

## Master in International Economics and Public Policy

### International Economics I: International Trade (Winter semester 2022/2023)

#### Contents/Organization/Program/References

(This version: **October 19, 2022**)

#### 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

- This course will take place **on campus**. However, **caution** is still advised.
  - o Wearing a **mask** in the classroom and complying with **hygiene** and **distance rules** reduces the risk of an infection.
  - o Do *not* come to the classroom if you do not feel well.
- The **regulations for on-campus teaching** set by JGU Mainz can be found here: <https://en.corona.uni-mainz.de/>. Note that these rules can be changed on short notice.
- **Lectures** take place on **Wednesday, 12.15 pm to 1.45 pm** in **Room 00 151 P3** (starting on **November 2, 2022**)
- There are **two tutorial groups**. Students can choose which tutorial they want to attend.
  - o **Tutorial A: Monday, 8.15 am to 9.45 am, Room 00 231 HS III**
  - o **Tutorial B: Thursday, 12.15 pm to 1.45 pm, Room 00 231 HS III.**

- The first tutorial will take place on November 14, 2022. The Thursday tutorial slots on November 3 and November 10, 2022 will be used for lectures. See the **detailed schedule** on the **LMS/Moodle platform** at JGU Mainz (<https://lms.uni-mainz.de/moodle>).
- On February 10, 2023 from 10.15 am to 11.45 am and from 12.15 pm to 1.45 pm in 01-716 HS13, we will offer a "**training session**", reviewing old exams. Participation in this event is voluntary.
- 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 a **mandatory "core module"** 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).

#### 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 / Albi Lika, [LsHarms@uni-mainz.de](mailto:LsHarms@uni-mainz.de)

## Program

(Preliminary. This version: October 19, 2022)

### **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 Model**

4.1. Motivation

4.2. The 2x2x2 HO Model

4.3. Empirical Evidence

4.4. Extending the HO 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. Trade under Monopolistic Competition

5.3. Heterogeneous Firms in International Trade

5.4. 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 also refer to the following **papers** or **books**:

Amiti, M., M. Dai, R.C. Feenstra, and J. Romalis (2018): “How did China’s WTO entry affect U.S. prices?”, *NBER Working Paper No. 23487*.

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.

Feenstra, R. and A. Sasahara (2018): “The “China Shock”, Exports and U.S. Employment: A Global Input-Output Analysis”, *Review of International Economics* 26, 1053-1083.

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)