

## Master in International Economics and Public Policy

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

#### Contents/Organization/Program/References/Recommended Schedule

(This version: **October 30, 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

Due to the current **Corona pandemic**, face-to-face interaction at JGU Mainz will be reduced to an absolute minimum during the winter semester 2020/21. **As a consequence, the International Trade-course will take place in online mode** until restrictions on classroom teaching are lifted.

We will be using the following material and use the following channels to communicate:

- A set of **lecture presentations** (in pdf format), which can be downloaded from **ILIAS** (International Trade (MIEPP), WiSe 20/21): <http://ilias.uni-mainz.de>. (During the course, I will write comments into these presentations and upload the annotated versions later on.) The **password to the lecture** is "IntTrade2021" and 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**.

- **Videos**, which I will use to walk you through my presentations. You will be able to see the presentations, listen to my comments, and watch me write notes into those presentations. You can find the link through which you can access those videos in **ILIAS**.
- While the complete set of **lecture presentations** will be available at the start of the semester, the **videos** will be uploaded *gradually*.
- We recommend that you reserve the slots originally booked for the course (**Thursday, 12.15 – 1.45 pm / 2.15 – 3.45 pm**) to “attend” lectures and tutorials, and to follow the **recommended schedule**, which you can find at the end of this document.
- All **changes and news** will be disseminated via ILIAS. Make sure you regularly check your **students email-address at JGU Mainz**.
- While watching the **videos**, make use of the possibility to comment on them and to **ask questions**. You have to click on the „**Diskussion**“ button and to register into the system, using your JGU username and password (Sorry about the whole thing being in German!). Once you have inserted a comment, don't forget to press the „Enter/Return“ key. Of course, you can also send us your questions and comments via email ([LsHarms@uni-mainz.de](mailto:LsHarms@uni-mainz.de)).
- We will collect these questions and answer them in the context of **Q&A meetings** using **MS Teams**. This will allow us to see each other at least occasionally (albeit virtually). The **prospective dates** of these Q&A meetings are given in the recommended schedule (see the last page of this document). We are planning to send out **invitations** some days before the respective date.
- For the **tutorials**, a similar mix of presentations and videos will be used. See Miriam Kohl's introductory statements for detailed instructions.

**This is what you have to do if you are planning to attend the course:**

- Register for the course in **JOGUSTiNe**.
- Make sure you regularly check your **JGU students email address** to which relevant information will be sent.
- Use the information given above and the **course password** sent to you via JOGUSTiNe to register for the course in **ILIAS**.

**This is a difficult situation. But let's make the best of it!**

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:

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## **Program:**

(Preliminary. This version: October 28, 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, 2<sup>nd</sup> 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, 2<sup>nd</sup> edition*, Worth Publishers.

**Krugman, P. , M. Obstfeld and M. Melitz (2017):** *International Economics – Theory and Policy 11<sup>th</sup> 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*, 3<sup>rd</sup> 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).

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.

Obstfeld, M. and K. Rogoff (1996): *Foundations of International Macroeconomics*, Cambridge MA (MIT Press).

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](http://www.oecd-ilibrary.org/trade/interconnected-economies/revealed-comparative-advantage-rca-in-gross-and-value-added-terms-2009_9789264189560-graph15-en)

Ossa, R. (2015): "Why trade matters after all", *Journal of International Economics* 97, 266-277.

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)

## Recommended Schedule

- Since teaching does not take place in standard classroom mode, we are, in principle, not bound to follow a specific schedule. However, we **recommend** that you structure your week by following the schedule originally planned for the course. Videos will be uploaded **gradually**, following this schedule. Once presentations, videos etc. are uploaded, they will be available until the end of the winter semester (March 31, 2021).
- Note that there is a **concentration of lectures** at the start of the semester.
- The **“Introduction”** video is already accessible and can be watched before the official “start” of the lecture on November 5, 2020.

Thu, 05. Nov. 2020	12:15	to	13:45	Lecture
Thu, 05. Nov. 2020	14:15	to	15:45	Lecture
Thu, 12. Nov. 2020	12:15	to	13:45	Lecture
Thu, 12. Nov. 2020	14:15	to	15:45	Lecture
Thu, 19. Nov. 2020	12:15	to	13:45	Tutorial
Thu, 19. Nov. 2020	14:15	to	15:45	Lecture
Thu, 26. Nov. 2020	12:15	to	13:45	Tutorial
Thu, 26. Nov. 2020	14:15	to	15:45	Lecture
Thu, 03. Dec. 2020	12:15	to	13:45	Tutorial
Thu, 03. Dec. 2020	14:15	to	15:45	Q&A 1
Thu, 10. Dec. 2020	12:15	to	13:45	Lecture
Thu, 10. Dec. 2020	14:15	to	15:45	Lecture
Thu, 17. Dec. 2020	12:15	to	13:45	Tutorial
Thu, 17. Dec. 2020	14:15	to	15:45	Lecture
Thu, 07. Jan. 2021	12:15	to	13:45	Tutorial
Thu, 07. Jan. 2021	14:15	to	15:45	Lecture
Thu, 14. Jan. 2021	12:15	to	13:45	Tutorial
Thu, 14. Jan. 2021	14:15	to	15:45	Q&A 2
Thu, 21. Jan. 2021	12:15	to	13:45	Lecture
Thu, 21. Jan. 2021	14:15	to	15:45	Lecture
Thu, 28. Jan. 2021	12:15	to	13:45	Tutorial
Thu, 28. Jan. 2021	14:15	to	15:45	Lecture
Thu, 04. Feb. 2021	12:15	to	13:45	Tutorial
Thu, 04. Feb. 2021	14:15	to	15:45	Lecture
Thu, 11. Feb. 2021	12:15	to	13:45	Tutorial
Thu, 11. Feb. 2021	14:15	to	15:45	Q&A 3