

Portland State University
Department of Economics
Winter 2007

EC 440/540: INTERNATIONAL TRADE THEORY

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Class Meetings: CH 283
TR: 14:00- 15:50
Office Hours*
TR: 10:00 – 11:00
**By Appointment*

Syllabus

The purpose of this course is to provide you with an analytical framework for the analysis of international trade issues from a microeconomic perspective. Our starting point will be the examination of traditional trade theory. Here we will focus on both the technical aspects of such models and the empirical evidence that has been used to test them. The next set of issues in the course will focus on new trade theory. In this discussion we will introduce imperfect competition, intra-industry trade, economies of scale, and multinational firms into models of trade. As with traditional trade theory, we will examine some of the empirical evidence from tests of various trade theories. 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.
- Appleyard, D. R., and Field, A. J., *International Economics*, 4th Edition, McGraw-Hill Irwin, 2001.

**Online Texts
(Optional)**

- [International Trade Theory & Policy Analysis](#) by Steven M. Suranovic.
This online textbook is a good source for alternative explanations and some helpful problem sets and can be found at: <http://internationalecon.com/v1.0/index.html>

WEBCT

Course materials such as selected chapters from the support texts above, class handouts, and lecture examples will be available in WEBCT. To log into our WEBCT course, you need to have an ODIN account. To access the WEBCT course, go to: www.psuonline.pdx.edu and use your ODIN user ID and password to log in.

**Literature
Review
Project**

The goal of this assignment is twofold. First, the literature review portion of this project is intended to make you somewhat of an expert on a small focused area of international microeconomics. Your review of the literature must be tightly written, 8-10 pages, double-spaced, in length. Second, at the end of the literature review you will write a final section (maximum 2 pages, double-spaced) giving relevant details of a potential viable research paper idea.

The literature review project is worth 40% of your course grade. For more details see the "Literature Review Project" handout.

Exams

Graded components in this course include the literature review project discussed above, a Midterm exam and a Final exam. Below are details on the dates, times, and weights of exams in this course:

- Midterm exam, worth 30% of your course grade, will be held on **Thursday, February 8th, 2007 from 14:00– 15:50 in CH 283.**
- The Final exam, worth 30% of your course grade, will be held on Monday, **March 19th, 2007 from 10:15 – 12:05 in CH 283.**
Note: The final exam is not comprehensive. It will test all material covered since the Midterm exam.

Policies

- 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 and exams.
 - Exams cannot be rescheduled or made up, so do not take the course if you cannot take the exams during their scheduled times. The only exceptions to this rule are: (i) documented medical emergencies; and (ii) absence due to active military, police, and/or jury duty (documented with letter from appropriate official).
 - 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, please contact me at least a week in advance of scheduled exams if arrangements through the Testing Center are required.
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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

D. Testing Traditional Trade Theory (MMKM Ch. 14)

1. How do you test a trade theory?
 2. Test of the Ricardian Model
 3. Tests of the Heckscher-Ohlin Model
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Tentative Course Outline (continued)

IV. Post Heckscher-Ohlin Theories of Trade

A. Technology Theories of Trade (A&P Ch. 10)

1. Imitation Lag Hypothesis
2. Product Cycle theory
3. Empirical tests of technology trade theories.

B. Linder Theory of Overlapping Demands (A&P Ch. 10)

1. Hypotheses
2. Linder and the H-O model

C. Economies of Scale, Imperfect Competition, and International Trade (A&P Ch. 10)

1. Economies of scale and market structures
2. A model of monopolistic competition
3. Monopolistic competition and trade
4. Intra-industry trade and the economics of dumping

V. Trade Policy

A. The Instruments of Trade Policy (A&P Ch. 13)

1. Classification of Commercial Policy Instruments
2. Tariffs (Import and Export)
3. Objectives of Trade Policy.

B. Basic Tariff Analysis (A&P Ch. 14)

1. Partial Equilibrium (small and large country cases)
2. General Equilibrium (small and large country cases)

C. Non-Tariff Barriers to Trade (A&P Ch. 14)

1. Export subsidies
2. Import quotas and voluntary export restraints

D. Foreign Direct Investment (FDI) and Multinational firms

1. FDI and the OLI framework
 2. Welfare analysis
 3. Internalization
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Summary of Assigned readings

Topic	Readings
I. Introduction	
II. Technical Concepts and the Gains from Trade	<ul style="list-style-type: none">• MMKM Chapters 2, 3, 4, and 5.
III. Traditional Trade Theory	<ul style="list-style-type: none">• MMKM Chapters 6, 7, 8, and 14.
IV. Post Heckscher-Ohlin Theories of Trade	<ul style="list-style-type: none">• A&F Chapter 10.
V. Trade Policy	<ul style="list-style-type: none">• A&F Chapters 13 and 14.