

Master in International Economics and Public Policy

International Economics I: International Trade (Winter semester 2020/2021)

Contents/Organization/Program/References

(This version: October 15, 2020)

Contents

In this course, students learn to competently deal with the theory of international trade, to critically assess both classical and more recent approaches, to confront theoretical hypotheses with the empirical evidence, and to apply their insights and findings in discussions about economic policy issues. The course covers central methods and concepts in the field of international trade, such as the determinants of trade patterns, the effects of trade on welfare and the income distribution, as well as the role of imperfect competition and firms in international trade.

Organization

Times and Places:

Lecture: Thursday, 2.15 pm to 3.45 pm, Room RW1 (Prof. Dr. Philipp Harms)

Tutorial: Thursday, 12.15 pm to 1.45 pm, Room RW 1 (Dr. Miriam Kohl)

The course starts on November 5, 2020. Note that there will be a concentration of lectures at the start of the semester, and that some of the tutorial slots will be used for lectures. Please consider the **preliminary schedule** which can be found at the end of this document.

Lecture Materials:

All presentations used in the course and the tutorial as well as administrative information (e.g. the schedule) will be made available via ILIAS (<http://ilias.uni-mainz.de>). The respective **password** will be sent out to those students **who have registered for the course in JOGUSTiNe**. Please make sure you check your **students email address at JGU Mainz**.

Recordings:

Lectures and tutorials will be **recorded**, and the resulting **videos** will be made available to students, albeit with some delay (expect two to three days) on the **JGU Panopto platform**. The respective **link** will be communicated to students via **ILIAS**. Videos will be available until the end of the winter semester 2020/21 (March 31, 2021).

Rules:

Due to the Corona epidemic, **classroom teaching at JGU Mainz** has to follow strict rules during the winter semester 2020/21. We managed to book a room (RW1) that is large enough to guarantee that students attending the International Trade lecture and tutorial will be able to stay sufficiently distant from each other. However, both faculty and students will have to follow **strict rules**. We will communicate these rules in due course.

In case of an infection among course participants, or if official regulations require it, we will have to **move online**. In this case, lectures and tutorials will be made available as **videos** via the **JGU Panopto platform**. The respective **link** will be communicated to students via **ILIAS**.

Information on all matters concerning the course will be distributed to your **students email address** at JGU Mainz via **ILIAS**, so make sure you regularly **check your students email address**.

Audience:

The course is part of the **core module International Economics I**, which is mandatory for students attending the **M. Sc. in International Economics and Public Policy**. It is also open to foreign students (e.g. in the context of the Erasmus program). Note, however, that the course has to be attended in combination with the lecture **Development and Growth**.

Contact:

Prof. Dr. Philipp Harms / Dr. Miriam Kohl, LsHarms@uni-mainz.de

Program:

(Preliminary. This version: October 15, 2020)

1. Introduction

Literature: Hanson (2012); Helpman (2011), chapter 1.

2. Some Basic Analytical Concepts

2.1. Motivation

2.2. The Production Function

2.3. Cost Minimization, Profit Maximization, and Supply

2.4. Utility Maximization and Demand

2.5. Equilibrium

2.6. Outlook

Literature: Varian (1992), chapters 1-9, 13, 17, 26, 27.

3. Technology and Trade: The Ricardian Model

3.1. Motivation

3.2. The Ricardian Model with Two Goods

3.3. A Ricardian Model with Multiple Goods

3.4. Diagnosing Comparative Advantage

3.5. Summary and Outlook

Literature: Feenstra (2016 or 2004), chapter 1; Dornbusch et al. (1977), Eaton and Kortum (2012); Helpman (2011), chapter 2, OECD (2013).

4. Factor Endowments and Trade: The Heckscher-Ohlin-Samuelson Model

4.1. Motivation

4.2. The 2x2x2 HOS Model

4.3. Empirical Evidence: The Factor Content of Trade

4.4. Extending the HOS Model

4.5. Labor Market Effects of Trade: Empirical Evidence

4.6. Summary and Outlook

Literature: Feenstra (2016 or 2004), chapters 1 – 3; Helpman (2011), chapters 2 and 3; Syme (2013), Autor et al. (2016).

5. Imperfect Competition and International Trade

5.1. Motivation

5.2. Demand and Supply under Monopolistic Competition

5.3. Determinants and Effects of International Trade

5.4. Motivating and Estimating the Gravity Equation

5.5. Heterogeneous Firms in International Trade

Summary and Outlook

Literature: Feenstra (2016 or 2004), chapter 5; Helpman (2011), chapters 4 and 5; Melitz and Trefler (2012).

References

For technical aspects of this course, the best reference is the graduate textbook by Robert Feenstra:

Feenstra, R. (2016): *Advanced International Trade, 2nd edition*, Princeton University Press.

Note that you may also use the first edition of that book (Feenstra 2004).

In addition, students are referred to the following excellent undergraduate textbooks:

Feenstra, R. and M. Taylor (2011): *International Economics, 2nd edition*, Worth Publishers.

Krugman, P. , M. Obstfeld and M. Melitz (2017): *International Economics – Theory and Policy 11th edition*. Boston (Addison Wesley). **Note:** For most topics, previous editions of the textbook (authored by Krugman and Obstfeld) are also fine.

A non-technical approach to the theory and empirics of international trade (and an up-to-date literature survey) is provided by

Helpman, E. (2011): *Understanding Global Trade*, Cambridge MA and London (The Belknap Press of Harvard University Press).

A somewhat dated, but still excellent introduction to advanced microeconomics is

Varian, H.R. (1992): *Microeconomic Analysis*, 3rd edition, Norton.

In addition to textbooks, I will (to a greater or lesser extent) refer to the following **papers** or **books**:

Arkolakis, C., A. Costinot and A. Rodriguez-Clare (2012): “New Trade Models, Same Old Gains?” *American Economic Review* 102, 94-130.

Autor, D., D. Dorn and G. Hanson (2013): “The China Syndrome: Local Labor Market Effects of Import Competition in the United States”, *American Economic Review* 103, 2121–2168.

Autor, D., D. Dorn and G. Hanson (2016): “The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade”, *Annual Review of Economics* 8, 205–40.

Bernard, A. B., J. Eaton, J..B. Jensen, and S. Kortum. (2003): “Plants and Productivity in International Trade”, *American Economic Review* 93, 1268-1290.

Bowen, H.P. E.E. Leamer, and L.Sveikauskas (1987): “Multicountry, Multifactor Tests of the Factor Abundance Theory”, *American Economic Review* 77, 791-809.

Chamberlin, Edward (1936): *The Theory of Monopolistic Competition: A Re-Orientation of the Theory of Value*, Cambridge (Harvard University Press).

Costinot, A. and A. Rodriguez-Clare (2014): “Trade Theory with Numbers: Quantifying the Consequences of Globalization” in G. Gopinath, E. Helpman, and K. Rogoff, (eds.): *Handbook of International Economics Volume 4*, 197-261.

Dixit, A.K. and J.E. Stiglitz (1977): “Monopolistic Competition and Optimum Product Diversity”, *American Economic Review* 67, 297-308.

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

Davis, D.R. and D.E. Weinstein (2001): “An Account of Global Factor Trade”, *American Economic Review* 91, 1423-1453.

Debaere, P. (2005): “Monopolistic Competition and Trade, Revisited: Testing the Model without Testing for Gravity”, *Journal of International Economics* 66, 249-266.

- Eaton, J. and S. Kortum (2012): "Putting Ricardo to Work", *Journal of Economic Perspectives* 26, 65-90.
- Hanson, G.H. (2012): "The Rise of Middle Kingdoms: Emerging Economies in Global Trade", *Journal of Economic Perspectives* 26, 41-64.
- Haugh, D., A. Kopoin, E. Rusticelli, D. Turner and R. Dutu (2016): "Cardiac Arrest or Dizzy Spell: Why is World Trade So Weak and What can Policy Do About It?" *OECD Economic Policy Papers* 18.
- Krugman, P.R. (1979): "Increasing Returns, Monopolistic Competition, and International Trade", *Journal of International Economics* 9, 469-479.
- Krugman, P.R. (1980): "Scale Economies, Product Differentiation, and the Pattern of Trade", *American Economic Review* 70, 950 - 959.
- Leamer, E.E. (1980): "The Leontieff Paradox, Reconsidered", *Journal of Political Economy* 88, 495-503.
- Leamer, E.E. (1984): *Sources of International Comparative Advantage: Theory and Evidence*, Cambridge MA (MIT Press).
- Leontief, W.W. (1953): "Domestic Production and Foreign Trade: The American Capital Position Re-examined", *Proceedings of the American Philosophical Society* 97, 332-349.
- Levchenko, A.A. (2007): "Institutional Quality and International Trade", *Review of Economic Studies* 74, 791-819.
- Melitz, M. J. (2003): "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity", *Econometrica* 71, 1695–1725.
- Melitz, M.J. and D. Trefler (2012): "Gains from Trade when Firms Matter", *Journal of Economic Perspectives* 26, 91-118.
- Morrow, P.M. (2010): "Ricardian-Heckscher-Ohlin Comparative Advantage: Theory and Evidence", *Journal of International Economics* 82, 137-151.
- OECD (2013): *Interconnected Economies – Benefitting from Global Value Chains*, Paris (OECD), available at http://www.oecd-ilibrary.org/trade/interconnected-economies/revealed-comparative-advantage-rca-in-gross-and-value-added-terms-2009_9789264189560-graph15-en
- Romalis, J. (2004): "Factor Proportions and the Structure of Commodity Trade", *American Economic Review* 94, 67-97.
- Syme, Lorna (2013): "The Political Economy of Protection: (How) do Distributional Interests Affect Trade Policy?", term paper written for the MIEPP research module "International Economic Policy" (winter semester 2012/13)

Schedule

(Preliminary, possibly subject to changes. This version: October 15, 2020)

1	Thu, 05. Nov. 2020	12:15	13:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
2	Thu, 05. Nov. 2020	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
3	Thu, 12. Nov. 2020	12:15	13:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
4	Thu, 12. Nov. 2020	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
Ü1	Thu, 19. Nov. 2020	12:15	13:45	00 125 RW 1	Dr. Miriam Kohl	Tutorial
5	Thu, 19. Nov. 2020	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
Ü2	Thu, 26. Nov. 2020	12:15	13:45	00 125 RW 1	Dr. Miriam Kohl	Tutorial
6	Thu, 26. Nov. 2020	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
Ü3	Thu, 03. Dec. 2020	12:15	13:45	00 125 RW 1	Dr. Miriam Kohl	Tutorial
7	Thu, 03. Dec. 2020	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
Ü4	Thu, 10. Dec. 2020	12:15	13:45	00 125 RW 1	Dr. Miriam Kohl	Tutorial
8	Thu, 10. Dec. 2020	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
Ü5	Thu, 17. Dec. 2020	12:15	13:45	00 125 RW 1	Dr. Miriam Kohl	Tutorial
9	Thu, 17. Dec. 2020	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
Ü6	Thu, 07. Jan. 2021	12:15	13:45	00 125 RW 1	Dr. Miriam Kohl	Tutorial
10	Thu, 07. Jan. 2021	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
Ü7	Thu, 14. Jan. 2021	12:15	13:45	00 125 RW 1	Dr. Miriam Kohl	Tutorial
11	Thu, 14. Jan. 2021	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
Ü8	Thu, 21. Jan. 2021	12:15	13:45	00 125 RW 1	Dr. Miriam Kohl	Tutorial
12	Thu, 21. Jan. 2021	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
Ü9	Thu, 28. Jan. 2021	12:15	13:45	00 125 RW 1	Dr. Miriam Kohl	Tutorial
13	Thu, 28. Jan. 2021	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
Ü10	Thu, 04. Feb. 2021	12:15	13:45	00 125 RW 1	Dr. Miriam Kohl	Tutorial
14	Thu, 04. Feb. 2021	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture
Ü11	Thu, 11. Feb. 2021	12:15	13:45	00 125 RW 1	Dr. Miriam Kohl	Tutorial
15	Thu, 11. Feb. 2021	14:15	15:45	00 125 RW 1	Univ.-Prof. Dr. Philipp Harms	Lecture