

CARLETON UNIVERSITY
Department of Economics
ECON 5601 (Fall 2021)
International Trade: Theory and Policy

Instructor: Zhihao Yu
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Lectures/Seminars: Fridays 11:35-14:25

Note that this course provides online synchronous learning only (i.e. course recording will not be available), using Zoom via the Brightspace learning management system at Carleton University.

Instructor's Online Office Hours: TBA

OBJECTIVES

We will discuss international trade theory and its implications for economic policy, with emphasis on topics such as determinants of trade and specialization, gains from trade, commercial policy, and new trade theories and their most recent development.

Textbook

We don't follow a particular textbook but the following is a recommended reference for some of the topics in the course outline.

Robert C. Feenstra, *Advanced International Trade: Theory and Evidence*, Princeton University Press, 2nd Edition, 2016 (1st edition is available online at CU Library).

EVALUATION:

- (i) Take-home Midterm Exam (40%)
- (ii) In-class Final Exam (50%) with **CoMaS e-proctoring**¹
- (iii) Student end-of-term presentation, or a Term Paper (10%)

(The dates of the two exams will be announced by the end of September.)

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

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 "Pammett on Plagiarism and Paraphrasing" at www.carleton.ca/economics/courses/writing-preliminaries/.

¹ A personal computer, equipped with a webcam, is required for **CoMaS e-proctoring**. Useful links for **CoMaS e-proctoring**: <https://carleton.ca/ses/e-proctoring/#sect1> and <https://carleton.ca/ses/wp-content/uploads/CoMaS-Student-Instructions-v.-1.08.pdf>

COURSE OUTLINE AND READING LIST
(Some topics may not be covered due to time constraint)

1. Introduction

2. Technology and the Ricardian Model

*Feestra (Chapters 1 and 3).

* Dornbusch, Rudiger, Stanley Fischer, and Paul A. Samuelson (1977), "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review*, 67(5), 823-839.

Eaton, J., and S. Kortum, 2002. "Technology, geography, and trade," *Econometrica*, 70: 1741- 1779

Brezis, E.S., Paul R. Krugman, and D. Tsiddon 1993, "Leapfrogging in international competition: a theory of cycles in national technological leadership," *American Economic Review* 83 (5), 1211-19.

Yu, Zhihao, 2011. "Division of Labor and Endogenous Comparative Advantage: A Smith-Ricardian Model of International Trade," *Review of International Economics*, 2011, v19, 313-324.

3. Factor Endowment and the Heckscher-Ohlin Model

*Feenstra (Chapters 1 and 2).

Jones, R., 1965. "The Structure of Simple General Equilibrium Models," *Journal of Political Economy*, 73: 557-572.

Brecher, Richard A. 1974, "Minimum wage rates and the pure theory of international trade." *Quarterly Journal of Economics*, 88(1), 98-116.

Davis, Donald (1998), "Does European unemployment prop up American wages? – National labor markets and global trade", *American Economic Review* v 88, 478-94.

Leontief, W.W., "Domestic Production and Foreign Trade: The American Capital Position Re-Examined", *Economia Internazionale*, Vol. 7, February 1954, pp. 3-32; reprinted in Caves and Jonson.

Leamer, E.E., "The Leontief Paradox, Reconsidered", *Journal of Political Economy*, Vol. 88, No. 3, June 1980, p. 495-503.

Trefler, D 1995 "The case of the missing trade and the other mysteries," *American Economics Review*, December 1995, 1029-1046.

4. Specific-Factors Model

*Feenstra (Chapter 3).

Melvin, J., 1968. "Production and Trade with Two Factors and Three Goods", *American Economic Review*, 58: 1249-1268.

Brecher, Richard A. and Zhihao Yu (2021), "Unemployment Effects of Trade with a Low-wage Country: A Minimum-wage Model with Sector-specific Factors," *Review of International Economics*, May 2021, 402-408.

5. Imperfect Competition and International Trade

(i) Market Power and Strategic Interaction in International Trade

Chapter 8 in Feenstra, 2nd Edition (or Chapter 7 in 1st Edition)

*Brander, J.A. and P. Krugman, 1983, "A 'reciprocal dumping' model of international trade", *Journal of International Economics*, November 1983, 313-321.

(ii) Increasing Returns and the Monopolistic Competition Model of International Trade

Chapter 5 in Feenstra, 2nd (and 1st) Edition

Dixit, A. and J. Stiglitz 1977, "Monopolistic competition and optimum product variety," *American Economic Review*, v67, pp. 297-308.

*Krugman, P. 1979, "Increasing returns, monopolistic competition, and international trade," *Journal of International Economics*, v9, 469-480

*Krugman, P., 1980, "Scale economies, product differentiation, and pattern of trade." *American Economic Review*, v70(5), pp. 950-59.

Krugman, P., 1995, "Increasing returns, imperfect competition and the positive theory of international trade," in Gene M. Grossman and Kenneth Rogoff, eds., *Handbook of International Economics*, Vol. 3. Amsterdam: North-Holland, pp. 1243-77.

*Davis, D.R., 1998, "The home market effect, trade, and industrial structure." *American Economic Review*, v88(5), pp. 1264-76.

*Yu , Zhihao 2005, "Trade, Market Size, and Industrial Structure: Revisiting the Home Market Effect " *Canadian Journal of Economics* 38(1), p255-272

Ethier, W. 1982. "Decreasing Costs in International Trade and Frank Graham's Argument for Protection," *Econometrica*, 50: 1243-68.

6. Recent Empirical Investigation, Firm-level Studies, and Models of Heterogenous Firms

Chapter 6 in Feenstra, 2nd Edition (not in 1st Edition)

Hummels, D., Ishii, J. and Yi, K. 2001, "The nature and growth of vertical specialization" *Journal of International Economics* v54, pp75-96.

Yi, Kei-Mu, 2003, "Can vertical specialization explain the growth of world trade?", *Journal of Political Economy*, v111(1), pp-52-102.

Harrigan, James 1994, "The volume of trade in differentiated intermediate goods: theory and evidence," *The Review of Economics and Statistics* 76, 321-328.

Schmitt, Nicolas and Zhihao Yu, 2001, "Economies of scales and the volume of intra-industry trade", *Economics Letters* v74, 1069-1090.

Montagna, Catia (2001), "Efficiency Gaps, Love of Variety and International Trade", *Economica*, Vol. 68, pp. 27--44.

Baldwin, Richard (2005), "Heterogeneous firms and trade: testable and untestable properties of the Melitz model," NBER Working Paper No. 11471.

* Melitz, Marc J. (2003), "The Impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity", *Econometrica*, Vol. 71 (6), pp. 1695--1725.

Eaton, J. and S. Kortum, 2002. "Technology, geography, and trade," *Econometrica*, 70: 1741- 1779.

Schmitt, Nicolas and Zhihao Yu, 2002, "Horizontal Intra-industry Trade and the Growth of International Trade", chapter 3 in *Frontiers of Research on Intra-industry Trade*, edited by P. Lloyd and H. Lee, Palgrave.

Chaney, T. 2008, "Distorted Gravity: The Intensive and Extensive Margins of International Trade" *American Economic Review*, V98(4), 1707-21.

Girma, S. and Yu, Z. (2002) "The link between immigration and trade: evidence from the United Kingdom," *Review of World Economy* v138(1), 2002, pp. 115-130.

Chen, Bo, Miaojie Yu and Zhihao Yu, (2017), "Measured skill premia and input trade liberalization: evidence from Chinese firms," *Journal of International Economics* 109: 31-42.

7. Outsourcing, Firm Organization and International Trade

Jones, Ronald W., 2000, *Globalization and the Theory of Input Trade*, MIT Press, Cambridge.

Jones, Ronald W. and Henryk Kierzkowski. 2001, "Globalization and the consequences of international fragmentation." in R. Dornbusch, G. Calvo, and M. Obstfeld, eds., *Money, Factor Mobility, and Trade: The Festschrift in Honor of Robert A. Mundell*, MIT Press, Cambridge.

Feenstra, Robert C. 1998, "Integration of trade and disintegration of production in the global economy", *Journal of Economic Literature*, v12(4), pp31-50.

McLaren, John, 2000, "Globalization and vertical structure." *American Economic Review* 90, 1239-1254. Jones.. (2000)

Grossman, G.M. and Helpman, E., 2002, "Integration vs. outsourcing in industry equilibrium" *Quarterly Journal of Economics* 117,

Grossman, Gene and Elhanan Helpman, 2005, "Outsourcing in a global economy", *Review of Economic Studies*, 72(1), p135-159.

Feenstra, Robert C. and Gordon H Hanson 2003, "Ownership and control in outsourcing to China: estimating the property-rights theory of the firm", NBER Working Paper No. 10198

Hanson, Gordon H. "Localization economics, vertical organization, and trade." *American Economic Review* 86, 1996, pp1266-78.

Antràs, Pol, (2003), "Firms, Contracts and Trade Structure," *Quarterly Journal of Economics*, 118(4), 1375-1418.

* Antràs and Helpman, (2004), "Global sourcing", *Journal of Political Economy*, 112: 552-580.

Spencer, Barbara, "International Outsourcing and Incomplete Contracts", *Canadian Journal of Economics*, 38(4) November 2005, 1107- 1135

*Chen, Yongmin Jota Ishikawa and Zhihao Yu (2004) "Trade liberalisation and strategic outsourcing" , *Journal of International Economics*, 62(2), 2004, 419-436

Samuelson, P., "Where Ricardo and Mill rebut and confirm arguments of mainstream economists supporting globalization," *Journal of Economic Perspectives*, 18(3), Summer 2004, 135-146.

Bhagwati, J., A. Panagariya and T.N. Srinivasan, "The muddles over outsourcing," *Journal of Economic Perspectives*, 18(4), Fall 2004, 93-114.

Yu, Zhihao (2011). "Understanding the Fear for Globalization," *The World Economy*, v34, 1168-1180.

*He, Huanlang and Zhihao Yu (2015), "The Evolving Patterns of Global Production of Multi-Product Firms." *Canadian Journal of Economics*, 48(3), 1175-94.

Yu, Zhihao (2012). "Economies of Scope and Patterns of Global Outsourcing", *Review of International Economics*. 20(4), 854-868.

8. Trade Policy

*Feenstra (Chapters 8 and 9 in 2nd Edition; Or Chapters 7 and 8 in 1st Edition)

*Brander, James and Barbara Spencer (1985), "Export subsidies and international market share rivalry," *Journal of International Economics* 18, 83-100.

Eaton, J. and G.M. Grossman 1986, "Optimal Trade and Industrial Policy under Oligopoly," *The Quarterly Journal of Economics*, 101 (2), pp. 383-406.

Brander, J.A., 1995. "Strategic Trade Policy," in *Handbook of International Economics*, Grossman, G. and K. Rogoff (eds.), Volume 3, Ch.27.

9. Political Economy Approach (of trade and other government policies)

*Feenstra (Chapter 10 in 2nd Edition; Or Chapter 9 in 1st Edition)

*Mayer, W. 1984, "Endogenous tariff formation," *American Economic Review*, 74, 970-985.

Dutt, Pushan and Mitra, Devashish. 2002. "Endogenous Trade Policy through Majority Voting: An Empirical Investigation," *Journal of International Economics*, 58(1): 107- 133.

*Hillman, A.L. 1982, "Declining industries and political-support protectionist motives," *American Economic Review*, v72, 1180-1187.

Hillman, A.L., 1989. *The Political Economy of Protection*, Harwood Academic Press, New York.

*Grossman, G. M. and Helpman, E. "Protection for Sale," *American Economic Review* 84, 1994, 833-850

Goldberg, Pinelopi Koujianou and Giovanni Maggi. 1999. "Protection for Sale: An Empirical Investigation." *American Economic Review*, 89(5): 1135-1155.

Mitra, Devashish. 1999. "Endogenous Lobby Formation and Endogenous Protection: A Long-run Model of Trade Policy Determination," *American Economic Review*, 89(5): 1116-1134.

Yu, Zhihao (2005) "Environmental Protection: A Theory of Direct and Indirect Competition for Political Influence" *Review of Economic Studies* 72(1), 269-286.

Pacca, L. D. Curzi, G. Rausser and A. Olper (2020), "The Role of Party Affiliation, Lobbying and Electoral Incentives in Decentralized U.S. State Support of the Environment", *Journal of Association of Environmental and Resource Economists*, November 2020.