CARLETON UNIVERSITY
Department of Economics
ECON 5601 International Trade (Winter 2024)

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Lectures/Seminars: Fridays 8:35am-11:25am

Course Location: In person. Log into Carleton Central to view the location on your timetable.

Instructor's Office Hours: TBA.

OBJECTIVES

We will discuss advanced topics in international trade with emphasis on topics such as determinants of trade and specialization, gains from trade, international outsourcing, heterogenous firms in international trade, and normative and positive analysis of trade policies, etc.

Textbook

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

EVALUATION:

Test 1 (take-home, due on Feb 26) - 30%

Test 2 (in-class, March 22) – 40%

Mini Literature Survey and Presentation (April 5) - 15%

Test 3 (take-home, due on April 10) – 15%

Note: the deduction for overdue take-home Test/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.

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 HERE.

READING LIST

("*" - Starred materials are required readings**)**

Part I Neoclassical Models of International Trade

1. Technology and the Ricardian Model

*Feestra (Ricardian model, in Chapter 1)

*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.

2. Factor Endowment and the Heckscher-Ohlin Model

*Feenstra (Heckscher-Ohlin model, in Chapter 1).

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

Leontief, W.W., "Domestic Production and Foreign Trade: The American Capital Position Re-Examined", Economia Internationale, 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 Heckscher1Ohlin-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.

Davis, Donald R. and David E. Weinstein (2001), "An Account of Global Factor Trade." American Economic Review, v91(5), 1421-53.

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

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 (2023), "Trade-induced reduction in unemployment of a high-wage economy" *The World Economy*, 00: 1-7

3. Specific Factors, and the Ricardo-Viner Model

*Feenstra (Specific-Factors Model, in Chapter 3).

Eaton, J. 1987. "A Dynamic Specific-Factors Model of International Trade," Review of Economic Studies, Oxford University Press, vol. 54(2), pages 325-338.

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.

Part II Imperfect Competition, Monopolistic Competition, and Firms in International Trade

4. Imperfect Competition and International Trade

(i) Market Power, and Models of Strategic Interaction in International Trade

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

Brander, J.A. 1981, "Intra-industry Trade in Identical Commodities", Journal of International Economics, 11, 1-14.

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

Zhao, L., Z. Yu and Y. Omura (2005), "A Theory of Mutual Migration of Polluting Firms", Canadian Journal of Economics, v38, p900-918.

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

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

*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.

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

Weder, Rolf. 1995. "Linking Absolute and Comparative Advantage to Intra-Industry Trade Theory" *Review of International Economics*, 3, 3, 342-354.

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.

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

5. Models of Heterogenous Firms and (Firm-level Empirical Studies)

*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.

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

Bernard Andrew and J. Bradford Jensen (2004), "Why Some Firms Export," The Review of Economics and Statistics, Vol. 86, No. 2 (May, 2004), pp. 561-569

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

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.

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.

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

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

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

6. (International) Outsourcing

*Lecture Slides

6a. Fragmentation, Trade in Intermediate Input, and Global Value/Supply Chains

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)

Amiti, M., Konings, J., 2007. Trade liberalization, intermediate inputs, and productivity: evidence from Indonesia. Am. Econ. Rev. 97 (5), 1611–1638.

*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.

6b. Firm Organization in International Trade

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.

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

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

Sui. S., M. Baum and Z. Yu, (2012) "International New Ventures: Prevalence and Longitudinal Trends," *International Marketing Review,* 2012, v29(5), 519-535.

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.

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.

Part III Trade Polices

7. Normative Analysis of Trade Policy

*Lecture Slides.
*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.

Maggi G. (1996), Strategic Trade Policies with Endogenous Mode of Competition, American Economic Review, 86, p 237-258

Yu, Zhihao (2007), "Strategic Trade Policy Aspects of the Kyoto Protocol: Extracting Oil Rents", *Asian Pacific Journal of Accounting and Economics, v14, 219-234.*

8. **Political Economy Approach of Trade (and other 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*.

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.

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