

**CARLETON UNIVERSITY, Department of Economics**  
**ECON 4601A: International Trade Theory and Policy (Winter 2025)**

**Instructor:** Prof Zhihao Yu (Email: [zhihao.yu@carleton.ca](mailto:zhihao.yu@carleton.ca))

**In-person Lectures: Fridays 8:35am-11:25am**

Instructor's office hours: TBA (Loeb B852)

### **OBJECTIVES**

This is an advanced course in international trade theory and policy. In the first part of the course, several general equilibrium models will be developed. The second part of the course will use this framework to analyse several policy issues, including the effects of tariffs and quotas, and trade liberalisation. Recent topics, such as political economy of trade policy, will also be discussed.

### **PREREQUISITE**

ECON 2030 (or Econ 2003 – no longer offered) with a grade of C- or higher.

### **TECHNICAL CONTENT**

This course makes extensive use of theoretical and mathematical techniques from ECON 2030, ECON 2020, ECON/MATH 1401 and ECON/MATH 1402. (ECON 3601, a course on the similar topic, requires less mathematical techniques)

### **REQUIRED TEXTBOOK**

Paul R. Krugman, Maurice Obstfeld, and Marc Melitz, *International Economics* (Pearson), 12<sup>th</sup> edition. Pearson MyLab Economics Course ID: **TBA** (optional).

**Important:** If you use a different edition (e.g. the 12th Global Edition, or a previous edition), please make sure to do the assigned homework according to the edition we use.

**A useful advanced textbook:** Robert C. Feenstra, *Advanced International Trade: Theory and Evidence*, Princeton University Press, 1<sup>st</sup> edition, available online at CU Library

**A useful link for refreshing Math skills in Economics:**

[https://www.economicsnetwork.ac.uk/maths\\_refresher/](https://www.economicsnetwork.ac.uk/maths_refresher/)

### **HOMEWORK:**

Class attendance and participation are required. I will also provide selected problems from each chapter for you to practice. You are required to submit your relevant work before Midterms 1 and 2 (each deadline will be announced one week in advance) and will receive 0-5 marks depending on the overall quality of your homework. Although the **two problem sets** (which will include the problems from the problems of your weekly homework, and more) will not be graded in detail (**Pearson MyLab Economics** provides additional exercises with answers), I will discuss the questions in detail after each problem set is submitted.

**Important:** the deduction for overdue homework/assignments is 50% (75%, 100% - i.e. zero marks) of your total mark for the first 0h-24h (the second 0h-24h, the third 0h-24h and afterwards) after the deadline, respectively.

## EVALUATION:

Two Problem Sets:	15% (7.5% each)
Class participations <sup>1</sup>	10%
In-class/person Midterm 1 (Feb 14) – Chapters 3, 4 and 5	25%
In-class/person Midterm 2 (March 21) – Modules I and II	35%
End-of-Term Assignment (Due on April 8) – on Modules III (and I or II)	15%

## EXAMINATIONS:

**Important:** (i) A student will receive a zero mark for the missing a midterm unless he/she submits a e-copy of the **Self-declaration for Academic Consideration Form** (<https://carleton.ca/registrar/wp-content/uploads/self-declaration.pdf>) to the Instructor, either before the exam or within 48 hours after. (ii) the deferred midterm will either be combined into the subsequent midterm (i.e. you will then write a different midterm with the combined weights) or be scheduled by the Department of Economics within a week (note: even though the time might not be good for you if we have multiple cases). A maximum of missing one midterm is permitted.

## Plagiarism

Please be aware that plagiarism is serious offence at Carleton and should be recognized and avoided. For further information on how to do so, please see [HERE](#).

## Academic Accommodation:

You may need special arrangements to meet your academic obligations during the term. For an accommodation request, please visit: [students.carleton.ca/course-outline](https://students.carleton.ca/course-outline)

**COURSE OUTLINE** (The problems listed below can be found at the end of each chapter)

### 0. Introduction (0.5)

A documentary by CNA ([https://youtu.be/BQ23sgi\\_mgw?si=03dJXziSigtJ8ASc](https://youtu.be/BQ23sgi_mgw?si=03dJXziSigtJ8ASc) )

Math review: Linear algebra, unit cost function, Duopoly Nash-Cournot Model (pages 501-505 in Perloff – your Econ 2020 textbook).

## Module I. Neoclassical International Trade Theory

### I.1 Labour Productivity and Comparative Advantage: The Ricardian Model (1.5)

Readings: Ch. 3; Ch 1 in Feenstra (related to the Ricardian model)

Homework: Problems #1, 2, 3, 4 and 5.

### I.2. Resource and Trade: The Heckscher-Ohlin Model (1.5)

Readings: Ch. 5 and its appendix; Ch 1 in Feenstra (related to the H-O model).

Homework: Problem #1, and additional problems/exercises (TBA).

### I.3. The Specific Factor Model and Income Distribution (0.5)

Readings: Ch. 4 and its appendix.

Homework: Problems #2, 3, and 4.

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<sup>1</sup> Students who miss more than half of the classes will not be allowed to write the midterm exams (if written, their exams will not be graded).

#### **I.4. Terms of Trade and Gains from Trade (0.5)**

Readings: Ch. 6 (excl. p138-144) and its appendix.

Homework: Problems #1, 2 and 7.

### **Module II. Trade Policy**

#### **II.1. Trade Policy (under Perfect Competition) (1.5)**

Readings: Ch. 9 and its appendix; **Chapter 6 (p138-141)**.

Homework: Problems #1, 2, 3, 4, 9, and 11 in Chapter 9; Problem #10 in Chapter 6.

#### **II.2. Trade Policy: Imperfect Competition and Strategic Trade Policy (0.5)**

Readings: Ch 12 (pages 301-309); Online Appendix A to Chapter 9; Additional ppts on strategic policy (from Perloff - Econ2020 textbook)

Homework: Problems #1 and #4 in Chapter 12.

### **Module III. Recent Developments in International Trade Theory and Policy Research**

#### **III.1 External Economies of Scale, and International Location of Production**

Readings: Ch. 7.

Homework: Problems #1, and 5.

#### **III.2. Increasing Returns, Monopolistic Competition, and Heterogeneous Firms**

Readings: Ch. 8.

Homework: Problems #2, 3, and 5.

#### **III.3. Political Economy of Trade Policy**

Readings: Ch. 10; Appendix.

Homework: Problems #3 and 4.