



**Day: Tuesday**

**Room: 511 (199, boulevard Saint-Germain)**

**UP: 52898**

## International Trade

The course is conducted by Przemek Kowalski, Economist at the Organization for Economic Co-operation and Development (OECD). E-mail: Przemyslaw.Kowalski@oecd.org

## Objectives of the course

The objective of this course is to introduce you to basic theory and empirical results in international trade, including relatively recent developments. The course will also help you to independently analyze international trade issues and present arguments in a clear and persuasive way. The ambition of this course is to go beyond simplistic discussions and to introduce students to some technical nuances through a study of a series of important contributions to the international trade literature.

The course will cover the following topics:

- Comparative advantage
- Trade and factor markets
- Imperfect competition and trade
- Testing new trade theory
- Economic geography
- Trade and foreign direct investment
- Firm heterogeneity and trade

## Method

Before each class each student will be required to read the article indicated as the obligatory reading and write a one page summary covering the following points:

- Why is this article important? (or Why is it unimportant?)
- What are the main analytical conclusions and policy implications?
- What you can and what you cannot agree with in this paper? Why?

Discussing links with the two other papers indicated for this topic (see *Course Structure and Readings*) will be rewarded. Short length of written pieces will also be rewarded (note that arguing your points in a short piece is more difficult!). These one-pagers will have to be submitted to the course instructor by e-mail before the deadline of 6 pm preceding the relevant session.

In the first 30 minutes of each session the course instructor will introduce the topic. This will be followed by a 30-40 minutes presentation by a selected student or group of students (see topics for presentation in the *Course Structure and Readings*). Subsequently, there will be a group discussion around the theory, presentation by students and obligatory readings.

The course, including classes, presentations and assignments will be conducted in English.

## Assessment

Each course participant will be evaluated on the basis of: (1) submission of one-page reports on obligatory readings; (2) class presentation on an assigned topic; (3) participation in discussions; (4) multiple choice test taken at the end of the course.

## General References

There is no core text book for the course but background reading for the class topics can be found:

Bhagwati, J, A. Panagariya and T. N. Srinivasan (1998), *Lectures on International Trade*, Second edition, The MIT Press.

Feenstra, Robert C. (2003). *Advanced International Trade: Theory and Evidence*, Princeton University Press.

Greenaway D and Winters L A, *Surveys in International Trade*, Basil Blackwell, 1994

Gene Grossman and Kenneth Rogoff, *Handbook of International Economics*, Volume 3 (North Holland, 1995)

Kenen P B and R.W. Jones, *Handbook of International Economics*, Volume 1 (North Holland, 1984)

If you have never studied international trade before you could consult:

Krugman, P. and M. Obstfeld (2002). *International Economics: Theory and Policy*, Addison Wesley, 6<sup>th</sup> edition.

Caves, R., J. Frankel and R. Jones (2001). *International Trade and Payments. An introduction*, Addison Wesley, 9<sup>th</sup> edition.

# COURSE STRUCTURE AND READINGS

## Class 1. Introduction and Comparative advantage

There is no obligatory reading for this introductory class.

Other readings:

Helpman, E (1999) "The Structure of Foreign Trade", *Journal of Economic Perspectives*, 13(2), 121-44

Neary, J.P., (1978) "Short-run capital specificity and the pure theory of international trade", *Economic Journal*, Sept 1978

Jones, P. W., (1965), "The structure of simple general equilibrium models", *Journal of Political Economy*, No. 73, pp. 557-572

## Class 2. Trade and factor markets

Obligatory reading to be critically summarised before the class:

Driskill, R. (2007) "Deconstructing the argument for free trade" Working Paper,  
<http://www.vanderbilt.edu/econ/faculty/Driskill/Deconstructing2008Feb09.pdf>

If interested, see also comments on this paper by Dani Rodrik:  
[http://rodrik.typepad.com/dani\\_rodriks\\_weblog/2007/09/deconstructing-.html](http://rodrik.typepad.com/dani_rodriks_weblog/2007/09/deconstructing-.html)

Other selected readings:

Slaughter M (1998) "International trade and labour market outcomes", *Economic Journal*, 108, pp. 1452-62.

Markusen J (1983) "Factor movements and commodity trade as complements", *Journal of International Economics*, vol 14, pp. 341-56.

Mundell, Robert A., 'International trade and factor mobility', *American Economic Review*, June 1957, and ITSR chap 2.

Presentation by students: *Trade and factor markets: What is the empirical evidence of impact of international trade on factor (and in particular labour) markets? How has the economics profession approached this issue?*

## Class 3. Imperfect competition and trade

Obligatory reading to be critically summarised before the class:

Krugman, P. (1987). "Is Free Trade Passé?", *Journal of Economic Perspectives*, vol. 1, n° 2, Fall.

Other selected readings:

Krugman, P., (1979) "Increasing returns, monopolistic competition and international trade", *Journal of International Economics*, Volume 9, Issue 4, Nov. 1979, pp. 469-479.

Brander, J., A., Krugman, P., R., (1983) "A "reciprocal dumping" model of international trade". *Journal of International Economics*, No. 15, pp. 313-323.

Presentation by students: *Imperfect competition and Trade. Why is it important to account for imperfect competition in the analysis of international trade? What new insights are gained in trade models which incorporate the assumption of imperfect competition?*

## **Class 4. Testing new trade theory**

Obligatory reading to be critically summarised before the class:

Helpman, E., (1999) "The structure of foreign trade", *Journal of Economic Perspectives*, No. 13, pp. 121-144.

Other selected readings:

Hummels D. and Levinsohn J. (1995), Monopolistic competition and international trade: reconsidering the evidence, *Quarterly Journal of Economics*, Volume 110, Issue 3, August 1995, pp.s 799-836.

Evenett, S., J., Keller, W., (2002) , "On theories explaining the success of gravity equation, *Journal of Political Economy*, No. 110, pp. 281-316.

Presentation by students: *Testing Trade Theories. Is there empirical evidence that the new trade theory is a better framework for studying international trade as compared to the more traditional approaches? What are the major challenges of empirical testing of the new trade theory?*

## **Class 5. Economic geography**

Obligatory reading to be critically summarised before the class:

Krugman P., R., Venables, A., J., (1995), Globalisation and the inequality of nations, *Quarterly journal of Economics*, No. 110, pp. 857-880.

Other selected readings:

Krugman, P.,R., (1991) "Increasing returns and economic geography", *Journal of Political Economy*, No. 99, pp. 483-499.

Neary, J.P. (2001) "Of hype and hyperbolas: introducing the New Economic Geography", *Journal of Economic Literature*, v39, pp. 536-561.

Presentation by students: *Economic geography. What new analytical insights into the analysis of international trade are brought about by the field of economic geography? Have there been any attempts to test the main propositions of this theory?*

## **Class 6. Trade and foreign direct investment**

Obligatory reading to be critically summarised before the class:

Markusen, J.R., Maskus, K.E. (1999). "Multinational Firms: Reconciling Theory and Evidence", NBER Working Paper n° 7163.

Other selected readings:

Markusen, J.R. (1995). "The Boundaries of Multinational Enterprises and the Theory of International Trade", *Journal of Economic Perspectives*, vol. 9, n° 2, p. 169-189. (JSTOR)

Markusen, J.R., Venables, A.J. (1998). "Multinational Firms and the New Trade Theory", *Journal of International Economics*, vol. 46, p. 183-203.

Presentation by students: *Trade and foreign direct investment. Why is it important for trade theory to account for the existence of multinational companies? How has this been approached?*

## **Class 7. Firm heterogeneity and trade**

Obligatory reading to be critically summarised before the class:

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

Other selected readings:

Bernard, A.B., S.J. Redding and P.K. Schott (2007) "Comparative Advantage and Heterogeneous Firms", *Review of Economic Studies*, Vol. 74, pp. 31-66.

Helpman, E., (2006) Trade, FDI, and the Organization of Firms, *Journal of Economic Literature*, Vol. XLIV (September 2006), pp. 589–630.

Presentation by students: *Firm heterogeneity and trade. Have there been any attempts to test trade models with heterogeneous firms? What did these studies find?*