

## **Master in International Economics and Public Policy**

### **International Economics I: International Trade (Winter semester 2021/2022)**

#### **Contents/Organization/Program/References**

(This version: **October 21, 2021**)

#### **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**

##### **Teaching modalities in times of Covid19:**

- The **International Trade-course** (lecture and tutorial) will take place **on campus** during the **winter semester 2021/22**. Due to the **ongoing Corona pandemic**, caution is still advised. In particular, the **regulations for on-campus teaching** set by **JGU Mainz** apply (e.g. the “**3G-rule**”, the **collection of contact details** and the **mandatory use of face masks** in the classroom). **Further information** can be found here: <https://www.studying.uni-mainz.de/corona-students/>.
- **Lectures** take place on **Thursday, 8.15 am to 9.45 am** in **Room 00 151 P3**.
- There are **three tutorial groups**. Students can choose which tutorial they want to attend.
  - **Tutorial A** (taught by Albi Lika) takes place on **Monday, 8.15 am to 9.45 am** in **Room 00 251 HS V**.

- **Tutorial B** (taught by Dr. Miriam Kohl) takes place on **Tuesday, 2.15 pm to 3.45 pm** in **Room 00 241 HS IV**.
  - **Tutorial C** (taught by Albi Lika) takes place on **Monday, 12.15 pm to 1.45 pm** in **Room 01 511 Seminarraum**.
- Some of the tutorial slots in the first weeks of the semester will be used for lectures. A **detailed schedule** will be uploaded into our course on the **LMS/Moodle platform** shortly before the start of the semester.
  - Note that the **first lecture** will take place on **Tuesday, October 26 2021 at 2.15 pm**.
  - The **lecture and tutorial presentations** (in pdf format) can be downloaded from the **LMS/Moodle platform** at JGU Mainz (<https://lms.uni-mainz.de/moodle>). Those students **who have registered for the course in JOGUSTiNe** will automatically be assigned to the International Trade-course on the **LMS/Moodle platform**.
  - In addition to classroom lectures and tutorials, students will have access to **lecture and tutorial videos** recorded during the **winter semester 2020/21**, which cover roughly the same material. The respective link will be communicated via our course on the **LMS/Moodle platform**.
  - All **changes and news** will be disseminated by email via **LMS/Moodle**. Make sure you regularly check your **JGU 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 course **Development and Growth**.

#### How to proceed:

- Register for the course in **JOGUSTiNe**, which is a prerequisite to be assigned to the **International Trade-course** on the **LMS/Moodle platform**.
- Make sure you regularly check your **JGU students email-address** to which relevant information will be sent.

Contact: Prof. Dr. Philipp Harms / Dr. Miriam Kohl / Albi Lika, [LsHarms@uni-mainz.de](mailto:LsHarms@uni-mainz.de)

## **Program**

(Preliminary. This version: October 2, 2021)

### **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

5.6. 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)