

International Economics

Academic year 2024-2025

International Trade I

EI135 - Spring - 6 ECTS

Tuesday 14h15 - 16h00

Course Description

The objective of this course is to develop a graduate level knowledge of the theory of international trade and international trade policy.

The course will be broadly divided into two parts:

In the first part, the course will explore the causes and consequences of international trade. We will investigate why nations trade, what they trade, and who gains and who loses from trade through a series of models. We will explore insights from competitive trade theory as well as analyse trade under imperfect competition.

The second part of the course will be dedicated to trade policy. We will first analyse the effects of unilateral trade policy choices before considering multilateral trade policy questions and the role for international trade agreements.

> PROFESSOR

[Monika Mrazova](#)

[Office hours](#)

> ASSISTANT

Yang Jiao

[Office hours](#)

IMPORTANT

Regular attendance is compulsory, and any absence must be promptly communicated to the teacher. In the event of missing more than two sessions, students are expected to provide well-documented justifications for unforeseeable circumstances (e.g. illness, accident, death of a relative), directly to the Direction of Studies. Failure to justify absences beyond two sessions will result in the assignment of code N.

Students are also reminded of the following legal rules:

The teacher owns the **copyright** on the material they created for this course. As such, any reproduction or distribution of this document, in whole or in part, as well as of any other material created by the teacher for the course, is prohibited unless permission is granted by the author.

Recording (as video or audio) a course without the consent of the teacher and other participants is strictly forbidden

Syllabus

I. Course Schedule

The course schedule below is tentative and may be modified.

Date	Week	Topic
18/02/25	1	Introduction and gains from competitive trade
25/02/25	2	Insights from the Ricardian model
04/03/25	3	Insights from the Specific Factors model
11/03/25	4	Insights from the Heckscher-Ohlin model
18/03/25	5	Insights from 'new' trade theory
25/03/25	6	Insights from the theory of firms and trade
01/04/25	7	Problem set session 1
08/04/25	8	Political economy of trade policy
15/04/25	9	Trade policy analysis 1
29/04/25	10	No class
06/05/25	11	Trade policy analysis 2
13/05/25	12	Trade agreements
20/05/25	13	Problem set session 2
27/05/25	14	In-class FINAL EXAM

II. Assessment and Grading

Grades will be based on two written problem sets (40%) and a final in-class exam (60%).

III. Books

There are no required textbooks. The course will draw from a comprehensive range of resources including book chapters and academic publications. For each topic, class slides will be provided, which will be uploaded online on a weekly basis. Important references (cited in the reading list by the abbreviations indicated) for the course are the following:

Avinash Dixit and Victor Norman, *Theory of International Trade* (DN)

Robert Feenstra, *Advanced International Trade: Theory and Evidence*, 2nd edition (F)

Elhanan Helpman and Paul R. Krugman, *Market Structure and Foreign Trade* (HKa)

Helpman, Elhanan, and Paul Krugman, *Trade Policy and Market Structure* (HKb)

IV. Reading list

Essential items are overviews/introductions and should ideally be read before the lecture on the topic. Required items should be read shortly thereafter. Recommended items are optional supplementary readings.

Topic 1: Introduction and gains from competitive trade

Essential:

DN pp. 65-79, 94-96

F, pp. 187-196

Required:

A. Dixit and V. Norman, "[Gains from trade without lump-sum compensation](#)," JIE 1986, 111-122

A. Deardorff, "[The general validity of the law of comparative advantage](#)," JPE 1980, 941-957

C. Arkolakis, A. Costinot and A. Rodríguez-Clare, "[New Trade Models, Same Old Gains?](#)" AER 2012, 94-130

Recommended:

D. Donaldson, "[The Gains from Market Integration](#)," Annl Rev of Ec 2015, 619-647

Topic 2: Insights from the Ricardian model

Essential:

F, pp. 1-3, 70-75, 172-174

K. Matsuyama, "[Ricardian trade theory](#)," in L. Blume and S. Durlauf, eds., *the New Palgrave Dictionary of Economics*, 2nd Edition, Macmillan.

Required:

R. Dornbusch, S. Fischer and P. Samuelson, "[Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods](#)," AER 1977, 823-839.

J. Eaton and S. Kortum, "[Technology, geography, and trade](#)," ECTA, 2002, 1741-1779.

Recommended:

A Costinot, D. Donaldson and I. Komunjer, "[What goods do countries trade: A quantitative exploration of Ricardo's ideas](#)," REStud 2012, 581-608.

L. Caliendo and F. Parro, "[Estimates of the trade and welfare effects of NAFTA](#)," REStud 2015, 1-44.

R. Dekle, J. Eaton, and S. Kortum, Samuel "[Unbalanced Trade](#)," AER 2007, 351-355

Topic 3: Insights from the Specific Factors model

Essential:

DN pp. 38–43, 86–7, and 102–6.

Required:

Jones, R., and P. Neary. "[The Positive Theory of International Trade](#)." pp. 21–7

in Jones, Ron, and Peter Kenen. *Handbook of International Economics*. Vol. 1. North Holland, 1998

Topic 4: Insights from the Heckscher-Ohlin model

Essential:

F, pp. 51-60, 67-70.

Required:

DN, chs. 2,4.

HKa, ch. 1

W. Ethier, "[Higher dimensional trade theory](#)," in R. Jones and P. Kenen, *Handbook of International Economics*, vol.1

R. Jones, "[The structure of simple general-equilibrium models](#)." JPE 1965.

Recommended:

G. Grossman and E. Rossi-Hansberg, "[Trading tasks: A simple theory of offshoring](#)," AER 2008, 1978-1997

Topic 5: Insights from 'new' trade theory

Essential:

HKa, chs. 1, 6-8

Required:

F, ch 5

P. Krugman, "[Increasing returns, monopolistic competition, and international trade](#)," JIE 1979, 469-79

P. Krugman, "[Scale economies, product differentiation, and the pattern of trade](#)," AER 1980, 950-59

Recommended:

A Venables, "[Trade and trade policy with differentiated products: A Chamberlinian-Ricardian Model](#)", EJ 1987, 700- 17

P. Fajgelbaum, G Grossman and E. Helpman, "[Income distribution, product quality and international trade](#)", JPE 2011, 721-65

Topic 6: Insights from the theory of firms and trade

Essential:

M Melitz, "[The impact of trade on intra-industry reallocations and aggregate industry productivity](#)," ECTA 2003, 1695- 1725

M Melitz and S.J. Redding, "[Heterogeneous firms and trade](#)," in E Helpman, G Gopinath and K Rogoff, eds, Handbook of International Economics vol. IV

Required:

M Melitz and G. Ottaviano, "[Market size, trade and productivity](#)," RES 2005, 295-316

C. Arkolakis, A. Costinot and A. Rodríguez-Clare, "[New Trade Models, Same Old Gains?](#)" AER 2012, 94-130

Mrázová, Monika and J. Peter Neary, "[Not So Demanding: Demand Structure and Firm Behavior](#)," AER 2017, 3835-3874

Topic 7: Political economy of trade policy

Essential:

F, 299-310

Required:

G. Grossman and E. Helpman, "[Protection for sale](#)," AER 1994, 833-850

A. Dixit and J. Londregan, "[The determinants of the success of special interests in redistributive politics](#)," Jnl of Politics, 1996, 1132-1155.

Rodrik, D., "[The Political Economy of Trade Policy](#)," in Grossman, Gene, and Ken Rogoff. Handbook of International Economics. Vol. 3. North Holland, 1997.

Topic 8: Trade policy analysis

Essential:

HKb, chs. 2, 3, 4, 5 and 6

Required:

Johnson, H. G. "[Optimum Tariffs and Retaliation](#)." REStud 1953.

Brander, J. "Strategic trade policy."

Brander, J., and B. Spencer. "[Export Subsidies and International Market Share Rivalry](#)," JIE 1985, 83–100.

Eaton, J., and G. Grossman. "[Optimal Trade Policy and Industrial Policy Under Oligopoly](#)," QJE 1986, 383–406.

Topic 9: Trade agreements

Essential:

F 311-322

K. Bagwell and R. Staiger, "[The World Trade Organization: Theory and practice](#)," Annu. Rev. of Econ, 2010, 223-256.

C. Freund and E. Ornelas, "[Regional trade agreements](#)," Annu. Rev. Econ, 2010, 39-66.

G. Maggi, "[International Trade Agreements](#)," in Handbook of International Economics Vol. 4, 2014.

Required:

Bagwell, Kyle, and R. W. Staiger. "[An Economic Theory of GATT](#)." AER 1999, 215–48.

G. Grossman and E. Helpman, "[Trade wars and trade talks](#)," JPE 1995, 675-708

G. Maggi and A. Rodríguez-Clare, "[The value of trade agreements in the presence of political pressures](#)," JPE 1998, 574-601

A. Panagariya, "[Preferential trade liberalization: The traditional theory and new developments](#)," JEL 2000, 287-331