CARLETON UNIVERSITY, Department of Economics
ECON 4601A: International Trade Theory and Policy (Fall 2023)

Instructor: Professor Zhihao Yu   Email: zhihao.yu@carleton.ca or zhihao.yu@gmail.com

Lectures: Wednesday 8:35-11:25 am. Log into Carleton Central to view the location on your timetable.
Instructor's office hours: TBA

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: Theory and Policy* (Pearson), 12th 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, 1st edition, available online at CU Library

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 Tests 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 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.

EVALUATION:
Two Problem Sets:	10% (5% each)
Class participations[1]	10%
Test/Midterm 1 (in-class, Oct 18) – Chapters 3, 4 and 5	25%
Test/Midterm 2 (in-class, Nov 22) – Modules I and II	40%
End-of-Term Assignment (Due on Dec 8) – on Modules II and III	15%

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[1] 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).

Important: (i) A student will receive a zero mark for the missing a midterm unless he/she submits, within 3 days, a (scanned) copy of the **Self-declaration for Academic Consideration From** (https://carleton.ca/registrar/wp-content/uploads/self-declaration.pdf) to the Instructor.

(ii) Furthermore, the assigned weight of the missing midterm will be added to the subsequent midterm – that is, you will write a different midterm/test. A maximum of missing one midterm is permitted.

(iii) 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.

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**

COURSE OUTLINE AND REQUIRED READING:

0. Introduction (0.5)
Math review: Linear algebra, 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.

In-class Midterm 1

I.4. Terms of Trade and Gains from Trade (0.5)
Readings: Ch. 6 (excl. p138-144) and its appendix.
Homework: Problems #1, 2, 7, and 10.

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.

II.2. Trade Policy: Imperfect Competition and Strategic Trade Policy (0.5)
Readings: Online Appendix A to Chapter 9; Additional ppts on strategic policy (from Perloff - Econ2020 textbook)
Homework: Problems #1 and #4 in Chapter 9.

In-class Midterm 2

Module III. New Development in International Trade Theory and Trade Policy

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.

End-of-Term Assignment