



Department of Economics Course Outline

		Term:	Winter 2011
Course:	Economics 621 International Trade Theory	Section:	01
Time:	11:00-12:15	Place:	SS 423
Instructor:	M. Scott Taylor		
Office:	SS 428	Telephone:	220-8912
Office Hours:	TBA	E-mail:	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. Good work in international economics starts with a question of some importance to welfare, examines the issue within a theoretical setting, develops empirical work estimating the important magnitudes involved, and ends with policy prescriptions based on the evidence. A necessary prerequisite for this type of work is a good understanding of several relatively simple general equilibrium models commonly employed to answer questions 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 an appropriate vehicle in which to answer a given question, and how we may use theory plus data to address important policy questions. The focus of this year's course will be on the implications of increasing returns to scale (IRS) technologies for our understanding of international trade.

To do this I will investigate the implications of IRS technologies in four different research areas, and contrast the policy conclusions reached under this assumption with that reached under a CRS assumption. So for example, and loosely speaking, in a CRS world, a movement to free trade from autarky is always welfare improving for any country; whereas in a world with IRS technologies this is no longer true. In a world where firms only employ CRS technologies, trade flows should be greatest between countries with very different in economic structures; whereas in an IRS world similar countries will trade most extensively. Investigating why these differences arise and how they affect policy choices will be the focus of the course.

A partial list of the readings I hope to cover are given below. If we figure 14 weeks = 28 lectures minus 3 in lecture tests = 25 lectures spread across 4 research areas. This makes for about 6 lectures each section. All readings will be available on Blackboard in pdf including the chapters from books. Some of the readings in each section will be used to establish the baseline results in a world with perfect competition and CRS technologies.

I. IRS at the Industry Level.

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

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.

Melvin, James. Increasing Returns to Scale as a Determinant of Trade, *Canadian Journal of Economics*, 1969, 389-402.

II. IRS at the Firm Level: Small fixed costs and Monopolistic Competition.

Dixit, Avinash K. and Joseph E. Stiglitz. "Monopolistic Competition and Optimum Product Diversity". *American Economic Review* 67: 297-308.

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.

III. IRS at the Firm Level: Large fixed costs and Oligopoly

Brander, James. A. 1981. "Intra-industry trade in Identical Commodities." *Journal of International Economics* 11:1-14.

Brander, James. A. and Paul R. Krugman. 1983. "A Reciprocal Dumping Model of International Trade". *Journal of International Economics* 15:313-323.

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.

IV. IRS arising from Knowledge Spillovers: Trade and Growth.

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

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*.

Frankel, Jeffrey A. and David Romer. 1999. "Does Trade cause Growth?," *American Economic Review* 89:379-99.

Grossman, Gene M., and Elhanan Helpman. 1991. *Innovation and Growth in the Global Economy*. Cambridge: MIT Press. Various chapters.

Ben-David, Dan. 1993. "Trade Liberalization and Income Convergence", *Quarterly Journal of Economics* 108:653-79.

Grade Determination and Final Examination Details:

There is no final exam. There will be three in class midterms each of equal weight. The dates for the midterms will be given in class and announced on Blackboard as well. I would expect the dates will have midterms at the start of Feb, March, and April.

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

Tests and exams will not involve multiple choice questions.

Students' Union Vice-President, Academic

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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
Emergency Assembly Point: Professional Faculties Food Court
