

## International Economics Development Economics

Academic year 2019-2020

## International Trade A

### EI064 - Printemps - 6 ECTS

Tuesday 18h15 - 20h00

## Course Description

This course is designed for MIS economics students as well as for policy-oriented Masters students specializing in economics. The course is divided in four main parts. The first reviews the main neoclassical trade theories and their implications.. The second part introduces tools widely used by trade analysts, in depth understanding and analysis of tariffs and non-tariff measures, partial and general equilibrium simulation models, and gravity models. The third presents newer trade models with imperfect competition. The fourth part explores important developments in the evolution of the global economy, the importance of Foreign Direct Investment and Multi National Corporations in trade, the relationship between trade and migration, as well as the rise and measurement of global value chains. The course considers both theories and recent empirical work, as well as a discussion of the relevant methodological issues in measurement and estimation.

## > PROFESSOR

[Robert Koopman](#)

[Office hours](#)

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## > ASSISTANT

Giulia Sabbadini

[Office hours](#)

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## Syllabus

### Main complementary textbooks

- Markusen, Melvin, Kaempfer and Maskus: International Trade: Theory and Evidence (“MMKM” in the reading list) This textbook is freely available on [James Markusen's webpage](#)
- R. Feenstra “Advanced International Trade: Theory and Evidence”, Ed. 2003 (“Feenstra” in the reading list).
- A Practical Guide to Trade Policy Analysis, WTO and UNCTAD, [https://www.wto.org/english/res\\_e/publications\\_e/wto\\_unctad12\\_e.pdf](https://www.wto.org/english/res_e/publications_e/wto_unctad12_e.pdf)
- An Advanced Guide to Trade Policy Analysis: The Structural Gravity Model, WTO and UNCTAD, [https://www.wto.org/english/res\\_e/booksp\\_e/advancedwtounctad2016\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/advancedwtounctad2016_e.pdf)

### Additional

- Helpman, E. & Krugman P., 1985: Market Structure and Foreign Trade, MIT Press. (For new trade theory.)
- Francois, Joseph and Kenneth Reinert: Applied Methods for Trade Policy Analysis: A Handbook Cambridge University Press, 1997 ISBN 0521589975, 9780521589970
- Krugman, P. & Obstfeld M., International Economics, Addison-Wesley. Less advanced, for intuition. [Trade Talks podcasts by Chad Bown and Soumaya Keynes](#) – for some interesting discussions on applied trade policy issues

## Pre-requisites of the course and grading

The grade will be based on 4 elements. The first is in-class small group presentations of selected papers chose by the students (20% of the final grade). The second is a 2-person project that involves writing a short paper due before week 12 class (30% of the final grade). The third element is "question" participation in a review session with Giulia (10% of final grade). The fourth element is a final exam (40% of final grade) which will consist of one or two problems and one or two short essay questions. The course assumes knowledge of basic micro theory (part 1 of MMKM textbook), and basic econometrics (i.e. Econometrics I course - E040).

**Applied project:** To be done by two people, though single person projects will also be accepted, and will be based on a practical application using simulation models or the gravity equation. .

**In-class group presentations:** The presentations should be based on a paper from the reading list (see below). They should be organized as follows: presentation of the paper, then discussion of the paper, i.e. description of its main features, contributions to the literature, strengths and weaknesses – essentially like a referee report while keeping in mind that the presentations should emphasize context through tying the paper content to class theory and touching on relevant issues currently debated in the policy world – ie why is this useful to know. Consider whether the findings are dated, are their newer methods, is the data used likely old or somehow not relevant, and are there new papers that reinforce the findings or question them? How many presentation opportunities there will be depends on the number of students in the course.

**Note - Easter Break is from 13 to 17 April 2020**

## Outline (preliminary)

### Lectures

#### Part 1

##### Class 1 - Introduction and Trade Facts

Reading: [A long run perspective on globalization](#) and [Leamer \(2007\)](#)

Additional: <http://www.voxeu.org/article/world-trade-1800-2015>

Additional: <http://www.voxeu.org/article/globalisation-and-trade-costs-1870-present>

Additional: <http://www.voxeu.org/article/lessons-1000-years-trade-history>

##### Classes 2 - 3 -Technology and Trade (Ricardian model) + paper presentation

Reading: MMKM chapter 7

Additional: [Samuelson \(2004\)](#)

Papers for possible presentation:

A. Costinot and D. Donaldson (2012), "[Ricardo's theory of comparative advantage: old idea, new evidence](#)", *AER Papers and Proceedings*

D. Bernhofen and J. Brown (2004), "[A direct test of the theory of comparative advantage: the case of Japan](#)", *JPE*

##### Classes 4 – 5 – Modernized Ricardian and H-O models and Comparative Advantage

Eaton and Kortum, (2002), "[Technology, Geography, and Trade](#)." *Econometrica*  
Factor endowments and trade (HO model) + paper presentation

Reading: MMKM chapter 8 (for HOS), Feenstra chapter 1 (2\*2\*2 model) and 2 (HOV and empirics) and chap. 4  
Additional: Trefler, D. "[International factor price differences: Leontief was right!](#)" JPE 1993

Papers for possible presentation:

- Eaton and Kortum, (2002), "[Technology, Geography, and Trade](#)." *Econometrica*
- Levchenko and Zhang, "[The evolution of comparative advantage: Measurement and welfare implications](#)"
- Hanson, Lind, and Muendler. "[The Dynamics of Comparative Advantage](#)"
- Trefler, D. "[The case of the missing trade and other HOV mysteries](#)," *AER* 1995.
- Harrigan J. (1997), "[Technology, Factor Supplies, and International Specialization: Estimating the Neoclassical Model](#)," *AER*
- Choi and Krishna (2004) "[The factor content of Bilateral Trade: An Empirical Test](#)", *JPE*
- Attanasio, O., Goldberg, P. and Pavcnik, N., 2004, "[Trade Reforms and Wage Inequality in Colombia](#)", *JDE*

## Part 2

### Class 6 - Gravity equations + paper presentation

Readings: Feenstra Chapter 5, and particularly Anderson and Van Wincoop

Head, Keith and T. Mayer (2013) "[Gravity Equations: Workhorse, Toolkit, and Cookbook](#)."

Anderson, J., M.Larch, and Y Yotov, (2014) "[Growth and Trade: A Structural Estimation Framework](#)."

### Class 7 - 8 - Tariff and Non-Tariff Measures and Simulation Models (Partial and General Equilibrium) + paper presentation

Reading: Piermartini and Teh, "[Demystifying Modelling Methods for Trade Policy](#)"; Laird and Yeats, "[The UNCTAD Trade Policy Simulation Model: A note on methodology, data, and uses](#)."

[Bouet, et al, Computing an exhaustive and consistent, ad-valorem equivalent measure of applied protection: a detailed description of MAcMap-HS6 methodology.](#)

[Fontagne, et al, Estimated Tariff Equivalents of Services NTMs](#)

[WTO, The trade effects of non-tariff measures and services measures.](#)

[Bureau, et al - Competing Liberalizations: Tariffs and Trade in the 21<sup>st</sup> Century](#)

Papers for possible presentation:

CEPS for the European Parliament - "[An Assessment of the Economic Impact of Brexit on the EU27](#)" – particularly section 4 from p. 28.

Dingra et al, "[The Costs and Benefits of Leaving the EU: Trade Effects](#)."

Felbermayr, et al, "[The Economic Effects of Brexit on the European Economy](#)."

Gasiorek, et al, "[Which Manufacturing Sectors are Most Vulnerable to Brexit](#)"

Vandenbussche, et al, "[Global Value Chains, Trade Shocks and Jobs: an Application to Brexit](#)."

Petri, et al, "[The Economic Effects of the Trans-Pacific Partnership: New Estimates](#)."

Petri et al. "[Going It Alone in the Asia-Pacific: Regional Trade Agreements without the United States](#)."

## Part 3

### Classes 9 – 10 - New trade theories (trade and competition) + paper presentation

Readings: Feenstra chapter 5

Additional: HK85, Chapter 6 (read for ideas, not maths); Krugman, Paul R. 1980. "[Scale Economies, Product Differentiation, and the Pattern of Trade](#)," *AER*.

- Arkolakis, Costinot, Rodriguez-Clare. "[New Trade Models, Same Old Gains?](#)" *American Economic Review* 102, no. 1 (2012): 94–130.

Ossa, "[Why Trade Matters After All](#)"

Papers for possible presentation:

- Head and Ries (1999), "[Rationalization effects of Tariffs reductions](#)", *JIE*

- Head and Ries (2001), "[Increasing Returns versus National Product Differentiation as an Explanation for the](#)"

[Pattern of US-Canada Trade](#)", AER

- Broda and Weinstein (2006), "[Globalization and the Gains from variety](#)", QJE

- Berkum and van Meijl, [The Application of Trade and Growth Theories to Agriculture: A Survey](#)

#### **Part 4**

**Classes 11 - 12** – Factor Markets and Trade (Labor, Immigration and Foreign Direct Investment + paper presentation

Readings Feenstra chapter 11

Note paper due before class of week 12..

Additional: Markusen and Venables (1998) "[Multinational firms and the new trade theory](#)", JIE

Autor, Dorn and Hanson (2013) "[The China Syndrome: Local Labor Market Effects of Import Competition in the United States](#)". And other related papers (such as below), such as Feenstra and Sasahara – [The "China Shock", Exports and U.S. Employment: A Global Input-Output Analysis](#). Or this link for an overview "[Reconsidering the "China Shock" in Trade](#)."

Dauth, et al, [Trade and Manufacturing Jobs in Germany](#)

Papers for possible presentation:

Javorcik, Beata (2004) "[Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages](#)." AER

Nunn, N. and D. Trefler (2007) "[The Boundaries of the Multinational Firm: An Empirical Analysis](#)."

Bernard, A., JB Jensen, SJ Redding, and PK Schott (2007) "[Firms in International Trade](#)."

Helpman, E, O. Itskhoki, and S. Redding (2011) "[Trade and Labor Market Outcomes](#)"

Caliendo, L, M. Dvorkin, and F. Parro (2017) "[Trade and Labor Market Dynamics: General Equilibrium Analysis of the China Trade Shock](#)."

**Class 13** - Global Value Chains + paper presentation

Readings - Koopman, Wang and Wei (2012) "[Estimating Domestic Content in Exports When Processing Trade is Pervasive](#)."

Papers for possible presentation: WIOD papers? OECD?

**Class 14** - Final exam

**Review sessions: weeks To Be Determined**