

California State University, Sacramento
Department of Economics
Spring 2005

ECON 290: INTERNATIONAL TRADE

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Class Meetings:ALP-138
W: 5:30- 8:20 pm
Office Hours*
M: 11:30 am – 12:30 pm
R: 11:30am – 1:30 pm
**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.

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- Textbook**
- Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E., *International Trade: Theory and Evidence*, McGrawHill, 1995.
Selected chapters are on reserve!
- 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>
 - On-line explanations and diagrammatic illustrations of the basic models can also be found on the following *International Trade* website:
<http://www.econs.ecel.uwa.edu.au/235/IIT/foundations.html>

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 30% of your course grade. For more details see handouts: "Literature Review Project" and "Suggested Timeline" for completion of the literature review project.*

Exams

Graded components in this course include the literature review project discussed above, 2 midterm exams, and a final exam. Below are details on the dates, times, and weights of exams in this course:

- First Midterm Exam, *worth 25% of your course grade*, will be held on **Wednesday, February 23rd, 2005 from 5:30 pm – 7:00 pm**.
- Second Midterm Exam *worth 25% of your course grade* will be held on **Wednesday, April 6th, 2005 from 5:30 pm – 7:00 pm**. The second midterm is not comprehensive. It will test all material covered since the first midterm exam.
- The final exam, *worth 20% of your course grade*, will be held on **May 18th, 2005 from 5:30 pm – 7:30 pm**. The final exam is not comprehensive. It will test all material covered since the second 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

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

1. Utility maximization
2. Aggregation and community indifference curves.

C. General Equilibrium in Opened and Closed Economies

1. General equilibrium in opened and closed economies
2. The excess demand function and international general equilibrium

D. The Gains from Trade

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

B. Differences in Technology

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

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. The Specific Factors Model

1. The specific factors model
2. Commodity prices and factor prices
3. Endowment changes, factor prices and outputs,
4. The pattern of trade

E. Government Policies as Determinants of Trade

1. Distinguishing between consumer, producer, and world prices
2. Taxes, subsidies, and the determinants of trade
3. Gains from trade: a formal analysis
4. Factor market distortions

IV. New Trade Theory

A. Imperfect Competition as a Determinant of Trade and the Gains from Trade

1. Autarky equilibrium with a monopolized sector
2. Pro-competitive gains from trade
3. Cournot-Nash equilibrium

B. Increasing Returns to Scale

1. External economies
2. Internal economies of scale
3. Sources of gains from trade with increasing returns
4. An extension of the Cournot model to free entry and exit

C. Tastes, Per Capita Income, and Technological Change as Determinants of Trade

1. International consumption behavior and trade
2. The Linder hypothesis
3. Inter- and intra-industry trade
4. Theories of trade based on dynamic cycles
5. Cycle models and comparative advantage

D. Empirical Studies of Comparative Advantage Models

1. The gains from trade
2. Tests of the Ricardian model
3. Tests of the H-O model
4. Preferences, technology and scale economies: the importance of intra-industry trade

V. The Instruments of Trade Policy

A. Tariffs

1. Welfare loss from tariffs
2. Tariffs, taxes and distortions
3. Monopoly power
4. The optimal tariff and retaliation
5. Effective protection

B. Non-Tariff Barriers of Trade

1. Effects of quota protection
2. Comparing the effects of quotas and tariffs
3. Other non-tariff barriers
4. Estimates of the cost of protection

C. The Political Economy of International Trade

VI. The Theory of Foreign Direct Investment

A. Foreign Direct Investment (FDI) and Multinational firms

1. FDI and the OLI framework
2. Ownership advantages arising from knowledge-based assets
3. The transfer of knowledge capital through FDI
4. Welfare analysis
5. Internalization

B. A Note on Immigration and Outsourcing

Topic	Assigned Readings
I. Introduction	<ul style="list-style-type: none"> • “<i>The New Wave of Globalization and Its Economic Effects</i>,” Chapter 1 of <i>Globalization Growth and Poverty: Building an Inclusive World Economy</i>, The World Bank, 2002. • “What Might Globalization’s Critics Believe?” Alan Deardorff, 2002 Paper is available at: http://www.fordschool.umich.edu/rsie/workingpapers/Papers476-500/r492.pdf • “<i>Trading in Illusions</i>,” Dani Rodrik, Harvard Magazine, July-August 2002: Volume 104, Number 6, Page 29.
II. Technical Concepts and the Gains from Trade	<ul style="list-style-type: none"> • Markusen et al., Chapters 2, 3, 4, and 5.
III. Traditional Trade Theory	<ul style="list-style-type: none"> • Markusen et al., Chapters 6, 7, 8, 9, and 10.
IV. New Trade Theory	<ul style="list-style-type: none"> • Markusen et al., Chapters 11, 12, 13, and 14. • Deardorff, Alan V. (1984). “Testing Trade Theories and Predicting Trade Flows,” Chapter 10 in <i>Handbook of International Economics</i>, vol. I. Amsterdam: Elsevier Science Publishers, pp. 468-517.
V. The Instruments of Trade Policy	<ul style="list-style-type: none"> • Markusen et al., Chapters 15 and 16. • “How Costly is Protectionism?” Robert C. Feenstra, <i>Journal of Economic Perspectives</i>, Summer 1992, pp. 159-178. • “Steel policy: The Good, the Bad, and the Ugly,” Gary Clyde Hufbauer and Ben Goodrich, IIE International Economic Policy Briefs, Number PB03-1, 2003, pp. 1-27.
VI. The Theory of Foreign Direct Investment	<ul style="list-style-type: none"> • Markusen et al., Chapter 22. • “Borders beyond Control,” Jagdish Bhagwati, <i>Foreign Affairs</i>, January/February 2003. • “The Global Governance of Trade as if Development Really Mattered,” Dani Rodrick, UNDP, New York 2001.