

TOPICS IN INTERNATIONAL ECONOMIC POLICY

EC 876
Maloney Hall 480P

Spring 2013
TTh 9:00-10:15

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Office Hours: M 1:30-2:30, W 2:30-3:30	Office Hours: Tuesdays 4-5, or by appointment
Room 471, 552-3691	Room 447, 552-3674

The course has three objectives. One objective is to cover aspects of international trade policy, a set of topics that are important in international trade theory literacy. This objective comprises the first three sections of the reading list. Other topics covered are important too, but perhaps not so widely agreed on as important.

The second objective is to cover the (rapidly expanding) literature on financial crises. This differs from the study of monetary and fiscal policy during the business cycle. The topic is currently a wide open field, and many of the papers we will cover are very recent. We will look first at different theories regarding the economic and political causes of crises. We will then move to the literature on the policy tools available to deal with crises, and perhaps prevent them from recurring. Throughout we will focus on international macro issues, but not exclusively. The bibliography below (parts IV & V) is in alphabetical order. We will choose some of these papers for detailed study, as time and class interest allow.

The third and most important objective of this course is to begin to learn how to do original research. We will approach reading and expositing articles and chapters looking to see why the topic was significant, how successful was the modeling, how convincing or intuitive were the results, where the next research line might go. A theme of much of the course is thinking of international economics as an outcome of the interaction of economic and political processes.

Students will be expected to work through the assigned reading before the class period in which it is discussed. The * readings are required.

The course grade for the first half will be based on a midterm exam, paper. The paper will be a critical review of a paper selected from the trade policy reading list; with a class presentation is to be based on that critical review. Optimally it will contain original work either extending the model or building something entirely new. More detailed instructions will be given in class. The grade for the second half of the class will be based on two assignments. The first will be an expanded critical review paper, where you will be asked to discuss at least two

different approaches to financial crises. The second assignment will be a written paper and a class presentation of an original research idea.

Grading:

Midterm exam: 25%

Each paper / assignment 25%

READING LIST

I. TRADE POLICY IN THE PUBLIC INTEREST

A. Theory

Readings

*Anderson, JE and JP Neary, Measuring Trade Restrictiveness, (2004) chs. 3,6,7.

*Anderson, JE and JP Neary (2007) "Welfare vs. Market Access: Implications of Tariff Structure for Trade Reform", *Journal of International Economics*, 71 (1), 187-205.

Anderson, JE and JP Neary, "Revenue Tariff Reform"(2006), (www2.bc.edu/james-anderson/RevenueTarReform.pdf).

A. Dixit, "Taxation in Open Economies," Chapter in Handbook of Public Finance

B. Empirical work on Trade Policy

readings:

*Feenstra, ch. 7

Antidumping

Blonigen, Bruce A., and Stephen E. Haynes. "Antidumping Investigations and the Pass-Through of Exchange Rates and Antidumping Duties." *American Economic Review*, Vol. 92(September 2002), pp. 1044-1061.

Gallaway, Michael P., Bruce A. Blonigen, and Joseph E. Flynn. "Welfare Costs of the U.S. Antidumping and Countervailing Duty Laws." *Journal of International Economics*, Vol. 49(December 1999), p. 211-244.

Gallaway, Michael P., Bruce A. Blonigen, and Joseph E. Flynn. "Erratum to 'Welfare Costs of the U.S. Antidumping and Countervailing Duty Laws.'" *Journal of International Economics*, Vol. 52(October 2000), p. 205.

Blonigen's anti-dumping webpage:

<http://pages.uoregon.edu/bruceb/adpage.html>

J. E. Anderson, "Domino Dumping, I: Competitive Exporters," *American Economic Review* 82:1, March 1992, pp. 65-83.

Blonigen, Bruce A. and Jee-Hyeong Park. "Dynamic Pricing in the Presence of Antidumping Policy: Theory and Evidence." *American Economic Review*, Vol. 94 (March 2004): pp. 134-154.

T. J. Prusa, "Why Are So Many Antidumping Petitions Withdrawn?", *Journal of International Economics* 33:1-2, August 1992, pp. 1-20.

M. Zanardi, "Antidumping Law as a Collusive Device," (2004), *Canadian Journal of Economics* 37(1), 95-122.

C. Strategic Trade Policy

Readings:

*J. Brander, "Strategic Trade Policies" in Handbook, vol. 3.

J. McLaren 1997, "Size, Sunk Cost and Judge Bowker's Objection to Free Trade", AER, 400-420.

II. POLITICAL ECONOMIC MODELS OF POLICY-MAKING

Median Voter Models:

*W. Mayer, "Endogenous Tariff Formation," *American Economic Review* 74:5, December 1984, pp. 970-985.

*R. Fernandez and D. Rodrik, "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty," *American Economic Review* 81:5, December 1991, pp. 1146-1155.

C. Davidson, S. Matusz and D. Nelson (2007), "Can Compensation Save Free Trade?", *Journal of International Economics*, 71, 167-86.

Lobbies and Information

Grossman and Helpman, *Special Interest Politics*, chs. 4,5.

S. Esteban and D. Ray (2006), "Inequality, Lobbying and Resource Allocation", *American Economic Review*, 96, 257-79.

Lobbies as Principals, Government as Agent:

*G. Grossman and E. Helpman, "Protection for Sale," *American Economic Review* 84:4, September 1994, pp. 833-850; Grossman-Helpman, *Special Interest Politics*, Ch. 8.

*G. Maggi and P. Goldberg, "Protection for Sale: an Empirical Investigation," *American Economic Review* 89:5, December 1999, pp. 1135-1155.

*K. Gawande and U. Bandyopadhyay, "Is Protection for Sale? Evidence on the Grossman-Helpman Theory of Endogenous Protection," *Review of Economics and Statistics* 82:1, February 2000, pp. 139-152.

III. INSTITUTIONS AND TRADE

Overview

N. Nunn and D. Trefler, "Domestic Institutions as a Source of Comparative Advantage", *Handbook of International Economics*, vol. 5

Trade Causing Institutions

Nunn-Trefler, Section 4

Do, Q. and A. Levchenko, "Trade, inequality, and the political economy of institutions," *Journal of Economic Theory*, July 2009, 144 (4), 1489-1520.

IV. TRADE AGREEMENTS

Multilateral Frameworks:

*Bagwell, K. and R. Staiger, 2002, *The Economics of the World Trading System*, ch. 2, chs. 4-6.

K. Bagwell and R. Staiger, "An Economic Theory of GATT," *American Economic Review* 89:1, March 1999, pp. 215-48.

Antras, P. and R. Staiger, 2012, "Offshoring and the Role of Trade Agreements", *American Economic Review*, 102 (7), 3140-83.

Enforcement

*R. Staiger and K. Bagwell, "A Theory of Managed Trade", *American Economic Review* 80:4, September 1990, pp. 779-795.

R. Staiger and G. Tabellini, "Do GATT Rules Help Governments Make Domestic Commitments?" *Economics and Politics* 11:2, July 1999, pp. 109-144.

G. Maggi, "The Role of Multilateral Institutions in International Trade Cooperation," *American Economic Review* 89:1, March 1999, pp. 190-214.

H. Horn, G. Maggi and R. Staiger, (2010), "Trade Agreements as Endogenously Incomplete Contracts", *American Economic Review*, 100, 394-419.

G. Maggi and R. Staiger, (2011), "The Role of Dispute Settlement Procedures in International Trade Agreements", *Quarterly Journal of Economics*, 126, 475-515.

Commitment vs. Domestic Agents

*G. Maggi and A. Rodriguez-Clare, "The Value of Trade Agreements in the Presence of Political Pressures," *Journal of Political Economy* 106:3, June 1998, pp. 574-601.

----- (2007) "A political economy theory of trade agreements", *American Economic Review*, 97, 1374-1406.

Empirical Assessment of Trade Agreements

*A. Subramanian and S. Wei (2007), "The WTO Promotes Trade Strongly, but Unevenly", *Journal of International Economics*, 72, 151-75.

*S. Baier and J. Bergstrand (2007), "Do free trade agreements actually increase members' international trade?", *Journal of International Economics*, 71, 72-95.

*Anderson, JE and Yoto V. Yotov, (2011) "Terms of Trade and Global Efficiency Effects of Free Trade Agreements", NBER WP 17003.

V. CAUSES OF FINANCIAL CRISES

- Allen, F., Babus, A., & Carletti, E. (2009). Financial crises: Theory and evidence. *Annual Review of Financial Economics*, 1(1), 97-116.
- Allen, F., Babus, A., & Carletti, E. (2011). Asset commonality, debt maturity and systemic risk. C.E.P.R. Discussion Papers, CEPR Discussion Papers). ([URL:<http://www.cepr.org/pubs/dps/DP8476.asp>] URL)
- Barro, R. J., & Jin, T. (2011). On the size distribution of macroeconomic disasters. *Econometrica*, 79(5), 1567-1589.
- Barro, R. J., & Ursua, J. F. (2011). Rare macroeconomic disasters. National Bureau of Economic Research, Inc, NBER Working Papers). NBER Working Paper Series, w17328 ([URL:<http://www.nber.org/papers/w17328.pdf>] URL)
- Barro, R. J. (2009). Rare disasters, asset prices, and welfare costs. *American Economic Review*, 99(1), 243-264.
- Benmelech, E., & Dvir, E. (2011). Does short-term debt increase vulnerability to crisis? evidence from the east asian financial crisis. National Bureau of Economic Research, Inc, NBER Working Papers). ([URL:<http://www.nber.org/papers/w17468.pdf>] URL)
- Caballero, R. J., Farhi, E., & Gourinchas, P. (2008). An equilibrium model of 'global imbalances' and low interest rates. *American Economic Review*, 98(1), 358-393.
- Caballero, R. J., Farhi, E., & Gourinchas, P. (2008). Financial crash, commodity prices, and global imbalances. *Brookings Papers on Economic Activity*, , 1-55.
- Caballero, R. J., & Krishnamurthy, A. (2008). Collective risk management in a flight to quality episode. *Journal of Finance*, 63(5), 2195-2230.
- Caballero, R. J., & Simsek, A. (2009). Complexity and financial panics. National Bureau of Economic Research, Inc, NBER Working Papers). NBER Working Paper Series, w14997 ([URL:<http://www.nber.org/papers/w14997.pdf>] URL)
- Chang, R., & Velasco, A. (2001). A model of financial crises in emerging markets. *Quarterly Journal of Economics*, 116(2), 489-517.
- Diamond, D. W., & Rajan, R. G. (2001). Banks, short-term debt and financial crises: Theory, policy implications and applications. *Carnegie-Rochester Conference Series on Public Policy*, 54, 37-71.
- Diamond, D. W., & Rajan, R. G. (2001). Liquidity risk, liquidity creation, and financial fragility: A theory of banking. *Journal of Political Economy*, 109(2), 287-327.
- Diamond, D. W., & Rajan, R. G. (2005). Liquidity shortages and banking crises. *Journal of Finance*, 60(2), 615-647.
- Fostel, A., & Geanakoplos, J. (2012). Tranching, CDS, and asset prices: How financial innovation can cause bubbles and crashes. *American Economic Journal: Macroeconomics*, 4(1), 190-225.
- Gennaioli, N., Shleifer, A., & Vishny, R. W. (2010). Financial innovation and financial fragility. National Bureau of Economic Research, Inc, NBER

- Working Papers). NBER Working Paper Series, w16068
([URL:<http://www.nber.org/papers/w16068.pdf>] URL)
- Gennaioli, N., Shleifer, A., & Vishny, R. W. (2011). A model of shadow banking. National Bureau of Economic Research, Inc, NBER Working Papers). NBER Working Paper Series, w17115
([URL:<http://www.nber.org/papers/w17115.pdf>] URL)
- Gorton, G., & Metrick, A. (2010). Haircuts. Federal Reserve Bank of St. Louis Review, 92(6), 507-519.
- Gorton, G. (2010). E-coli, repo madness, and the financial crisis. Business Economics, 45(3), 164-173.
- Gorton, G. B. (2010). Slapped by the invisible hand: The panic of 2007. Oxford and New York: Oxford University Press.
- Gourinchas, P., & Obstfeld, M. (2011). Stories of the twentieth century for the twenty-first. National Bureau of Economic Research, Inc, NBER Working Papers). NBER Working Paper Series, w17252
([URL:<http://www.nber.org/papers/w17252.pdf>] URL)
- Kindleberger, C. P., & Aliber, R. Z. (2005). Manias, panics, and crashes : A history of financial crises. Hoboken, N.J.: John Wiley & Sons.
- Krugman, P. (1979). A model of balance-of-payments crises. Journal of Money, Credit, and Banking, 11(3), 311-325.
- Obstfeld, M., & Rogoff, K. (2007). The unsustainable U.S. current account position revisited. In R. H. Clarida ed (Ed.), G7 current account imbalances: Sustainability and adjustment (pp. 339-366). National Bureau of Economic Research Conference Report. Chicago and London: University of Chicago Press.
- Obstfeld, M., & Rogoff, K. (2009). Global imbalances and the financial crisis: Products of common causes. C.E.P.R. Discussion Papers, CEPR Discussion Papers). CEPR Discussion Papers, DP7606
([URL:<http://www.cepr.org/pubs/dps/DP7606.asp>] URL)
- Obstfeld, M. (1996). Models of currency crises with self-fulfilling features. European Economic Review, 40(3-5), 1037-1047.
- Obstfeld, M., & Rogoff, K. S. (1996). Foundations of international macroeconomics. Cambridge, Mass.: MIT Press.
- Rajan, R. (2010). Fault lines : How hidden fractures still threaten the world economy. Princeton: Princeton University Press.
- Reinhart, C. M., & Rogoff, K. S. (2011). The forgotten history of domestic debt. Economic Journal, 121(552), 319-350.
- Reinhart, C. M., & Rogoff, K. S. (2011). From financial crash to debt crisis. American Economic Review, 101(5), 1676-1706.
- Reinhart, C. M., & Rogoff, K. S. (2009). This time is different : Eight centuries of financial folly. Princeton: Princeton University Press.
- Shleifer, A., & Vishny, R. W. (2010). Unstable banking. Journal of Financial Economics, 97(3), 306-318.

VI. POLICIES TO RESOLVE AND PREVENT CRISES

- Allen, F., Carletti, E., & Marquez, R. (2011). Credit market competition and capital regulation. *Review of Financial Studies*, 24(4), 983-1018.
- Almunia, M., Benetrix, A., Eichengreen, B., O'Rourke, K. H., & Rua, G. (2010). From great depression to great credit crisis: Similarities, differences and lessons. *Economic Policy*, (62), 219-52, 259-65.
- Barkbu, B., Eichengreen, B., & Mody, A. (2011). International financial crises and the multilateral response: What the historical record shows. National Bureau of Economic Research, Inc, NBER Working Papers). NBER Working Paper Series, w17361 ([URL:<http://www.nber.org/papers/w17361.pdf>] URL)
- Caballero, R. J., Hoshi, T., & Kashyap, A. K. (2008). Zombie lending and depressed restructuring in japan. *American Economic Review*, 98(5), 1943-1977.
- Caballero, R. J., & Panageas, S. (2008). Hedging sudden stops and precautionary contractions. *Journal of Development Economics*, 85(1-2), 28-57.
- Caballero, R. J., & Simsek, A. (2009). Fire sales in a model of complexity. National Bureau of Economic Research, Inc, NBER Working Papers). NBER Working Paper Series, w15479 ([URL:<http://www.nber.org/papers/w15479.pdf>] URL)
- Caballero, R. J. (2010). The "other" imbalance and the financial crisis. National Bureau of Economic Research, Inc, NBER Working Papers). NBER Working Paper Series, w15636 ([URL:<http://www.nber.org/papers/w15636.pdf>] URL)
- Caballero, R. J. (2010). Sudden financial arrest. *IMF Economic Review*, 58(1), 6-36.
- Eichengreen, B., & Dincer, N. (2011). Who should supervise? the structure of bank supervision and the performance of the financial system. National Bureau of Economic Research, Inc, NBER Working Papers). NBER Working Paper Series, w17401 ([URL:<http://www.nber.org/papers/w17401.pdf>] URL)
- Geanakoplos, J., & Pedersen, L. H. (2011). Monitoring leverage. Cowles Foundation for Research in Economics, Yale University, Cowles Foundation Discussion Papers). , 18. ([URL:<http://cowles.econ.yale.edu/P/cd/d18a/d1838.pdf>] URL)
- Geanakoplos, J. (2010). Solving the present crisis and managing the leverage cycle. *Federal Reserve Bank of New York Economic Policy Review*, 16(1), 101-131.
- Gorton, G., & Metrick, A. (2010). Regulating the shadow banking system. *Brookings Papers on Economic Activity*, , 261-297.
- Hanson, S. G., Kashyap, A. K., & Stein, J. C. (2011). A macroprudential approach to financial regulation. *Journal of Economic Perspectives*, 25(1), 3-28.
- Obstfeld, M., Shambaugh, J. C., & Taylor, A. M. (2010). Financial stability, the trilemma, and international reserves. *American Economic Journal: Macroeconomics*, 2(2), 57-94.
- Obstfeld, M. (2010). The immoderate world economy. *Journal of International Money and Finance*, 29(4), 603-614.

- Obstfeld, M., & National Bureau of, E. R. (2011). International liquidity the fiscal dimension. Cambridge, Mass.: National Bureau of Economic Research.
- Rose, A. K., & Spiegel, M. M. (2011). Cross-country causes and consequences of the crisis: An update. *European Economic Review*, 55(3), 309-324.
- Rose, A. K., & Spiegel, M. M. (2011). Dollar illiquidity and central bank swap arrangements during the global financial crisis. National Bureau of Economic Research, Inc, NBER Working Papers). NBER Working Paper Series, w17359 ([URL:<http://www.nber.org/papers/w17359.pdf>] URL)
- Shleifer, A., & Vishny, R. (2011). Fire sales in finance and macroeconomics. *Journal of Economic Perspectives*, 25(1), 29-48.
- Stein, J. C. (2011). Monetary policy as financial-stability regulation. National Bureau of Economic Research, Inc, NBER Working Papers). NBER Working Paper Series, w16883 ([URL:<http://www.nber.org/papers/w16883.pdf>] URL)