

Syllabus for International Trade (ECON 722) Spring 2021

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Time: TuTh. 9:30-10:45 AM

Office hours: TuTh, 1:15-2:15 PM

Overview

International trade patterns are evolving rapidly, affecting both how countries interact and how we try to comprehend the nature of international transactions in an academic setting. This course will attempt to cover a broad array of relevant topics over the duration of an (all-too-short) semester. In doing so, it will emphasize theoretical models and their policy implications, as well as empirical studies of how well those models fit “real world” data. Furthermore, the course will frequently compare and contrast alternative theories/conceptions of the nature of international trade and the gains or losses thereof. Understanding the economic intuition behind the technically demanding models as well as thinking critically about the assumptions behind the theories and how well they fit actual trading economies will be a major focus. We will use a standard textbook to identify and broadly comprehend the core set of theories that graduate students of international trade would be exposed to during a typical course. We will then use different books, papers, articles, commentaries, empirical sources, etc. to explore extensions, critiques, and policy implications in terms of growth, income distribution, and development.

Trade-related issues always seem to be at the forefront of policy debates. In high income, industrialized economies these often revolve around *internal* income distribution. Such issues have received much attention in developing economies too, although some may argue that traditionally the focus of debates has been more on development aspects and the international distribution of income.

This course will provide an excellent opportunity to discuss some of these issues and to use formal theoretical tools to make sense of the arguments involved. Since it is not possible to cover all aspects of international trade in class, the lectures will focus on a “core” of major theoretical models and policy analyses. Student participation will be sought and encouraged.

Class Website

The class Moodle website will contain the syllabus (and any updates) plus announcements, assignments, and other useful information (e.g., links to readings and related websites).

Work Requirements

There will be one **midterm** exam (Thursday, April 1) and the replication of a research paper. Problem sets will be distributed to provide practice and to help fix ideas. The midterm and paper will account for 45% and 30% of the grade, respectively. Satisfactory problem set completion will account for the other 25%.

Books and Articles

Required textbook:

Robert C. Feenstra, *Advanced International Trade: Theory and Evidence*, Princeton University Press, 2016, ISBN 9780691161648.

Supplementary book readings:

Some of the following books will be placed on reserve at the library:

Bowen, Hollander, and Viaene, *Applied International Trade* (second ed.), Princeton Palgrave Macmillan, 2012, ISBN 978-0-230-52154-4

Mikic, Mia, *International Trade*, New York: St. Martin's Press, 1998.

Robert C. Feenstra, *Advanced International Trade: Theory and Evidence*, Princeton University Press, 2004, ISBN 978-0-691-11410-1

Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, DC: Institute for International Economics, 1997).

William R. Cline, *Trade and Income Distribution* (Washington, DC: Institute for International Economics, 1997).

Stephen D. Cohen, Robert A. Blecker, and Peter D. Whitney, *Fundamentals of U.S. Foreign Trade Policy: Economics, Politics, Laws, and Issues*, 2nd edition (Boulder: Westview, 2003).

Jagdish N. Bhagwati, Arvind Panagariya, and T. N. Srinivasan, *Lectures on International Trade*, second edition (Cambridge, MA: MIT Press, 1998).

Chang, Ha-Joon, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press, 2002.

Paul R. Krugman, *Rethinking International Trade* (Cambridge, MA: MIT Press, 1990).

Reading List

Notes: BHV refers to Bowen, Hollander, and Viaene, *Applied International Trade*.

An asterisk (*) is placed against required readings

Due to time constraints, we will probably cover only a small subset of these readings. The comprehensive list is for student use.

1. A Brief Historical Introduction

BHV, ch. 1

Leamer, E., "A Flat World, a Level Playing Field, a Small World After All, or None of the Above? A Review of Thomas L. Friedman's *The World is Flat*," *Journal of Economic Literature*, March 2007, Vol. 45 Issue 1, p83-126.

Baldwin, R., P. Martin. 1999. "Two Waves of Globalization: Superficial Similarities, Fundamental Differences." NBER Working Paper No. 6904.

Driskill, Robert (2007) "Deconstructing the argument for free trade"
(<http://www.vanderbilt.edu/econ/faculty/Driskill/DeconstructingfreetradeAug27a2007.pdf>)

2 Core Trade Models

A. The Classical Theory of Trade and Technological Differences

*Feenstra, chap. 1.

*Mikic, Mia, *International Trade*, Chapter 1.

*Dornbusch, Rudiger & Fischer, Stanley & Samuelson, Paul A, 1977. "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review*, American Economic Association, vol. 67(5), pages 823-39, December.

*Lecture notes

Eaton, J. and Kortum, S., "Putting Ricardo to Work," *Journal of Economic Perspectives*, pp. 65-90, 26(2), Spring 2012.

Samuelson, Paul, "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization," *Journal of Economic Perspectives*, pp. 135-146, 18(3), Summer 2004.

Golub, S. and Hsieh, C., "Classical Ricardian Theory of Comparative Advantage Revisited," *Review of International Economics*, 8(2), pp. 221-234, 2000.

Krugman, P. (1987) "The Narrow Moving Band, the Dutch Disease, and the Competitive Consequences of Mrs. Thatcher", *Journal of Development Economics*, 27, 41-55 (Reprinted in P. Krugman, *Rethinking International Trade*, MIT Press)

Costinot, A. and Donaldson, D. "Ricardo's Theory of Comparative Advantage: Old Theory, New Evidence," NBER Working Paper 15107, April 2012, Washington DC.

B. Neoclassical Theories: Heckscher-Ohlin and Related Models

*Feenstra, chaps. 2-3.

Deardorff, A.V. 1994. "Overview of the Stolper-Samuelson Theorem," in Deardorff, A.V. and Stern, R. M. (ed.), *The Stolper Samuelson Theorem: A Golden Jubilee*, The University of Michigan Press, 1997.

Wood, Adrian, "Give Heckscher-Ohlin a Chance!" *Weltwirtschaftliches Archiv*, 130(1), pp. 20-49, 1994.

Debaere, P., and Demiroglu, U., (2003). "On the Similarity of Country Endowments," *Journal of International Economics*, pp. 101-136, 59, 2003.

C. The Ricardo-Viner Model: Trade in the Presence of Specific Factors.

*Feenstra, chapter 3.

Andrea Maneschi, "Dynamic Aspects of Ricardo's International Trade Theory," *Oxford Economic Papers* 35 (1983): 67-80.

Jones, R. W. (1971). "A Three-Factor Model in Theory, Trade and History," Ch. 1 in Jagdish Bhagwati, Ronald Jones, Robert Mundell and Jaroslav Vanek, (eds.), *Trade, Balance of Payments and Growth* (North-Holland, Amsterdam).

D. Trade and Wages: Alternative Theoretical Perspectives and Empirical Evidence

* Feenstra, chap. 4.

*Autor, Dorn, and Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," MIT Working Paper, May 2012.

*Wood, A., "How Trade Hurt Unskilled Workers," *Journal of Economic Perspectives*, 9 (3), Summer 1995.

*Razmi, A., "Can the HOSS Framework Help Shed Light on the Simultaneous Growth of Inequality and Informalization in Developing Countries?" *Weltwirtschaftliches Archiv (Review of World Economics)*, 145(2), pp. 361-372, July, 2009.

*Slaughter, M.J. "Globalization and Wages: A Tale of Two Perspectives." *World Economy* 22: 609-630, 1999.

Krishna, P. and Senses, M. (May 2009). "International Trade and Labor Income Risk in the United States," NBER Working Paper 14992.

Ebenstein, A., Harrison, Anne, et al. (2009). "Estimating the Impact of Trade and Offshoring on American Workers Using the Current Population Surveys," NBER Working Paper 15107, Washington DC.

Mayda, Anna Maria & Rodrik, Dani, 2005. "Why are some people (and countries) more protectionist than others?," *European Economic Review*, Elsevier, vol. 49(6), pages 1393-1430, August.

Paul Krugman, "Technology, Trade, and Factor Prices," *Journal of International Economics* 50 (2000): 51-71.

Freeman, R., A., "Are Your Wages Set in Beijing?" *Journal of Economic Perspectives*, 9 (3), Summer 1995.

Davis, D.R. 1996. "Trade Liberalization and Income Distribution," NBER Working Paper No. 5693, June.

Davis, D.R. 1996. "Trade Liberalization and Income Distribution," NBER Working Paper No. 5693, June.

E. The New and "New New" Trade Theories: Increasing Returns, Intra-Industry Trade, Oligopolistic Competition, Technology Gaps, Heterogeneous Firms, and the Gravity Model

*Feenstra, chap. 5.

Brander, J. and B. Spencer (1985) "Export Subsidies and International Market Share Rivalry", *Journal of International Economics*, 18, 83-100

Krugman, Paul, "Increasing returns, monopolistic competition, and international trade," *Journal of International Economics*, 9, 1979, 469-479.

Melitz, M. and Trefler, D., "Gains from Trade When Firms Matter," *Journal of Economic Perspectives*, pp. 91-118, 26(2), Spring 2012.

Feenstra, R. and Rose, A. (1997). "Putting Things in Order: Patterns of Trade Dynamics and Growth," NBER Working Paper 5975.

Marc J. Melitz, 2003. "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 71(6), pages 1695-1725, November.

Bernard, A., Jensen, B., and Redding, S. (2007). "Firms in International Trade." NBER Working Paper No. 13054, April 2007.

Hummels, D. and Klenow, P. (2005) "The Variety and Quality of a Nation's Exports," *American Economic Review*, 95(3). (<http://klenow.com/Hummels&Klenow.pdf>)

Park, Albert, Dean Yang, Xinzheng Shi, and Yuan Jiang (2010), "Exporting and Firm Performance: Chinese Exporters and the Asian Financial Crisis," *Review of Economics and Statistics*.

F. Marxist and Dependencia Theories of Trade: Motives, Dynamics, and Consequences for the International Division of Labor and Income Distribution

*Bacha, E., "An Interpretation of Unequal Exchange from Prebisch-Singer to Emmanuel," *Journal of Development Economics*, 5, pp. 319-330, 1978.

Milberg, W. 1994. "Is Absolute Advantage Passe? Towards a Keynesian /Marxian Theory of International Trade", in *Competition, Technology and Money, Classical and Post-Keynesian Perspectives*, ed. Mark Glick, Edward Elgar, Great Britain.

3. Trade Policy Under Perfect and Imperfect Competition. Static and Dynamic Effects.

A. Does Specialization Matter?

*Imbs, J. and Wacziarg, R. (March, 2003). "Stages of Diversification," *American Economic Review*, 93(1).

Hidalgo, Klinger, Barabasi, and Hausmann (2007), "The product space conditions the development of nations," *Science*, 317.

*Maneschi, A. (1998). *Comparative Advantage in International Trade*, chapter 3.

Hausmann, Ricardo, Jason Hwang, and Dani Rodrik, (2007). "What You Export Matters," Journal of Economic Growth, Volume 12, Issue 1, 2007, 1-25.

Rodriguez-Clare, A., "Clusters and comparative advantage: Implications for industrial policy," *Journal of Development Economics* 82 (2007), pp.43– 57.

Krugman, Paul, "Import protection as export promotion: International competition in the presence of oligopoly and economies of scale," in *Monopolistic Competition in International Trade*, ed. Henryk Kierzkowski, Oxford, UK: Oxford University Press, 1984, 180-193.

Young, A (May, 1991). "Learning By Doing and the Dynamic Effects of International Trade," *Quarterly Journal of Economics*.

B. Tariff and Non-Tariff Barriers Under Different Scenarios.

* Feenstra, chapters 7 and 8.

BHV, chs. 5 and 10

C. Multilateral Trade Agreements as a Tool of Policy

*Feenstra, chaps. 6-7.

*Audley et al., *NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere*, Carnegie Endowment for Peace, Washington, DC, 2003.

Arvind Panagariya, "The Regionalism Debate: An Overview," World Economy, June 1999, 477-511.

4. Trade and Development

A. Trade Liberalization, Poverty, and Development

*Feenstra, chap. 10.

*Pavcnik, N. (2017). "The Impact of Trade on Inequality in Developing Countries," NBER Working Paper, 23878.

Ann Harrison, 2018. "International trade or technology? Who is left behind and what to do about it," CDP Background Papers 045, United Nations, Department of Economics and Social Affairs.

Harrison, Ann and Rodriguez-Clare (2009). "Trade, foreign investment, and industrial policy for developing countries," NBER Working Paper 15261, Washington, DC.

*Goldberg, P. and Pavcnik, N. (March, 2007). "Distributional Effects of Globalization in Developing Countries," *Journal of Economic Literature*, XLV, pp. 39-82.

Razmi (2009). "Can the HOSS Framework Help Shed Light on the Simultaneous Growth of Inequality and Informalization in Developing Countries?" *Weltwirtschaftliches Archiv (Review of World Economics)*, 145(2), pp. 361-372, July.

Williamson, J. G., (2011). *Trade and Poverty: When the Third World Fell Behind*, MIT Press.

Estevadeordal, A. and Taylor, M. (August 2008). "Is the Washington Consensus Dead? Growth, Openness, and the Great Liberalization," 1970s-2000s," NBER Working Paper 14264 (<http://www.nber.org/papers/w14264>)

Darity, W. and Davis, L., "Growth, Trade, and Uneven Development," *Cambridge Journal of Economics*, 29(1), pp. 141-170, 2005.

Dutt, Amitava (1990). *Growth, Distribution and Uneven Development*, chapter 8, Cambridge University Press.

Lehmann, S. and O'Rourke, K (November 2008). "The Structure of Protection and Growth in the Late 19th Century," NBER Working Paper 14493 (<http://www.nber.org/papers/w14493>).

B. Living in a Changing World: Trade in Intermediate Products and Offshoring

*Grossman, G., and Hansberg, R. (2006), "The Rise of Off-Shoring: Its Not Wine for Cloth Anymore," *"The New Economic Geography: Effects and Policy Implications," Conference Volume sponsored by the Federal Reserve Bank of Kansas City.*

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

5. Macroeconomic Aspects of Trade: Mainstream and Heterodox Perspectives

Taylor, Lance (1983), *Structuralist Macroeconomics*, chapter 10

Blecker, R., "Financial Globalization, Exchange Rates, and International Trade," PERI Working Paper.

Razmi, A., Rapetti, M., and Skott, P., "The Real Exchange Rate and Economic Development," *Structural Change and Economic Dynamics*, 23(1), pp. 151-69, 2012.

Rodrik, D., "The real exchange rate and economic growth." *Brookings Papers on Economic Activity*, 2, 365-412, 2008

BHV, ch. 14 (Growth and International Trade)

Trade and exchange rates (BHV, ch. 13)

Darity, W. and Davis, L., "Growth, Trade, and Uneven Development," *Cambridge Journal of Economics*, 29(1), pp. 141-170, 2005.

Dutt, Amitava (1990). *Growth, Distribution and Uneven Development*, chapter 8, Cambridge University Press.