

Wesleyan University

ECON 371: International Trade

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Spring 2017, TR 08:50-10:10, PAC 107
Office Hours: T 3:00-4:00, R 10:30-11:30,
or by appointment

This course examines the causes and consequences of cross-border flows of goods and services. We will investigate different theories of international trade and discuss the empirical validity of their predictions. Particular emphasis will also be placed on the motives for countries to restrict or regulate trade, and the institutional arrangements governing the world trading system. Moreover, we will discuss how trade between countries can shape economic development.

In addition to the use of a standard textbook, we will work through a number of journal articles and news pieces to obtain a deeper understanding of current events in the world economy. Over the course of the semester, we will discuss numerous controversial issues with regard to international trade. Examples include trade imbalances and the impact of trade on labor standards, wages, jobs and inequality.

Prerequisites

Intermediate microeconomics (Econ 301) and a basic understanding of econometric techniques (Econ 300) are prerequisites for this course. Familiarity with microeconomic concepts such as utility and profit maximization will be assumed. The lectures, problem sets and exams will make regular use of algebra and calculus.

Course Materials

Book: John McLaren, *International Trade*, 1st edition (ISBN: 9780470408797)

Moodle: I will post additional readings (journal and news articles) and other course materials (problems sets, practice exams, etc.) on our Moodle course site during the semester, which you should check regularly.

In addition to completing the readings for the class, I also highly recommend that you follow current (international) economic events. Good sources of international economics news are *The Economist*, *The Wall Street Journal*, the *Financial Times*, or the business section of *The New York Times* (or a newspaper of similar standing). This is a good way to experience international trade 'in action' and to apply the concepts you learn in class to the real world. You can find links to current subscription offers on the Moodle course site.

Course Requirements

There will be two in-class non-comprehensive exams and a final paper, plus regular problem sets and short writing assignments. The weights of the different elements for the final course grade are:

- Problem sets (10%): There will be 5 problem sets over the semester. Each of them will be assigned one week before the due date. Problem sets are due in class. If you cannot make it to class, you need to notify me and leave your problem set before class in my mailbox in the Economics department (PAC 123). Late problem sets will not be accepted, and no extensions will be granted. You are encouraged to work together on the problem sets. However, I require an individual write-up by each student.
- Short writing assignments (5%): Students have to submit 1-page summaries of a number of papers that are assigned as reading over the course of the semester. These summaries should discuss the paper's research question, its theoretical/empirical approach, the main findings and potential improvements. Each paper assignment will be announced one week before the due date.
- Exam 1 (25%): tentatively scheduled for Thursday, March 9.
- Exam 2 (25%): tentatively scheduled for Tuesday, May 9.
- Paper (30%): students will be required to write a term paper, which can either have a theoretical or empirical focus. Detailed information on the term paper requirements and topics will be distributed after the first two weeks of the semester.
- Class participation (5%): I highly value class participation and encourage you to raise questions and to comment on level, pace and the content of the course during the semester. In addition, I will frequently open up topics for discussion. General guidelines for your class participation grade: frequent absences (or tardiness): *C*, demonstration of good understanding of material through occasional participation in class discussion: *B*, frequent participation in class discussion and raising insightful questions: *A*.

Class Organization

I expect you to complete all assigned readings before coming to class. We will frequently extend the material beyond what you find in the textbook. Prior familiarity with the assigned readings is therefore necessary to follow the material in class.

In order to not divert my or the attention of your classmates, the use of computers, cell phones and other electronic devices is not permitted during class time.

Wesleyan University is committed to ensuring that all qualified students with disabilities are afforded an equal opportunity to participate in and benefit from its programs and services. To receive accommodations, a student must have a documented disability as defined by Section 504 of the Rehabilitation Act of 1973 and the ADA Amendments Act of 2008, and provide documentation of the disability. Since accommodations may require early planning and generally are not provided retroactively, please contact Disability Resources as soon as possible. If you

believe that you need accommodations for a disability, please contact Dean Patey in Disability Resources, located in North College, Room 021, or call 860-685-5581 for an appointment to discuss your needs and the process for requesting accommodations. For more information, see also: <http://www.wesleyan.edu/studentaffairs/disabilities/Student/index.html>

Grading and Exams

In the case of university-sponsored travel, serious illness, or some other emergency, students may ask, in advance, for permission to take an exam at a different date. If you are not able to make it to an exam due to a serious reason, you have to contact me on the same day and explain what happened. In any case you will have to show proper valid documentation, such as a doctor's note, in order to be eligible to reschedule an exam.

In case you believe a grading mistake has been made on a problem set or exam, you may submit a written request for a re-grade within one week after the exam was returned.

Honor Code

I expect you to adhere to the Wesleyan University Honor Code as spelled out in the Student Handbook (<http://www.wesleyan.edu/studentaffairs/studenthandbook/StudentHandbook.pdf>). All submitted work, whether it is an exam, problem set or the term paper, must be your own. Although I encourage you to work together on problem sets, I require an individual write-up by each student and I will not tolerate if you copy others' work. Any academic dishonesty will be reported to the Vice President for Student Affairs and the Student Honor Board.

Tentative Course Schedule*

Class	Date	Chapter	Topic	Notes
1	01/26	1	I. Introduction	
2	01/31		II. Trade Empirics: The Gravity Equation	
3	02/02			
4	02/07			
5	02/09	2	III. Trade Theory	
6	02/14	2		Problem Set 1 due
7	02/16	2		
8	02/21	3		
9	02/23	3		
10	02/28	3/4		
11	03/02	4		Problem Set 2 due
12	03/07	4/6		
Exam 1	03/09			
13	03/28	6		
14	03/30	5		
15	04/04	5	Problem Set 3 due	

16	04/06	7	IV. Trade Policy and the Institutions of World Trade	
17	04/11	7/8		
18	04/13	8		
19	04/18	8		
20	04/20	15		Problem Set 4 due
21	04/25	9	V. Trade, Trade Policy and Economic Development	
22	04/27	9		
23	05/02	11	VI. Current Controversies	
24	05/04	16		Problem Set 5 due
Exam 2	05/09			

*Subject to change. Check regularly for an updated version on Moodle.

Additional Readings (all available on Moodle): * indicates required reading

I. Introduction

Chapter 1:

*Krugman, Paul R. (1993), "What Do Undergrads Need to Know About Trade?" *American Economic Review Papers and Proceedings*, 83 (2), 23-26.

II. Trade Empirics: The Gravity Equation

*Baldwin, Richard and Daria Taglioni (2007), "Trade Effects of the Euro: A Comparison of Estimators," *Journal of Economic Integration*, 22 (4), 780-818.

*McCallum, John (1995), "National Borders Matter: Canada-U.S. Regional Trade Patterns," *American Economic Review*, 85 (3), p. 615-623.

Anderson, James, E. (2011), "The Gravity Model." *Annual Review of Economics*, 3, p. 133-160.

III. Trade Theory

Chapter 2:

*Eaton, Jonathan and Samuel Kortum (2012), "Putting Ricardo to Work," *Journal of Economic Perspectives*, 26(2), 65-90. [Comment: only p. 65-73 are required reading]

*Costinot, Arnaud and Dave Donaldson (2012), "Ricardo's Theory of Comparative Advantage: Old Idea, New Evidence," *American Economic Review Papers and Proceedings*, 102 (3), 453-458.

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

Chapter 3:

*Krugman, Paul R. (1979), "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics*, 9 (4), 469-479.

**The Economist*, "Bold Strokes," October 16, 2008.

<http://www.economist.com/node/12429411>

Krugman, Paul R. (1980), "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review*, 70 (5), 950-959.

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

Chapter 4:

**The Economist*, "The Last Kodak Moment?" January 14, 2012.

<http://www.economist.com/node/21542796>

*Hufbauer, Gary Clyde, "Boeing vs. Airbus: Fighting the Last War," *Handelsblatt*, June 19, 2007.

<http://www.iie.com/publications/opeds/print.cfm?ResearchId=773&doc=pub>

Brander, James and Paul R. Krugman (1983), "A 'Reciprocal Dumping' Model of International Trade," *Journal of International Economics*, 15 (3-4), 313-321.

Chapter 6:

*Autor, David H., David Dorn and Gordon H. Hanson (2013), "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review*, 103 (6), 2121-2168.

**The Economist*, "Trade, At What Price?" April 2, 2016.

<http://www.economist.com/news/united-states/21695855-americas-economy-benefits-hugely-trade-its-costs-have-been-amplified-policy>

Leamer, Edward E. (1980), "The Leontief Paradox, Reconsidered," *Journal of Political Economy*, 88 (3), 495-503.

IV. Trade Policy and the WTO

Chapter 5:

*Mayda, Anna Maria and Dani Rodrik (2005), "Why Are Some People (and Countries) More Protectionist Than Others?" *European Economic Review*, 49 (6), p. 1393-1430.

Chapter 7:

*Irwin, Douglas A. (2015), "Protectionism: Economic Costs, Political Benefits?" in *Free Trade Under Fire*, 4th edition, p. 77-113.

Grossman, Gene M. and Elhanan Helpman (1994), "Protection for Sale," *American Economic Review*, 84 (4), p. 833-850.

Chapter 8:

*Crowley, Meredith A. (2003), "An Introduction to the WTO and GATT," *Economic Perspectives*, Federal Reserve Bank of Chicago, 4th Quarter, p. 42-57.

*Ossa, Ralph, "WTO Success: No Trade Agreement But No Trade War," *VoxEU.org*, June 11, 2015.

<http://voxeu.org/article/wto-success-no-trade-agreement-no-trade-war>

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

*World Trade Organization, "Understanding the WTO: Settling Disputes," *WTO homepage*.

http://www.wto.org/english/thewto_e/whatis_e/tif_e/displ_e.htm

Shedd, Daniel T., Brandon J. Murrill and Jane M. Smith (2012), "Dispute Settlement in the World Trade Organization (WTO): An Overview," *Congressional Research Service*, RS20088.

Chapter 15:

*Postrel, Virginia: "What Happened When Two Countries Liberalized Trade? Pain, Then Gain," *New York Times*, January 27, 2005.

http://www.nytimes.com/2005/01/27/business/worldbusiness/27scenes.html?_r=0

Romalis, John (2007). "NAFTA's and CUSFTA's Impact on International Trade," *Review of Economics and Statistics*, 89 (3), p. 416-435.

V. Trade, Trade Policy and Economic Development

Chapter 9:

*Frankel, Jeffrey A. and David Romer (1999). "Does Trade Cause Growth?" *American Economic Review*, 89 (3), p. 379-399.

Harrison, Ann and Andres Rodríguez-Clare (2010). "From Hard to Soft Industrial Policies in Developing Countries," *VOXEU.org*, June 27, 2010.

<http://www.voxeu.org/article/hard-soft-industrial-policies-developing-countries>

VI. Current Controversies

Chapter 11:

*Blinder, Alan S. (2006). "Offshoring: The Next Industrial Revolution?" *Foreign Affairs*, 85 (2), p. 113-128.

Chapter 16:

*Ghosh, Atish and Uma Ramakrishnan (2012). "Current Account Deficits: Is There a Problem?" *Finance & Development*, March 28, 2012.

<http://www.imf.org/external/pubs/ft/fandd/basics/current.htm>