



International Trade Spring Term 2007

Overview: The course provides an introduction to the basic theories and determinants of international trade and a welfare analysis of trade policies. We look at both trade theory and its empirical validity. My overall objective is to get you to the frontier of research in international trade, allowing you to come up and deal with a thesis topic. In the course we make use of general equilibrium theory and simple game theory. A very good understanding of microeconomic theory, as taught in the first year micro sequence, is crucial for mastering this class.

Professor: Eckhard Janeba
L7, 3-5, Zi. 229
janeba@uni-mannheim.de

Room and time: Wednesdays 9:00-11:45, P043

Office hours: Tuesdays 9-10:30

Reading: A folder with copies of all articles is made available in VWL Bereichsbibliothek at the beginning of the semester.

Exams, Problem Sets, etc.

There is a final exam at the end of the semester.

Problem sets will be assigned regularly. You are allowed to work in groups of 2-3 students, but you must submit your own solution.

You are asked to write (and possibly present) a term paper dealing with a current research topic in international trade (details to be announced during the semester). Your paper should address the following questions: i) Why is this area of research of interest? ii) What are the key innovations (e.g., new theory, better data, econometrics)? iii) What are remaining problems in existing papers? iv) What things should be done in future work? I will make suggestions for various topics. You are free to choose a different one, but you need my approval beforehand.

Your final grade will be calculated as follows: Final exam (60%), Problem Sets (15%), Term Paper (25%).

Reading

Materials for this course come from various textbooks, handbooks, monographs, and articles. Many books are fairly old. One new textbook by

Robert Feenstra, Advanced International Trade: Theory and Evidence, Princeton University Press, 2004

has recently been published and is the top source in the area.

Copies of the articles or chapters which are indexed by * are deposited in the VWL Bereichsbibliothek if they cannot be downloaded from www.jstor.org. These articles are required reading. Note that some articles and book chapters overlap in content.

The other articles on the reading list are important supplement reading and provide material for those who have more interest in the area. There are advanced undergraduate textbooks, for example by Ethier or Caves/Frankel/Jones, that you might find helpful, in particular to learn about institutional aspects of international trade.

Books on International Trade (Classics and those you should know about)

- Kar-yiu Wong, *International Trade in Goods and Factor Mobility*, MIT Press, 1995.
- Dixit and V. Norman, *Theory of International Trade*, Cambridge University Press, 1980.
- Woodland, *International Trade and Resource Allocation*, North Holland, 1982.
- J.N. Bhagwati and T.N. Srinivasan, *Lectures on International Trade*, M.I.T. Press, 1983.
- J.N. Bhagwati (ed.), *International Trade: Selected Readings*, M.I.T. Press, 1981.
- R.W. Jones and P. Kenen (ed.), *Handbook of International Economics*, Vol. 1, North Holland, 1984.
- E. Helpman and P. Krugman, *Market Structure and Foreign Trade*, Harvester Press, 1985.
- E. Helpman and P. Krugman, *Trade Policy and Market Structure*, M.I.T. Press, 1989.
- E. Helpman and A. Razin, *A Theory of International Trade under Uncertainty*, Academic Press, 1978.
- H. Kierzkowski (ed.), *Monopolistic Competition and International Trade*, Oxford University Press, 1984.

Abbreviations: American Economic Review (AER), Journal of International Economics (JIE), Quarterly Journal of Economics (QJE), Journal of Political Economy (JPE)

Articles and Topics

I. Classic Theory of International Trade

1. Ricardian Model

* Feenstra (2004), chapter 1

Helpman/Razin (1978): ch. 2

* R. Dornbusch and S. Fisher, and P.A. Samuelson (1977): *Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods*, *AER* 67, 823-839.

K. Matsuyama (2000): *A Ricardian Model with a Continuum of Goods under Nonhomothetic Preferences: Demand Complementarities, Income Distribution, and North-South Trade*, *JPE* 108, 1093–1120.

2. Heckscher-Ohlin Model

*Feenstra (2004), chs. 1+2

Wong (1995): ch.2; Helpman/Razin (1978): ch.2

* R.W. Jones (1965): The Structure of Simple General Equilibrium Models, JPE, Reprinted in Bhagwati, *Readings*.

M. Mussa (1979): The Two-Sector Model in terms of its Dual: A Geometric Approach, JIE, reprinted in Bhagwati, *Readings* .

W. Stolper and P. Samuelson (1941): Protection and real wages, *Review of Economic Studies* 9, 58-73.

3. Ricardo-Viner-Model or Specific-Factors Model

* A. Dixit and V.Norman (1980): 38-43, 102-106.

Bhagwati and Srinivasan (1983): ch.8.

P. Neary (1978): Short Run Capital Specificity and the Pure Theory of International Trade, *Economic Journal* 88, 488-510.

4. Generalizations

* Feenstra (2004), ch. 3

Wong (1995): ch.3.; Dixit and Norman (1980): ch. 4.; Bhagwati and Srinivasan (1983): ch. 7.

W. J. Ethier (1984): *Handbook of International Economics*, ch. 3.

* A.V. Deardorff (1979): Weak Links in the Chain of Comparative Advantage, JIE, Reprinted in Bhagwati, *Readings*.

* A.V. Deardorff (1980): The general validity of the law of comparative advantage, *JPE* 88, 941-957.

J. Vanek (1968): The factor proportions theory: The N-factor case, *Kyklos* 21, 749-756.

5. Testing Trade Theories

* Feenstra (2004), ch. 2+3

A.V. Deardorff (1984): Testing Trade Theories and Predicting Trade Flows, in: *Handbook of International Economics*, ch. 10.

* E.E. Leamer (1980): The Leontief paradox, reconsidered, *Journal of Political Economy* 88, 495-503.

* H.P. Bowen, E.E. Leamer, and L. Sveikauskas (1987): Multicountry, multifactor tests of the factor abundance theory, *American Economic Review* 77, 791-809.

* D. Trefler (1993): International factor price differences: Leontief was right!, *JPE* 101, 961-987.

R.A. Brecher E.U. Choudhri (1993): Some empirical support for the Heckscher-Ohlin model of production, *Canadian Journal of Economics* 26, 272-285.

D. Trefler (1995): The case of the missing trade and other mysteries, *AER* 85, 1029-1046.

6. Gains from Trade

* Feenstra, ch. 6

* Spector, D., 2001. Is it possible to redistribute the gains from trade using income taxation? *JIE* 55, 441-460.

* Guesnerie, R., 2001. Second Best Redistributive Policies: The Case of International Trade. *Journal of Public Economic Theory* 3, 15-25.

Naito, H., 1996. Tariffs and Production Subsidies as Devices to Relax the Incentive Problem of a Progressive Income Tax System. University of Michigan, RSIE Working Paper 391.

Wong (1995): ch.8.; Dixit/Norman (1980): ch. 3.

P.A. Samuelson (1962): The Gains from International Trade Once Again, *Economic Journal*, Reprinted in Bhagwati, *Readings*.

M.C. Kemp and Henry Y. Wan (1986): Gains from trade with and without lump-sum compensation, *Journal of International Economics* 21, 99-110.

A. Dixit and V. Norman (1986): Gains from trade without lump-sum compensation, *JIE* 21, 111-122.

D.G. Newbery and J.E. Stiglitz (1984): Pareto inferior trade, *Review of Economic Studies* 51, 1-12.

II. Intra-Industry Trade, Trade in Intermediate Goods, Scale Economies, and Imperfect Competition

1. External Economies of Scale

* E. Helpman and P. Krugman (1985): ch. 3

Wong (1995): ch. 5.

E. Helpman (1984): *Handbook of International Economics*, ch. 7.

J. Markusen and J.R. Melvin (1981): Trade, Factor Prices and Gains from Trade with Increasing Returns to Scale, *Canadian Journal of Economics* 14, 450-469.

W.J. Ethier (1982): Decreasing Costs in International Trade and Frank Graham's Argument for Protection, *Econometrica* 50, 1243-1268.

W.J. Ethier (1982): National and international returns to scale in the modern theory of international trade, *American Economic Review* 72, 389-405.

2. Trade in Intermediate Inputs/Outsourcing

* Feenstra, (2003), ch. 4

R.C. Feenstra and G.H. Hanson (1996): Globalization, outsourcing, and wage inequality, *AER* 86, 240-245.

Antras, P. and E. Helpman (2006): Contractual Frictions and Global Sourcing, NBER 12747.

3. Differentiated Products and Gravity Equation

* Feenstra (2004), ch. 5

Helpman/Krugman (1985): ch. 6.; Wong (1995): ch. 6.

* P. Krugman (1979): Increasing Returns, Monopolistic Competition, and International Trade, *JIE*, Reprinted in Bhagwati, Readings.

P.R. Krugman (1981): Intraindustry specialization and the gains from trade, *JPE* 89, 959-973.

* D. Hummels and J. Levinsohn (1995): Monopolistic Competition and international trade: Reconsidering the evidence, *Quarterly Journal of Economics*, 799-836.

* Melitz, M.J. (2003): The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity, *Econometrica* 71, 1695-1725.

* Baldwin, R. (2005): Heterogeneous firms and trade: testable and untestable properties of the Melitz model, NBER Working Paper 11471.

S.J. Evenett and W. Keller (2002): On Theories Explaining the Success of the Gravity Equation, *JPE* 110, 281-316.

E. Helpman (1981): International trade in the presence of product differentiation, economies of scale and monopolistic competition, *Journal of International Economics* 11, 305-340.

A. Dixit and J.E. Stiglitz (1977): Monopolistic Competition and Optimum Product Variety, *AER*, 297-308.

K. Lancaster (1979): Intra-Industry Trade under Perfect Monopolistic Competition, *JIE*, 151-175.

4. Oligopoly

Wong (1995): ch. 7.

J.A. Brander (1981): Intra-industry trade in identical commodities, *JIE 11*, 1-14.

* Brander and Krugman (1983): A Reciprocal Dumping' Model of International Trade, *JIE 15*, 313-321.

Markusen (1981): Trade and the Gains from Trade with Imperfect Competition, *JIE 11*, 531-551.

* D.M. Bernhofen (1998): Intra-Industry Trade and Strategic Interaction: Theory and Evidence, *JIE 45*, 77-96.

III. Trade Policy

1. Tariffs

* Feenstra (2004), ch. 7

Wong (1995): ch. 10.; Dixit/Norman (1980): 149-163.

S.L. Baier and J. Bergstrand (2001): The Growth of World Trade: Tariffs, Transport Costs, and Income Similarity, *JIE 53*, 1-27.

H.G. Johnson (1953/4): Optimum tariffs and retaliation, *Review of Economic Studies 21*, 142-153.

R. E. Baldwin (1969): The case against infant-industry tariff protection, *Journal of Political Economy 77*, 295-305.

Dixit (1985): Tax policy in open economies, *Handbook of Public Economics*, ch. 6.

J. Eaton and G. Grossman (1985): Tariffs as Insurance: Optimal Commercial Policy when Domestic Markets are Incomplete, *Canadian Journal of Econ.*, May, 258-272.

* R. Staiger and G. Tabellini (1987): Discretionary Trade Policy and Excessive Protection, *AER 77*, December, 823-837.

J. Harrigan (1993): OECD imports and trade barriers in 1983, *Journal of International Economics 35*, 91-111.

G.M. Grossman and H. Horn (1988): Infant-industry protection reconsidered: The case of informational barriers to entry, *Quarterly Journal of Economics 103*, 767-787.

A. Dixit (1987): Trade and Insurance with moral hazard, *JIE 23*, 201-220.

A. Dixit (1989): Trade and insurance with adverse selection, *Review of Economic Studies* 56, 235-248.

2. Quotas

* Feenstra (2004), ch. 8

Bhagwati and Srinivasan (1983): Ch. 10.

* Helpman and Krugman (1989): ch. 3.

K. Krishna (1989): Trade Restrictions as Facilitating Practices, *JIE* 26, 251-270.

C. Rodriguez (1974): The non-equivalence of tariffs and quotas under retaliation, *JIE*, 295-298; Reprinted in Bhagwati, *Readings*.

J.R. Melvin (1986): The Non-Equivalence of Tariffs and Quotas, *AER* 76, 1131-1134.

J.A. Levinsohn (1989): Strategic trade policy when firms can invest abroad: when are tariffs and quotas equivalent?, *Journal of International Economics* 27, 129-146

3. Strategic Trade Policy

* Feenstra (2004), ch. 8

Wong (1995): ch. 12.; Helpman/Krugman (1989): ch. 5

* J.A. Brander and B. Spencer (1985): Export Subsidies and International Market Share Rivalry, *JIE*, 83-100.

J. Eaton and G. Grossman (1986): Optimal Trade and Industrial Policy under Oligopoly, *QJE* 101, 383-406.

A.J. Venables (1985): Trade and trade policy with imperfect competition: The case of identical products and free entry, *Journal of International Economics* 19, 1-19.

I.J. Horstmann and J.R. Markusen (1986): Up the average cost curve: Inefficient entry and the new protectionism, *Journal of International Economics* 20, 225-247.

E. Janeba (1998): Tax competition in imperfectly competitive markets, *JIE* 44, 135-153.

A. Dixit (1984): International Trade Policy for oligopolistic Industries, *Economic Journal* 94, supplement, 1-16.

A.R. Dick (1993): Strategic trade policy and welfare. The empirical consequences of cross-ownership, *Journal of International Economics* 35, 227-249.

J.I. Bulow, J.D. Geanakoplos, P.D. Klemperer (1985): Multimarket oligopoly: Strategic Substitutes and Complements, *Journal of Political Economy* 93, 488-511.

4. Political Economy

* Feenstra, ch. 9

* Grossman and Helpman (2002), *Interest Groups and Trade Policy*, Princeton Univ. Press, ch. 6.

M.J. Hiscox (2002), *International Trade and Political Conflict*, Princeton University Press.

D. Rodrik (1995), *Political Economy of Trade Policy*, *Handbook of International Econ.*, Vol. III.

* Grossman, G. M. and E. Helpman, 1994. Protection for Sale. *AER* 84, 833-850.

Grossman, G. M. and E. Helpman, 1995. Trade Wars and Trade Talks. *JPE* 103, 675-708.

R. Findlay and S. Wellisz (1982): Endogenous Tariffs, the Political Economy of Trade Restrictions, and Welfare, in J. Bhagwati (ed.), *Import Competition and Response*, University of Chicago Press.

A.L. Hillman (1982): Declining industries and political-support protectionist motives, *AER* 72, 1180-1187.

A.L. Hillman and H. Ursprung (1988): Declining industries, foreign interests, and international trade policy, *AER* 78, 729-745.

W. Mayer (1984): Endogenous Tariff Formation, *AER* 74, 970-985.

5. Regionalism and Multilateralism

Ethier, W.J., 1998. Regionalism in a Multilateral World. *JPE* 106, 1214-1245.

* Levy, P., 1997. A Political-Economic Analysis of Free-Trade Agreements. *AER* 87, 506-519.

* Maggi, G. and A. Rodriguez-Clare, 1998. The Value of Trade Agreements in the Presence of Political Pressures. *Journal of Political Economy* 106, 574-601.

* McLaren, J., 1997. Size, Sunk Costs, and Judge Bowker's Objection to Free Trade. *AER* 87, 400-420.

Perroni, C. and J. Whalley, 1996. How Severe is Global Retaliation Risk under Increasing Regionalism? *AER* 86, 57-61.

G. Maggi (1999): The Role of Multilateral Institutions in International Trade Cooperation, *AER* 89, 190-214.

K. Bagwell and R.W. Staiger (1999): An Economic Theory of GATT, *AER* 89, 215-248.

K. Bagwell and R.W. Staiger (forthcoming): *The Economics of the World Trading System*, MIT Press.

* Grossman and Helpman (1995): The politics of free trade agreements, *AER* 85, 667-690.

Frenkel, J.A., Stein, E. and S. Wei, 1996. Regional Trading Agreements: Natural or Supernatural?. *American Economic Review*, Paper and Proceedings, 86, 52-56.

IV. Special topics

1. Trade and Wage Inequality

D. Rodrik (1997): *Has Globalization gone too far?*, Institute for International Economics, Washington D.C.(for presentation: chapt. 4, incl. Appendix)

Various articles in *Journal of Economic Perspectives* 9, 1995.

2. Trade and the Environment

B. Copeland and M.S. Taylor (2003): *Trade and the Environment: Theory and Evidence*, Princeton University Press.

3. Multinational Firms

Feenstra (2004), ch. 10

J. Markusen (2002): *Multinational Firms and the Theory of International Trade*, MIT Press.

4. Agglomeration

P. Krugman and A. Venables (1995): Globalization and the Inequality of Nations, *QJE* 110, 857-880.

P. Krugman (1991): Increasing returns and economic geography, *JPE* 99, 483-499.

Baldwin et al. (2003): *Economic Geography and Public Policy*, Princeton University Press.

5. Trade, Distance and Transportation Costs

J.E. Anderson and Eric van Wincoop (2004): Trade Costs, *JEL* 42, 3, 691-751.

J. Harrigan and with Carolyn Evans (200?): Distance, Time, and Specialization, mimeo.

D. Hummels and Alexandre Skiba (2003): Shipping the Good Apples Out? An Empirical Confirmation of the Alchian Allen Conjecture, NBER Working Paper #9023.

D. Hummels (2001): Time as a Trade Barrier, mimeo, Purdue University.

D. Hummels (2001): Toward A Geography of Trade Costs, mimeo, Purdue University