

Economics 383: International Trade

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Vollum 230

Fall 2019

Recent growth in economic integration has brought international trade issues to the forefront of both economics and society. This course will analyze the causes and consequences of international trade. The theory of international trade and the effects of trade policy tools will be developed in both perfect and imperfect competition, with reference to the empirical evidence. This will allow us to address many essential questions.

- 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?
- In what ways do countries intervene in trade? What are the effects of these actions?
- What if markets don't work perfectly? How does that affect our assessments?

This framework will serve as a context for a discussion of several important contemporary issues, including the following questions.

- What is the impact of trade on income inequality?
- What is the relationship between trade and environmental protection?
- Is there a role for strategic trade policy?
- How does trade affect the economies of developing countries?
- What are the effects of free trade agreements such as NAFTA and CPTPP?

Readings: The text is Krugman and Obstfeld, 10th edition. You should purchase this at the bookstore. Substantial material will come from other sources, on e-reserve.

Office Hours: I will hold regular office hours on Wednesdays from 9:30 to 11 and on Fridays from 1:30 to 3. You can also reach me by email to schedule other times.

Requirements: Evaluation will be based on the following *as well as class participation*. Please mark your calendar with the following dates.

Problem Sets Due: September 19, October 3, November 14
Exam: October 10
Presentations: November 7, November 26, December 10
Final Exam: TBA (Do not book finals week travel before announcement.)

In fairness to other students, late assignments will be penalized at a rate of 5% per calendar day. Exceptions may be made in the event of unforeseen circumstances; these should be discussed with me at the earliest possible time.

Course Outline and Readings

Readings are marked with an * are optional.

The Patterns of Trade and Globalization (September 3 and 5)

Krugman and Obstfeld, c.2

Rose, Andrew K. "Do We Really Know that the WTO Increases Trade?" *American Economic Review*. 94(1). March 2004. 98-114.

Acemoglu, Daron and Pierre Yared. "Political Limits to Globalization." *American Economic Review*. May 2010. 83-88.

* Baldwin, Richard. "The World Trade Organization and the Future of Multilateralism." *Journal of Economic Perspectives*. Winter 2016. 30(1).

* Tomz, Goldstein, and Rivers. Comment on Rose. *American Economic Review*, December 2007. Reply by Rose, same issue.

* Eicher, Theo, and Christian Henn. 2011. "In search of WTO trade effects." *Journal of International Economics*.

The Gains from Trade and Ricardian Models of Trade (September 10 and 15)

Note special Sunday class in lieu of Thursday class.

Krugman and Obstfeld, c.3

Krugman, Paul. "Ricardo's Difficult Idea: Why Intellectuals Don't Understand Comparative Advantage." <http://web.mit.edu/krugman/www/ricardo.htm>

Li, Hongbin, Lei Li, Binzhen Wu, and Yanyan Xiong. "The End of Cheap Chinese Labor." *Journal of Economic Perspectives*. 26(4). Fall 2012. 57-74.

* Costinot, Arnaud, and Dave Donaldson. "Ricardo's Theory of Comparative Advantage: Old Idea, New Evidence." *American Economic Review*. May 2012. 453-458.

Specific Factors Model and Distribution (September 17 and 19)

Krugman and Obstfeld, c.4

Baicker and Rehavi. 2004. "Policy Watch: Trade Adjustment Assistance." *Journal of Economic Perspectives*. 18(2). Spring. 239-55.

Goodman, Peter S. "More Wealth, More Jobs, but Not For Everyone: What Fuels the Backlash on Trade." *New York Times*. 29 September 2016.

* Reynolds and Palatucci. 2011. "Does Trade Adjustment Assistance Make a Difference?" *Contemporary Economic Policy*.

The Heckscher-Ohlin Model and Distribution (September 24 and 26)

Krugman and Obstfeld, c.5

* Hanson, Gordon H. "The Rise of Middle Kingdoms: Emerging Economies in Global Trade." *Journal of Economic Perspectives*. Spring 2012. 41-64.

* Timmer, Marcel, et al. 2014. "Slicing up Global Value Chains." *Journal of Economic Perspectives*. 28(2). 99-118.

Trade and Income Distribution (October 1)

Krugman and Obstfeld, c.12, p299-305.

Autor, David, David Dorn, and Gordon Hanson. "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade." CEPR Discussion Paper no. 11054. January 2016.

Krugman. "Trade and Jobs: A Note." 3 July 2016.

* Goldberg, P.K. and N. Pavcnik. "Distributional Effects of Globalization in Developing Countries." *Journal of Economic Literature*. March 2007. 39-82. (Focus on pages 57-79.)

* Haskel, Lawrence, Leamer, and Slaughter. "Globalization and U.S. Wages: Modifying Classic Theory to Explain Recent Facts." *Journal of Economic Perspectives*. Spring 2012. 119-140.

Trade, Politics, and Opinion (October 3)

Autor, David et al. "Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure." December 2016.

O'Rourke, Kevin and Richard Sinnott. 2002. "The Determinants of Individual Trade Policy Preferences" *Brookings Trade Review 2001*. 157-86.

* Jakel and Smolka. 2013. "Individual attitudes towards trade: Stolper-Samuelson revisited." *Open Economies Review*. 24(4). 731-761.

Instruments of Trade Policy (October 8 and 15)

Krugman and Obstfeld, c.9 and c.10, p236-251.

Bhagwati, Jagdish. "The Generalized Theory of Distortions and Welfare." in Bhagwati, Jagdish, ed. *International Trade: Selected Readings*. 265-286

* Irwin, Douglas. "Protectionism: Economic Costs, Political Benefits?" in *Free Trade Under Fire*. 2015. 77-113.

* Krueger, Anne. "The Political Economy of Rent Seeking Society." in Bhagwati, Jagdish, ed. *International Trade: Selected Readings*. 291-309.

Midterm Exam: October 10

Developing Countries and Trade Policy (October 17)

Krugman and Obstfeld, c.11

World Development Report Indicators Online. Browse statistics.
<http://databank.worldbank.org/data/home.aspx>

Rodrik, Dani. "Making Room for China in the World Economy." *American Economic Review*. May 2010. 89-93.

Irwin, Douglas. "Developing Countries and Open Markets." in *Free Trade Under Fire*. 2015. 195-238.

* Grossman, Gene and Elhanan Helpman. 2015. "[Globalization and Growth](#)." *American Economic Review*. May. 100-104.

* Frankel, Jeffrey and David Romer. 1999. "Does Trade Cause Growth?" *American Economic Review*. 89 (3). 379-99.

* Dragusanu, Raluca et al. 2014. "The Economics of Fair Trade." *Journal of Economic Perspectives*. 28(3). 217-236.

Fall Break: October 22 and 24

Increasing Returns and Imperfect Competition (October 29 and 31)

Krugman and Obstfeld, c.7 and c.8, p164-190.

Melitz, Marc J. and Daniel Trefler. "Gains from Trade when Firms Matter." *Journal of Economic Perspectives*. 26(2). Spring 2012. 91-118.

Factor Mobility

Immigration (November 5)

Clemens, Michael A. “Economics and Emigration: Trillion Dollar Bills on the Sidewalk?” *Journal of Economic Perspectives*. 25(3). 2011. 83-106.

Peri, Giovanni. Fall 2016. “Immigrants, Productivity, and Labor Markets.” *Journal of Economic Perspectives*. 30(4). 3-30.

* Gibson, John and David McKenzie. “Eight Questions About Brain Drain.” *Journal of Economic Perspectives*. 25(3). 2011. 107-28.

* Hanson, Gordon and Craig McIntosh. Fall 2016. “Is the Mediterranean the New Rio Grande? US and EU Immigration Pressures in the Long Run.” *Journal of Economic Perspectives*. 30(4). 57-81.

Conference 1: Improving U.S. Immigration Policy (November 7)

Council of Economic Advisors, “Immigration,” within Chapter 4, *Economic Report of the President*. 2013, pp. 148-159; <http://www.gpoaccess.gov/eop/>

Card, David. “Immigration and Income Inequality.” *American Economic Review*. 2009. 99(2). 1-21.

* Borjas, *Immigration and the American Worker*. Center for Immigration Studies Report. 2013. <http://cis.org/immigration-and-the-american-worker-review-academic-literature>

* Dustmann, Christian, Uta Schonberg, and Jan Stuhler. 2016. “The Impact of Immigration: Why Do Studies Reach Such Different Results.” *Journal of Economic Perspectives*. 30(4). Fall. 31-56.

* Kerr, Sari Pekkala et al. 2016. “Global Talent Flows.” *Journal of Economic Perspectives*. 30(4). Fall. 83-106.

* National Academies of Sciences. 2017. [*The Economic and Fiscal Consequences of Immigration*](#). Washington DC.

Capital Mobility, Competitiveness, and the Trade Imbalances (November 12)

Krugman and Obstfeld, c.6, p127-136.

Yang, Dennis Tao. “Aggregate Savings and External Imbalances in China.” *Journal of Economic Perspectives*. 26(4). Fall 2012. 125-146.

* Cooper, Richard N. 2008. "Global Imbalances: Globalization, Demography, and Sustainability." *Journal of Economic Perspectives*. 22(3). Summer. 93-112.

* Feldstein, Martin. 2008. "Resolving the Global Imbalance: The Dollar and the U.S. Savings Rate." *Journal of Economic Perspectives*. 22(3). Summer. 113-125.

Applications of Imperfect Competition

Multinational Corporations and Offshoring (November 14 and 19)

Krugman and Obstfeld, c.8, p 190-200.

Clausing, Kimberly. "The Effect of Profit Shifting on the Corporate Tax Base in the United States and Beyond." 2016. *National Tax Journal*. December. 69(4). 905-934.

* Harrison, Ann and Margaret McMillan. 2011. "Offshoring Jobs? Multinationals and U.S. Manufacturing Employment." *Review of Economics and Statistics*. 93(3). 857-875.

* Clausing, Kimberly. 2019. *Open: The Progressive Case for Free Trade, Immigration, and Global Capital*. Chapter 7.

Trade Policy Under Imperfect Competition (November 21)

Krugman and Obstfeld, c.12, p 290-298.

Krugman, Paul. "Is Free Trade Passe?" *Journal of Economic Perspectives*. Fall 1987. 131-44.

Irwin, Douglas. "Relief from Foreign Competition: Antidumping and the Escape Clause." in *Free Trade Under Fire*. 2015. 164-194.

Conference 2: Should US Trade Policy Be More Strategic? (Nov 26)

Trump White House. 2017. "[Inaugural Address](#)." 20 January.

Warren, Elizabeth. 2019. "[A Plan for Economic Patriotism](#)". 4 June. And "[Trade on Our Terms](#)." 29 July.

Smith, Noah. 2019. "[Warren's Trade Plan Is Smart and Problematic](#)." 6 June.

Drezner, Dan. 2019. "[Elizabeth Warren's trade plan is bad politics and worse policy](#)." 30 July.

Trade and the Environment (December 3)

Krugman and Obstfeld, c.12, p.305-310.

“Deal Done.” *The Economist*. 12 December 2015.

And browse related stories here: <http://www.economist.com/climatechange>

Ederington, Josh. “Should Trade Agreements Include Environmental Policy?” *Review of Environmental Economics and Policy*. 4(1). Winter 2010. 84-102.

* Esty, Daniel. “Bridging the Trade-Environment Divide.” *Journal of Economic Perspectives*. 15 (3). Summer 2001. 113-130.

* Copeland, Brian R. and M. Scott Taylor. “Trade, Growth and the Environment.” *Journal of Economic Literature*. March 2004. 7-71.

International Trade Agreements (December 5)

Krugman and Obstfeld, c.10, p252-267.

Villarreal and Fergusson. 2015. “The North American Free Trade Agreement (NAFTA).” *Congressional Research Service Report*. April 16.

Jensen, J. Bradford. “[Overlooked Opportunity: Trade in Services.](#)” *The Economists’ Voice*. 2016. 13(1). 1-7.

Rodrik, Dani. 2018. “What Do Trade Agreements Really Do?” *Journal of Economic Perspectives*. Spring. 73-90.

Elliott, Kimberly Ann. 2019. “[Developing a More Inclusive US Trade Policy at Home and Abroad.](#)” Center for Global Development Policy Paper 146. June.

* Hufbauer et al. “NAFTA at 20: Misleading Charges and Positive Achievements.” PIIE Policy Brief #PB14-13.

* Krueger, Anne. “Are Preferential Trading Arrangements Trade-Liberalizing or Protectionist?” *Journal of Economic Perspectives*. Fall 1999. 13(4). 105-24.

Conference 3: Should the United States Join the CPTPP in 2021? (December 10)

Browse Canada’s [CPTPP website](#) and/or [Australia’s website](#).
If it is still up, look at the [archived US site](#) on TPP.

Levin, Sander. [Testimony before the U.S. International Trade Commission](#).
January 2016.