E-mail:</b>	mstaylor@ucalgary.ca

**Textbook(s):** There is no textbook required for the course. Copies of required reading will be available on Blackboard.

**Book(s) on Reserve:** n/a

### Course Outline:

This is an introductory graduate course in international trade theory. The course is designed in such a way that you could enter with no knowledge of international trade theory. Good work in international economics starts with a question of some importance to welfare, examines the issue within a theoretical setting, and ends with empirical work estimating the important magnitudes involved. A necessary prerequisite for this type of work is a good understanding of several relatively simple general equilibrium models commonly employed in international economics. This course is designed to give you this understanding. It will hopefully give you an appreciation for when an existing model is appropriate, and how we may use it to address important policy questions. There are three main sections to the course. Section one focuses on the role of technology in international trade. Section two focuses on the role of factor endowments. The last section primarily studies the implications of increasing returns. The course follows a fairly rigid structure. For each topic, I will spend one lecture presenting the basic material at an advanced undergraduate level since I assume no knowledge of trade theory. I then spend several lectures presenting the material at a graduate level using papers from journal articles as source material. These lectures give you the tools needed to work with these models on your own. In each of the section areas, we will ask and answer three basic questions. What determines the pattern of trade, the volume of trade, and what are the welfare implications of trade. A partial list of the readings I hope to cover are given below. If we figure 14 weeks = 28 lectures minus 3 tests = 25 lectures spread across 3 topics. This makes for about 8 lectures each section, with one taken for the introductory lecture. If I cover on average an article a class, then

we have perhaps 7 readings per area. All readings will be available on Blackboard in pdf format including the chapters from books. Just for fun I have included a paper of my own that fits into each area.

### **I. The role of Technology (to midterm 1)**

Dornbusch, R., S. Fischer, and P. Samuelson, 1977. "Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods," *AER*, 67: 823-39.

Krugman, P., 1979. "A Model of Innovation, Technology Transfer, and the World Distribution of Income," *JPE*, 87.

Antras, P. 2005. Incomplete Contracts and the Product Cycle. *AER*.

Eaton, J., Kortum, S., 2002. "Technology, geography, and trade," *Econometrica*, 70: 1741-79.

Eaton, J., Kortum, S., 1999. International technology diffusion: theory and measurement. *International Economic Review* 40: 537-570.

Eaton, J. and S. Kortum, 1996. "Trade in Ideas: Patenting and Productivity in the OECD," *Journal of International Economics*.

Costinot, A. and I. Komunjer. 2006. "What Goods do Countries Trade? New Ricardian Predictions." *Mimeo, UCSD*.

K. Matsuyama, "Ricardian trade theory," forthcoming in L. Blume and S. Durlauf, eds., the *New Palgrave Dictionary of Economics*, 2nd Edition, Macmillan.

M. S. Taylor, "Trips, Trade and Technology Transfer", *International Economic Review*, 1994.

### **Tuesday, February 10 Midterm Exam**

### **II. Factor Endowment Driven Trade (from midterm 1 to midterm 2)**

Deardorff, A.V., 1979. "Weak Links in the Chain of Comparative Advantage." *JIE*, 9: 197-209.

Jones, R. 1965. The Structure of Simple General Equilibrium Models. *JPE* 73: 557-72.

Jones R. and P. Neary, "The positive theory of international trade," in R. Jones and P. Kenen, *Handbook of International Economics*, vol.1, pp.14-27.

Neary, J.P. 1978. Short-Run Capital Specificity and the Pure Theory of International Trade. *EJ* 88: 488-510.

A.K. Dixit and V. Norman, *Theory of International Trade*, Cambridge, Chapters 1, 2 and 5.

A.D. Woodland, *International Trade and Resource Allocation*, North-Holland, Chapters 2, 3, 4 and 7.

B.R. Copeland and M. S. Taylor, "North-South Trade and the Global Environment", *Quarterly Journal of Economics*, 1994.

## **Tuesday March 17 Midterm Exam**

### **III. Increasing Returns (from midterm 2 to midterm 3)**

Krugman, P. 1979. Increasing Returns, Monopolistic Competition and International Trade. *JIE* 9: 469-79.

Krugman, P. 1980. Scale Economies, Product Differentiation, and the Pattern of Trade. *AER*, 70: 950-59.

Krugman, P. 1981. Intraindustry Specialization and the Gains from Trade. *JPE* 89: 959-74.

Melitz, M. J. 2003. "The Impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 71(6): 1695-725.

Grossman, G. and E. Helpman. 2002. Integration versus Outsourcing in Industry Equilibrium. *QJE*, 117: 85-120.

Grossman, G. and E. Helpman. 2004. Outsourcing in a Global Economy. *ReStud*, forthcoming, (also NBER Working Paper 8728).

Brander, J.A., "Strategic Trade Policy," in *Handbook of International Economics*, Grossman, G. and K. Rogoff (eds.), Volume 3, Ch.27, 1995.

Maggi, G., 1996. "Strategic Trade Policies with Endogenous Modes of Competition," *American Economic Review* 86(1): 237-58.

Ethier, W. 1982. Decreasing Costs in International Trade and Frank Graham's Argument for Protection. *Econometrica*, 50: 1243-68.

B.R. Copeland and M. S. Taylor, "Trade, Spatial Separation and the Environment", *JIE*, 1999.

McLaren J., 1999. "Supplier Relations and the Market Context: A Theory of Handshakes," *JIE*, 48(1): 121-38.

McLaren J., 2000. "Globalization and Vertical Structure," *AER*, 90(5): 1239-54.

Markusen J., 1995. "The Boundaries of Multinational Enterprises and the Theory of International Trade." *Journal of Economic Perspectives*, 9(2): 169-89.

Anderson, J.E. and E. van Wincoop. 2003. Gravity with Gravitas: A Solution to the Border Puzzle. *AER*, 93(1): 170-92.

Anderson, J.E. and E. van Wincoop. 2005. Trade Costs. *Journal of Economic Literature*, 42(3): 691-761. (also NBER Working Paper 10480).

### **Thursday, April 9 Midterm Exam**

#### **Grade Determination and Final Examination Details:**

Three midterms each of equal weight. The dates for the midterms are:

Tuesday Feb 10th, Tuesday March 17th, and Thursday April 9th.

Tests and final exams are marked on a numerical (percentage) basis, then converted to letter grades. The course grade is then calculated using the weights indicated above. As a guide to determining standing, these letter grade equivalences will generally apply:

A+	95`	B	75	C-	55
A	90	B-	70	D+	50
A-	85	C+	65	D	45
B+	80	C	60	F	40

If, for some reason, the distribution of grades determined using the aforementioned conversion chart appears to be abnormal the instructor reserves the right to change the grade conversion chart if the instructor, *at the instructor's discretion*, feels it is necessary to more fairly represent student achievement.

Tests and exams will not involve multiple choice questions.

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**Notes:**

- Students seeking reappraisal of a piece of graded term work (term paper, essay, etc.) should discuss their work with the Instructor within two weeks of the work being returned to the class.
- It is the student's responsibility to request academic accommodations. If you are a student with a documented disability who may require academic accommodation and have not registered with the Disability Resource Centre, please contact their office at 220-8237. Students who have not registered with the Disability Resource Centre are not eligible for formal academic accommodation. You are also required to discuss your needs with your instructor no later than fourteen (14) days after the start of this course.

Safewalk / Campus Security: 220-5333

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