

## **International Trade: Theory and Policy**

Winter term 2010/2011

### **Course description and objectives**

This course gives an overview of world trade patterns and trade policies. It provides an introduction to the basic theories of international trade which aim at explaining the determinants of international trade and at analyzing the welfare consequences of trade liberalization. It covers both perfectly competitive and imperfectly competitive models of international trade, and supplements the theory with empirical evidence and applications to current policy issues. The course also discusses the effects of different trade policies and assesses the role of international institutions in shaping international trade relations. The concepts introduced in the lecture are reviewed and deepened in problem sets which are discussed in a biweekly tutorial.

At the end of the course, students will be able to describe the key features of international trade relations. They will be familiar with the basic models of international trade and their empirical validity. Students will be able to address current policy questions related to international trade with rigorous, theoretically grounded arguments. They will be able to assess and discuss the impact of different trade policies, and they can evaluate the role of institutions which regulate international trade relations.

### **Participants**

The course mainly addresses Bachelor students in Economics. It is however also open to Diploma students in Economics, who can get credit for the compulsory subject "Economic Theory" (Pflichtfach Volkswirtschaftstheorie) or for the elective "International Economics" (Wahlfach Internationale Wirtschaftsbeziehungen), to Diploma students in Business Administration, and to Magister students with a specialization in Economics. As we will cover somewhat different topics, students can get credit for this course even if they have already attended the courses "Handel und Wahrung" or "Auenwirtschaftstheorie" offered by Prof. Sauernheimer.

### **Prerequisites**

Students should have attended classes in intermediate microeconomics. A working knowledge of English is necessary to attend the course.

### **Time and room**

Lecture: Weekly on Thursdays, 12:15-13:45, RW 2 (starting on October 28, 2010)  
Tutorial: Biweekly on Fridays, 12:15-13:45, N 3 (starting on November 5, 2010)

## Contact

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## Course outline and required readings

### Part I: Introduction

Stylized facts about international trade (FT, chapter 1, pp. 1-14)

### Part II: Trade theory

1. Reasons for trade (FT, ch. 2.1, pp. 27-32)
2. Classic trade theories and their empirical validity
  - a. Ricardian model (KO, ch. 3, pp. 27-51)
  - b. Specific-factors model (FT, ch. 3, pp. 61-94)
  - c. Heckscher-Ohlin model (FT, ch. 4, pp. 95-137)
3. International factor movements (FT, ch. 5, pp. 141-184)
4. New explanations for international trade
  - a. Monopolistic competition and increasing returns to scale  
(K, pp. 469-479; FT, ch. 6.3, pp. 199-215)
  - b. Imperfect competition with homogeneous products (FT, ch. 6.4, pp. 215-226)
  - c. Offshoring and outsourcing (B, pp. 113-128)

### Part III: Trade policy

1. Institutional environment
2. Trade policy under perfect competitions (FT, ch. 8, pp. 271-312)
3. Trade policy under imperfect competition (FT, ch. 9, pp. 313-354)
4. International trade agreements (FT, ch. 11 pp. 391-432)
5. Political economy of protection (KO, ch. 9 pp. 212-249)

All course material is made available through ILIAS (<https://www.e-learning.uni-mainz.de/ilias3/login.php>). To log in, use your University of Mainz username and password. To register for the course and access the course material you will need an additional password which will be given in the lecture.

### References

The main reference for the course is:

Feenstra, Robert C. and Taylor, Alan M. *International economics*. New York, NY: Worth Publishers, 2008. (FT)

Further references include:

Blinder, Alan S. "Offshoring: The Next Industrial Revolution?" *Foreign Affairs*, 2006, vol. 85(2), pp. 113-128. (B)

Krugman, Paul. "Increasing Returns, Monopolistic Competition, and International Trade." *Journal of International Economics*, 1979, vol. 9, pp. 469-479. (K)

Krugman, Paul R. and Obstfeld, Maurice. *International economics: theory and policy*, 8th edition. Addison-Wesley, 2009. (KO)

Caves, Richard E.; Frankel, Jeffrey A. and Jones, Ronald W. *World trade and payments: an introduction*, 10th edition. Addison Wesley, 2007.

Markusen, James R.; Melvin, James R.; Kaempfer, William and Maskus, Keith. *International Trade: Theory and Evidence*, McGraw-Hill, 1995. Available at <http://spot.colorado.edu/~markusen/textbook.html>