

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

**Instructor: Professor Zhihao Yu**

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

**Check Carleton Central for Class Location**

Instructor's office hours: Tuesdays (1:05pm-2pm) in 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 (e-textbook price: C\$67.99)

**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/math\\_refresh/](https://www.economicsnetwork.ac.uk/math_refresh/)

### **HOMEWORK:**

Class attendance and participation are required. Students are required to submit the listed homework of each chapter at the beginning of the next lecture after the discussion of that chapter is finished. In addition, I will also provide you with TWO PROLEM SETS (selected problems from each chapter/homework) for marking. You are required to submit your relevant problem sets before Tests 1 and 2. Although no detailed written answers/marking of the two problem sets will be provided (**Pearson MyLab Economics** provides additional exercises with answers), they will be discussed 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:

<b>Homework (after each chapter) submission</b>	<b>10%</b>
Two Problem Sets:	10% (5% each)
Class participations <sup>1</sup>	10%
Midterm 1 (in-class/person, Feb 14) – Chapters 3, 4 and 5	25%
Midterm 2 (in-class/person, March 21) – Modules I and II	35%
Take-home Test (Due on April 8) – on Modules III (and I or II)	10%

## EXAMINATIONS:

**Important:** (i) A student will receive a zero mark for the missing a midterm unless he/she email the instructor, either before the exam or within 24 hours after, providing the reason. (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 AND REQUIRED READING:

### 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).

## **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. 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.

## **Take-home Test**