

**Portland State University
Department of Economics
Spring 2009**

EC 440/540: INTERNATIONAL TRADE THEORY

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Class Meetings: CH 401
 TR: 14:00- 15:50
Office Hours*
 W: 10:00 – 11:30
 *By Appointment

Syllabus

The purpose of this course is to provide you with an analytical framework for the analysis of international trade issues. Our starting point will be the examination of models in traditional trade theory based on comparative advantage. We will then consider new trade theory models. In this discussion we will introduce imperfect competition, economies of scale, and demand characteristics as determinants of trade and analyze implications for the gains from trade. Finally we will spend the last third of the course discussing issues related to international trade instruments, policy, rules and implementation. A comprehensive list of lecture topics and assigned readings is provided in the "Course Outline" section of this syllabus.

- Support Textbooks**
- Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E., *International Trade: Theory and Evidence*, McGraw-Hill, 1995. **NOTE:** This text is out of print pending a revision. Chapters can be obtained online from the website of James R. Markusen at: <http://spot.colorado.edu/~markusen/textbook.html>
 - Bhagwati, J. *In Defense of Globalization*, Oxford University Press, 2004.

Graded Components Graded components in this course include the four homework assignments with problems you need to complete related to the course material. A fifth assignment is an essay based on topics in the book by Professor Jagdish Bhagwati titled "In defense of Globalization." Instructions related to the Bhagwati essay are provided at the end of this syllabus. The remaining graded components include a midterm and a final exam. A summary of assignments, associated weights and due dates is as follows.

Summary of Due Dates for Assignments and Exams

Assignment/Exam	Percent of Course grade		Due Date
	Ec 440	Ec 540	
Homework No. 1	10%	10%	April 9 th , 2009
Homework No. 2	10%	10%	April 23 rd , 2009
Midterm Exam	25%	20%	April 30 th , 2009
Homework No. 3	10%	10%	May 21 st , 2009
Homework No. 4	10%	10%	June 4 th , 2009
Bhagwati Essay	10%	20%	June 4 th 2009
Final Exam	25%	20%	June 8 th , 2009 (10:15 -12:05)

NOTE: Assignments will be handed out a week in advance of the due date and must be submitted in (the beginning of) class on the indicated due date. Homework assignments must be typed out (where applicable, equations/graphs can be neatly written/drawn in). Points will be deducted for any illegible portion of a homework assignment and/or for failure to show work.

Policies

- ◆ Exams cannot be rescheduled. Please DO NOT enroll in this course unless you can take the exams at their scheduled times (see “Tentative Schedule” section). The only exceptions to this rule are: (i) documented medical emergencies; and (ii) absence due to active military, police, and/or jury duty (need letter from the appropriate official).
 - ◆ If you arrive more than 20 minutes after the time an exam is scheduled to begin, you will not be allowed to take that exam.
 - ◆ Concerns and questions related to graded components in this class need to be resolved within two weeks from the date the assignment (or exam) in question has been graded and returned.
 - ◆ Improving your grade through “extra work” is not an option in this class! In addition, an Incomplete (letter grade “I”) or a Withdrawal (letter grade “W”) is not to be viewed as a substitute for an “F”.
 - ◆ Students with documented learning disabilities or special needs, must contact me at least a week in advance of scheduled exams if use of the Testing Center’s facilities is required. It is the student’s responsibility to arrange for accommodations through the Testing Center and provide me with the appropriate documentation in the beginning of the semester.
 - ◆ Familiarize yourself with PSU academic honesty policies. Minimum penalty for academic dishonesty in this class will be letter grade “F” for the assignment or exam in question.
 - ◆ Turn off your cellular phone, beeper, pager, or any other communication device/PDA that may disturb, disrupt, or in any way impede the learning process during class meetings.
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Tentative Course Outline

I. Introduction

- A. World Trade: An Overview with Facts and Figures**
- B. Who Trades with Whom: The Gravity Model**

II. Technical Concepts and the Gains from Trade

- A. Supply and Production Possibilities (MMKM Ch. 2)**
 - 1. Production functions, returns to scale, and producer equilibrium.
 - 2. Production possibility frontier, increasing returns to scale, and competitive equilibrium.
- B. Preferences, Demand, and Welfare (MMKM Ch. 3)**
 - 1. Utility maximization
 - 2. Aggregation and community indifference curves.
- C. General Equilibrium in Open and Closed Economies (MMKM Ch. 4)**
 - 1. General equilibrium in opened and closed economies
 - 2. The excess demand function and international general equilibrium
- D. The Gains from Trade (MMKM Ch. 5)**
 - 1. The gains from trade theorem
 - 2. Gains from exchange, specialization, and the distribution of gains from trade.

III. Traditional Trade Theory

- A. The No-Trade Model (MMKM Ch. 6)**
- B. Differences in Technology (MMKM Ch. 7)**
 - 1. Absolute and comparative advantage
 - 2. Production possibilities, excess demand, and International equilibrium
 - 3. The role of wages
 - 4. Big versus small countries
- C. The Heckscher-Ohlin (H-O) Model (MMKM Ch. 8)**
 - 1. The effects of endowment differences
 - 2. The H-O theorem
 - 3. The factor-price equalization theorem
 - 4. The Stolper-Samuelson and Rybczynski theorems
 - 5. Trade theory with many goods and factors

IV. Post Heckscher-Ohlin Theories of Trade

- A. Imperfect Competition, Economies of Scale, and International Trade**
 - 1. Imperfect Competition (MMKM Ch. 11)
 - 2. Increasing Returns to Scale (MMKM Ch. 12)
 - B. Tastes, Per-Capita Income, and Technology Theories of Trade (MMKM Ch. 13)**
 - 1. Linder Theory of Overlapping Demands
 - 2. Product Cycle theories
 - C. Testing Comparative advantage Models of Trade (MMKM Ch. 14)**
 - 1. How do you test a trade theory?
 - 2. Test of the Ricardian Model
 - 3. Tests of the Heckscher-Ohlin Model
 - 4. Other Empirical Evidence
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Tentative Course Outline (continued)

V. Trade Policy and Foreign Direct Investment

A. The Instruments of Trade Policy (Lecture notes; MMKM Ch. 15)

1. Classification of Commercial Policy Instruments
2. Tariffs (Import and Export)
3. Basic Tariff Analysis - Partial Equilibrium (small and large country cases)
4. Basic Tariff Analysis - General Equilibrium (small and large country cases)

B. Quotas and Non-Tariff Barriers to Trade (Lecture notes; Ch. 16)

1. Quotas and a comparison of quotas vs. tariffs
2. Other non-tariff barriers to trade
3. Estimating the cost of protection

C. Foreign Direct Investment (FDI) and Multinational firms (Lecture notes; MMKM Ch. 22)

1. FDI and the OLI framework
 2. Welfare analysis
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Bhagwati Essay Instructions

Bhagwati Essay: Due June 4th, 2009 (no late essays will be accepted). Chapters to read from the book "In Defense of Globalization," pp. 51-195, are:

- Chapter 5: Poverty: Enhanced or Diminished?
- Chapter 6: Child Labor: Increased or Reduced?
- Chapter 7: Women: Harmful or Helpful?
- Chapter 8: Democracy at Bay?
- Chapter 9: Culture Imperiled or Enriched?
- Chapter 10: Wage and Labor Standards at Stake?
- Chapter 11: Environment in Peril?
- Chapter 12: Corporations: Predatory or beneficial?

Your Assignment:

- EC 440 Students - Pick TWO chapters and write an 800 word essay
- EC 540 Students - Pick FIVE chapters and write a 2000 word essay

For each chapter you pick you must address each of the following three questions in your essay.

- (1) What are the anti-globalists' arguments against trade and investment liberalization based around this topic? (E.g., for the environment chapter, what are the anti-globalists' arguments as to why trade and investment are harmful to the environment, particularly in developing countries?)
- (2) What are Bhagwati's arguments for or against these positions, and why. (E.g., does Bhagwati deny that a problem even exists, does he feel that there is a problem but that it has nothing to do with trade, are there better tools for dealing with the problem, etc?)
- (3) Discuss your own views as judge and jury about the position of Bhagwati vs. the antiglobalists.

In preparing your essay, the following requirements must be observed.

- (1) Your essay needs to be double spaced with 12-pt font and pages must be numbered.
- (2) The total word count for your essay is specified above. The maximum number of words per chapter, however, cannot exceed 500 words. This means that, on average, you will need to devote less than 500 words, per chapter.
- (3) You must provide a total word count at the end of your essay. All word processors can do this for you, but if you have questions on how to obtain a word-count, I will be happy to show you.