

CARLETON UNIVERSITY
Department of Economics

ECON 5603W – Topics in International Economics (Winter 2025 – Online/Hybrid)

Instructor: Prof. Z. Yu (Email: zhihao.yu@carleton.ca)

Lectures: Wednesdays 8:35-11:25am (Online/Hybrid)

Instructor's Office Hours: TBA (Loeb B852)

OBJECTIVES:

The purpose of this course is to get students conversant with current topics in International Economics. We will study in depth a number of recent papers on several important topics. Students taking the course will learn how to analyze journal articles and gain the ability in doing their own research in international economics.

This course targets graduate students in economics and other related programs. Students who have taken an introductory course in international trade will benefit more from the class.

Prerequisites: None.

Textbook

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

EVALUATION (two options to choose):

Option A: Take-home Midterm (40%), Assignment (15%), Online Final (45%).

Option B: Take-home Midterm (40%), Assignment (25%), Term Paper (35%).

Plagiarism

Please be aware that plagiarism is a serious offence at Carleton and should be recognized and avoided. For further information on how to do so, please see <https://carleton.ca/economics/plagiarism-resources-and-accommodations/>

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 READING LIST

(“*” materials are required readings)

1. Introduction

A documentary by CNA (https://youtu.be/BQ23sgi_mgw?si=03dJXziSigtJ8ASc)

2. Ricardian Model (On technology and national technology leadership)

*Feenstra (Chapter 1 on Ricardian model)

*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.

*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.

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

3. Heckscher-Ohlin Model (On Trade, Wages, Unemployment, and Economic Growth)

*Feenstra (Chapter 1 on Heckscher-Ohlin model); (and Chapter 2, if you are interested in the related empirical studies).

Freeman (1995), "Are your wages set in Beijing?" *Journal of Economic Perspectives* 9, 15-32.

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

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

Bertola, Giuseppe and Ichino, Andrea (1995) "Wage, inequality and unemployment: United States vs. Europe", *NBER macroeconomics annual*, v.10, 13-54.

Lawrence, R. and M. Slaughter (1993), "International trade and American wages", *Brookings Papers on Economic Activity*, 161-226.

*Eswaran, M. and A. Kotwal (1993), "Export led development: primary vs. industrial exports", *Journal of Development Economics* 41, 163-72.

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.

Brecher, R. A., & Choudhri, E. U. (1982). The Leontief Paradox, continued. *Journal of Political Economy*, 90(4), 820–823. <https://doi.org/10.1086/261092>

Maskus, Keith (1985), "A Test of the Heckscher-Ohlin-Vanek Theorem: The Leontief Commonplace." *Journal of International Economics*, November 1985, 19(3–4), pp. 201–12.

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

Feenstra, Robert C. and Akira Sasahara (2018), "The 'China Shock', Exports and U.S. Employment: A Global Input-Output Analysis," *Review of International Economics*, 26(5), 1053-83.

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.

Brecher, Richard A. and Zhihao Yu (2023), "Trade-induced reduction in unemployment of a high-wage economy" *The World Economy*, v46(10), 2983-2989.

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.

4. Monopolistic-Competition Model (On Trade costs, Home Market Effects, and Economic Integration)

*Lecture Slides

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

Krugman, P., 1991, "Increasing Returns and Economic Geography", *Journal of Political Economy* v99(3), p483-99.

Davis, D. and D. Weinstein, 1999, "Economic geography and regional production structure: an empirical investigation", *European Economic Review*, 43(2), 397-407.

Davis, D. and D. Weinstein, 2003, "Market access, economic geography, and comparative advantage: an empirical assessment", *Journal of International Economics* 59(1), 1-23.

5. Recent Investigation of Trade Pattern and Firm Heterogeneity

*Lecture Slides

*Chapter 6 (Pages 155-163) 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, 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.

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

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.

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

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

Gould, D. (1994). Immigration Links to the Home Country: Empirical Implications for U.S. Bilateral Trade Flow. *The Review of Economic and Statistics* 76:302-316.

*Girma, S. and Yu, Z. (2002) "The link between immigration and trade: evidence from the United Kingdom," *Weltwirtschaftliches Archiv (Review of World Economy)* v138(1), 2002, pp115-130

Anderson, J.E. and E. van Wincoop (2004), "Trade costs," *Journal of Economic Literature*, vol. 42(3), pages 691-751.

Helpman, E.; M.J. Melitz; S.R. Yeaple (2004), "Export Versus FDI with Heterogeneous Firms," *American Economic Review*, March 2004, Vol. 94 (1), pp. 300--316.

Yeaple, Stephen R. (2005), "A simple model of firm heterogeneity, international trade, and wages," *Journal of International Economics*, Vol. 65, pp. 1-20.

Yu, Zhihao (2002), "Entrepreneurship and Intra-industry Trade," *Weltwirtschaftliches Archiv (Review of World Economy)* v138(2), 2002, p227-290.

Jorgensen, J., P. Schroder and Zhihao Yu (2012), "Globalization Beyond Partitioning: Back to Krugman's World," *Review of World Economics* v148(1), 73-87.

Sui, Sui. and Zhihao Yu, (2012), "The Pattern of Foreign Market Entry of Canadian Exporters," *Canadian Public Policy*, 2012, v38(3), 341-59.

6. Outsourcing

*Lecture Slides

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

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

He, Huanlang and Zhihao Yu (2018), "Product Quality, Incomplete Contract and the Product Cycle," *International Review of Economics and Finance* v53, 160-167.

*Chen, Yongmin, Jota. Ishikawa, and Zhihao Yu (2004) "Trade liberalisation and strategic outsourcing", *Journal of International Economics*, 62(2), 2004, pp419-436

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. Srimivasan, "The muddles over outsourcing," *Journal of Economic Perspectives*, 18(4), Fall 2004, 93-114.

7. Trade and the Environment

A) Trade, Economic Development, and the Environment

* Copeland, Brian and M. Scott Taylor, "North-South Trade and the Environment", , *Quarterly Journal of Economics*, (August, 1994), 755-787.

Grossman G.M, and A. B. Krueger, "Environmental Impacts of a North American Free Trade Agreement," in *The US-Mexico Free Trade Agreement*, P. Garber, ed. Cambridge, MA: MIT Press, 1993.

Grossman G.M, and A. B. Krueger, "Economic Growth and the Environment," *Quarterly Journal of Economics*, (1995): 353-377.

Antweiler, A., Brian Copeland and M. Scott Taylor 2001, "Is Free Trade Good for the Environment," *American Economic Review* 91(4), 877-908.

Copeland, Brian and M. Scott Taylor 2004, "Trade, growth, and the environment," *Journal of Economic Literature* XLII (March 2004), 7-71.

B) Strategic Trade Policy and Strategic Environmental Policy

*Chapter 8 (pages 245-247) in Feenstra, 2nd Edition (Pages 241-244 of Chapter 7 in 1st Edition)

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

*Barrett, Scott 1994, "Strategic environmental policy and international trade", S. Barrett, *Journal of Public Economics*, Vol. 54, 325-38.

Yu, Zhihao (2007). "Strategic trade policy aspect of the Kyoto Protocol: extracting oil rents", *Asian Pacific Journal of Accounting and Economics*, December 2007.

Qiu, L. and Yu, Z. (2009), "Will technology transfer induce the South to join an international environment agreement?" *Review of International Economics*

Zhao, Lex., Zhihao Yu and Y. Onuma (2005) "A Theory of Mutual Migration of Polluting Firms " *Canadian Journal of Economics* 38(2)

8. Trade and Renewable Natural Resources

*Brander, James and Scott Taylor, "International trade and open access renewable resources: the small open economy case ", *Canadian Journal of Economics*, August 1997, 526-552

---, "Open access renewable resources: trade and trade policy in a two-country model.." *Journal of International Economics*, 1998, v44, p181-209.

---, "The simple economics of Easter Island: a Ricardian-Malthus model of renewable resource use," *American Economic Review*, 88(1), 1997, 119-138.

9. Trade Policy under Perfectly Competitive Markets

* Chapters 7, 8, 9 in Feenstra (2004)

*Lecture Slides

*Lecture Slides.

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

10. Political Economy Approach of Trade/Government Policies

*Lecture Slides

*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.

Yu, Zhihao (2000), "A Model of Substitution of Non-tariff Barriers for Tariffs," *Canadian Journal of Economics*, v33, 1069-1090.

*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.

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

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.