

BOSTON COLLEGE
Department of Economics

EC 871
International Trade Theory
TTh 1:30

Prof. Anderson

Fall 2007

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Syllabus

Course Requirements are:

- (1) a series of homework assignments
- (2) a mid-term exam Oct. 18
- (3) a final exam, date TBA

The purpose of this course is to acquaint the student with the basic tools of international trade theory. Trade theory is the richest lode of applied general equilibrium theory. To develop skill and intuition in applied ge theory, I have two sorts of homework. One sort is written mathematical and intuitive exercises. The other sort is programming exercises with simple computable general equilibrium models.

Some important topics skipped here will be covered in Ec875, Political Economy of Trade and Development. These include trade and growth, the political economy of trade, and the institutions of trade. Some attention will be paid to empirical work; the Feenstra textbook is a great resource here.

The reading list is small compared to many graduate reading lists. I think less is more in learning the basics. In contrast, Ec875 assumes the basics and requires extensive reading of recent papers. The reading list has more papers by me than are justified by their pure merit. This is because I can communicate more about the creation of economics in discussing the work I (probably) know best.

Textbooks

- A. A. Dixit and V. Norman, Theory of International Trade, Cambridge University Press, 1980. A key reference for core theory material:
- B. R. Feenstra Advanced International Trade: Theory and Evidence, 2003. It is particularly outstanding for treatment of empirical work in the context of theory.

A good theory text alternative covering Dixit and Norman's ground is A. Woodland, International Trade and Resource Allocation, Amsterdam: North Holland, 1982.

A good undergraduate text for review or supplement is Markusen, Maskus, Melvin and Kaempfer, The Theory of International Trade, Ethier, Modern International Economics,

Krugman and Obstfeld, International Economics: Theory and Policy, or Caves, Frankel and Jones, World Trade and Payments.

Surveys

1. Surveys of International Trade, D. Greenaway and L.A. Winters eds. Oxford: Basil Blackwell, 1994. MA level surveys.
2. Handbook of International Economics, Vol 1, North-Holland, eds. Jones and Kenen; Volume 3, eds Grossman and Rogoff, 1995. Graduate level surveys.
3. “International Trade Theory”, JE Anderson, New Palgrave Dictionary of Economics, forthcoming (www2.bc.edu/~anderson/PalgraveTrade.pdf). Intermediate level survey.

Important Monographs

Helpman and Krugman, Market Structure and Foreign Trade, MIT 1985.
 Helpman and Grossman, Innovation and Growth in the Global Economy, MIT 1991.
 Anderson and Neary, Measuring the Restrictiveness of International Trade Policy, MIT 2004.
 G. Grossman ed, Imperfect Competition and International Trade, MIT Press, 1992.
 Collection of key essays.

Web sites: this course teaches theory and some applications and we tend to lose sight of why we study the stuff. These sites give information on the application of ideas to the policy issues:

WTO: www.wto.org vast amount of information about the WTO and its dispute settlement processes. (How secretive is this organization?)

Trade negotiations web page: www.cid.harvard.edu/cidtrade/ lots of news and opinion on a wide range of trade negotiation issues.

USTR reports: <http://www.ustr.gov/reports/index.html>. USTR is the negotiation arm of US trade; these are its briefs for disputes.

The Economist: www.economist.com. Lots of their current stories and opinion are free.

Deardorff’s glossary of international economics terms: <http://www-personal.umich.edu/~alandear/glossary/>

Syllabus

Citations marked with an asterisk are basic starting points and fundamental to the lectures.

I. Introduction and A Simplified Trade Model

Readings:

*Dixit-Norman, Ch. 1.

II. Supply and Demand with Duality

Readings

*DN, ch. 2

*A. Woodland, (1980), "Direct and Indirect Trade Utility Functions", RES, 47,907-26.

III. The Gains from Trade

Readings

*DN, ch. 3

IV. Explorations of Special Cases

A. The Ricardian Theory

readings:

*DN, Ch. 2

*Dornbusch, Fischer and Samuelson, 1977, AER, "The Ricardian model with a continuum of goods"

B. The Factor Proportions Theory

1. The Heckscher-Ohlin-Samuelson Model

Readings:

*Handbook, ch. 1

*Feenstra, ch. 2

*R. Jones, "The Structure of Simple General Equilibrium Models," JPE Dec. 1965.

*DN, ch. 4

2. Extensions of the Model

Readings

*Ethier, W.J., "Higher Dimensional Issues in Trade Theory," Handbook.

*Dixit-Norman, Chs. 2, 4.

*Neary, JP and AS Schweinberger, "Factor Content Functions and the Theory of International Trade", RES, 1986.

*Feenstra, ch. 3

Dixit-Woodland, "The Relationship Between Factor Endowments and Commodity Trade," JIE, May 1982

Neary, JP, 1985, "Twoness and Trade Theory",
Econometrica, 53

C. Empirical Work on Core Trade Models

Readings:

Do Endowments and Technology Explain Trade?

*Feenstra, chs. 2,3

Leamer and Levinsohn, Handbook, vol. 3.

Leamer, E., Sources of International Comparative Advantage, M.I.T., 1984.

Does Trade Affect Factor Prices?

*Feenstra, ch. 4

D. Trade Costs

readings:

*"Gravity Lectures", J. Anderson

*"Trade Costs", J. Anderson and E. van Wincoop, JEL, 2004.

*"Gravity with Gravitas: A Solution to the Border Puzzle", J. Anderson and E. van Wincoop, AER March 2003.

J. Rauch (1999), "Networks vs. Markets in International Trade", JIE 48, 7-37.

Eaton, J. and S. Kortum (2002), "Technology, Geography and Trade", Econometrica, 70, 1741-79.

Feenstra, ch. 5.

Helpman, E. M. Melitz and Y. Rubinstein (2007) "Estimating Trade Flows: Trading Partners and Trading Volumes", NBER WP No. 12927.

Arkolakis, C. (2007), "Market Access Costs and the New Consumers Margin in International Trade", mimeo.

V. Imperfect Competition and Scale Economies

A. Product Differentiation, Monopolistic Competition and Trade

Readings: 1) *Helpman and Krugman, Chs. 6-11.

*Feenstra, ch. 5

J. P. Neary "[Monopolistic competition and international trade theory](#)," in S. Brakman and B.J. Heijdra (eds.): *The Monopolistic Competition Revolution in Retrospect*, Cambridge: Cambridge University Press, 2003, 159-184.

B. Division of Labor and Scale Economies

Readings:

Modern 1) *Ethier, W., "National and International Returns to Scale in the Theory of International Trade" AER, June 1982, also in G. Grossman Imperfect Competition and International Trade.

C. Firm Behavior, Trade and the Empirics of Productivity

Readings:

Melitz, Marc (2003), "The Impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity", Econometrica, 71, 1695-1725.

VI. Commercial Policy

A. Theory

Readings

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

*Anderson, JE and JP Neary, "Welfare vs. Market Access: The Implications of Tariff Structure for Tariff Reform" (2005) (www2.bc.edu/~anderson/WelvsMktAccess.pdf)

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

Anderson, JE, "The Theory of Protection" in D. Greenaway and LA Winters Surveys

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

B. Empirical work on Trade Policy

readings:

*Feenstra, ch. 7

*R. Feenstra, "Estimating the Effects of Trade Policy", 1995 Handbook, vol. 3.

Anderson and Neary Measuring Trade Restrictiveness, chs. 11, 12, 14.

VII. Strategic Trade Policy

Readings:

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

*G. Maggi, "Strategic Trade Policies with Endogenous Modes of Competition", AER, 1996, 237-58.

Brander and Spencer, "Tariff Protection and Imperfect Competition" and Eaton and Grossman, "Optimal Trade and Industrial Policy under Oligopoly", chs. 6 and 7 in Grossman, Imperfect Competition and International Trade.

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

Anderson (2006) "Commercial Policy in a Predatory World"(www2.bc.edu/~anderson/PolicyPredWorld.pdf)