

International Economics

Academic year 2024-2025

International Trade II

EI129 - Autumn - 6 ECTS

Wednesday 12h15 - 14h00

Course Description

This course is designed for MIS economics students and policy-oriented Masters students specializing in economics. It covers advanced empirical topics in international trade (as well as economic geography) and problem sets related to the lectures. The course is divided into four parts. The first part considers testings on predictions of the neoclassical trade theories and their implications. The second presents empirical evidence on new trade models with imperfect competition and economic geography. The third part considers firms in international trade and gravity equations. The last covers facts and empirical works on trade policies. Students should be comfortable with basic econometric analysis.

> PROFESSOR

[Yuan Zi](#)

[Office hours](#)

> ASSISTANT

[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

Important information

The course is intended for second-year master's students in economics who have successfully completed International Trade I. However, it is also open to other students with an interest in trade issues. *If you have requested an exemption for Trade I or are simply interested in empirical trade research, please contact the instructor to be enrolled manually.*

Class materials

Each lecture includes a list of reference papers or book chapters related to the covered materials. You are not expected to read all these references; they are provided for your convenience. You are encouraged to skim the empirical papers covered in class, especially their introductions, as they are the most relevant. You are expected to read the papers designated for presentation to actively participate in class discussions.

Below are some relevant textbooks. Use them as relevant resources to enhance your understanding of relevant theories.

- Markusen, Melvin, Kaempfer and Maskus “[International Trade: Theory and Evidence](#)” (MMKM).
- R. Feenstra “[Advanced International Trade: Theory and Evidence](#)”, Ed. 2003 (Feenstra).
- Helpman, E. & Krugman P., 1985: Market Structure and Foreign Trade, MIT Press.
- Combes, P.-P., Mayer, T. and Thisse, J., Economic geography, Princeton University Press.
- Krugman, P. & Obstfeld M., International Economics, Addison-Wesley.

Pre-requisites of the course

The course assumes knowledge of basic trade theory and econometrics.

Grading

The grade will be based on in-class participation (20% of the final grade), a paper presentation (40% of the final grade) and a applied work (40% of final grade).

- Applied Work: This assignment can be done individually or in a group of two and will involve a practical application using the gravity equation.
- Presentation: The presentation should be based on one of the papers from the “paper for presentation” (see below). It should last for 30-40min and be organized as follows:
 - Presentation of the paper: Provide an overview of the paper.
 - Discussion of the paper: Describe its main features, contributions to the literature, strengths, and weaknesses.
- In-Class Participation: Students are expected to contribute to in-class discussions, particularly during presentations and in-class activities proposed by the lecturer.

Tentative teaching plan

The teaching plan is subject to changes.

- Week 1 Introduction and Trade Facts
- Week 2 Technology and Trade (Ricardian)
- Week 3 Factor Endowments and Trade (HO)
- Week 4 Papers for Presentation (Ricardian + HO)
- Week 5 Trade under Imperfect Competition (Krugman)
- Week 6 Economic Geography
- Week 7 Papers for Presentation (Krugman + Economic Geography)

- Week 8 Gravity Equations
- Week 9 Trade with Heterogeneous Firms
- Week 10 Papers for Presentation (Gravity equation + Firms in Trade)
- Week 11 Trade and Labor markets
- Week 12 Trade Policy
- Week 13 Papers for Presentation (Trade and labor + Trade Policy)
- Week 14 Exam Week

Course outline (indicative)

Chapter 1. Introduction and Trade Facts

Readings:

- The Economist: [When did globalisation start?](#)
- Leamer, Edward E. "A flat world, a level playing field, a small world after all, or none of the above? A review of Thomas L. Friedman's The World is Flat." *Journal of Economic Literature* 45.1 (2007): 83-126.

Chapter 2. Technology and Trade (Ricardian)

Readings:

- MMKM chapter 7
- Samuelson, Paul A. "Where Ricardo and Mill rebut and confirm arguments of mainstream economists supporting globalization." *Journal of Economic perspectives* 18.3 (2004): 135-146.
- Bernhofen, Daniel M., and John C. Brown. "A direct test of the theory of comparative advantage: the case of Japan." *Journal of Political Economy* 112.1 (2004): 48-67.
- Bernhofen, Daniel M., and John C. Brown. "An empirical assessment of the comparative advantage gains from trade: evidence from Japan." *American Economic Review* 95.1 (2005): 208-225.
- Donaldson, Dave. "The gains from market integration." *Annual Review of Economics* 7.1 (2015): 619-647.

Paper for presentation:

- Costinot, Arnaud, and Dave Donaldson. "Ricardo's theory of comparative advantage: old idea, new evidence." *American Economic Review* 102.3 (2012): 453-458.

Chapter 3. Factor Endowments and Trade (HO)

Readings:

- MMKM chapter 8 (for HOS), Feenstra chapter 1 (2*2*2 model) and 2 (HOV and empirics) and chap. 4
- Leontief, Wassily W. "Quantitative input and output relations in the economic systems of the United States." *The review of economic statistics* (1936): 105-125.
- Leontief, Wassily. "Domestic production and foreign trade; the American capital position re-examined." *Proceedings of the American philosophical Society* 97.4 (1953): 332-349.

- Leamer, Edward E. "The Leontief paradox, reconsidered." *Journal of political Economy* 88.3 (1980): 495-503.
- Bowen, Harry P., Edward E. Leamer, and Leo Sveikauskas. "Multicountry, Multifactor Tests of the Factor Abundance Theory." *The American Economic Review* (1987): 791-809.
- Treffer, Daniel. "International factor price differences: Leontief was right!." *Journal of Political Economy* 101.6 (1993): 961-987.
- Treffer, Daniel. "The case of the missing trade and other mysteries." *The American Economic Review* (1995): 1029-1046.
- Beck, Thorsten. "Financial development and international trade: Is there a link?." *Journal of international Economics* 57.1 (2002): 107-131.
- Nunn, Nathan. "Relationship-specificity, incomplete contracts, and the pattern of trade." *The Quarterly Journal of Economics* 122.2 (2007): 569-600.
- Cuñat, Alejandro, and Marc J. Melitz. "A many-country, many-good model of labor market rigidities as a source of comparative advantage." *Journal of the European Economic Association* 8.2-3 (2010): 434-441.

Paper for presentation:

- Choi, Yong-Seok, and Pravin Krishna. "The factor content of bilateral trade: An empirical test." *Journal of Political Economy* 112.4 (2004): 887-914.

Chapter 4. Trade under Imperfect Competition (Krugman)

Readings:

- Feenstra chapter 5, HK85, Chapter 6 (read for ideas, not math);
- Krugman, Paul R. 1980. "Scale economies, product differentiation, and the pattern of trade," *AER*. See also J. Dingel's handout on Dixit-Stiglitz model and Baldwin et al.'s chapter on Core-periphery model
- Head, Keith, and John Ries. "Rationalization effects of tariff reductions." *Journal of International economics* 47.2 (1999): 295-320.
- Head, Keith, and John Ries. "Increasing returns versus national product differentiation as an explanation for the pattern of US-Canada trade." *American Economic Review* 91.4 (2001): 858-876.
- Broda, Christian, and David E. Weinstein. "Globalization and the Gains from Variety." *The Quarterly Journal of Economics* 121.2 (2006): 541-585.

Paper for presentation:

- Atkin, David. "Trade, tastes, and nutrition in India." *American Economic Review* 103.5 (2013): 1629-1663. (only empiric part)

Chapter 5. Economic Geography

Readings:

- Davis, Donald R., and David E. Weinstein. "Market access, economic geography and comparative advantage: an empirical test." *Journal of International Economics* 59.1 (2003): 1-23.
- Redding, Stephen, and Anthony J. Venables. "Economic geography and international inequality." *Journal of international Economics* 62.1 (2004): 53-82.

- Redding, Stephen J., and Daniel M. Sturm. "The costs of remoteness: Evidence from German division and reunification." *American Economic Review* 98.5 (2008): 1766-1797.
- Handbury, Jessie, and David E. Weinstein. *Is new economic geography right? Evidence from price data*. National Bureau of Economic Research, 2011.

Paper for presentation:

- Davis, Donald R., and David E. Weinstein. "Bones, bombs, and break points: the geography of economic activity." *American Economic Review* 92.5 (2002): 1269-1289.

Chapter 6. Gravity Equations

Readings:

- Feenstra chap. 5; R.
- Rose, Andrew K. "One money, one market: the effect of common currencies on trade." *Economic Policy* 15.30 (2000): 08-45.
- Baldwin, Richard, and Daria Taglioni. "Gravity for dummies and dummies for gravity equations." (2006).
- Head, Keith, and Thierry Mayer. "Gravity equations: Workhorse, toolkit, and cookbook." *Handbook of International Economics*. Vol. 4. Elsevier, 2014. 131-195.
- Disdier, Anne-Célia, and Keith Head. "The puzzling persistence of the distance effect on bilateral trade." *The Review of Economics and Statistics* 90.1 (2008): 37-48.

Paper for presentation:

- Head, Keith, Thierry Mayer, and John Ries. "The erosion of colonial trade linkages after independence." *Journal of International Economics* 81.1 (2010): 1-14.

Chapter 7. Trade with Heterogeneous Firms

Readings:

- T. Chaney slides on Melitz model ; Baldwin's summary of Melitz
- Bernard, Andrew B., et al. "Firms in international trade." *Journal of Economic Perspectives* 21.3 (2007): 105-130.
- Pavcnik, Nina. "Trade liberalization, exit, and productivity improvements: Evidence from Chilean plants." *The Review of Economic Studies* 69.1 (2002): 245-276.
- Bernard, Andrew B., J. Bradford Jensen, and Peter K. Schott. "Survival of the best fit: Exposure to low-wage countries and the (uneven) growth of US manufacturing plants." *Journal of International Economics* 68.1 (2006): 219-237.
- Trefler, Daniel. "The long and short of the Canada-US free trade agreement." *American Economic Review* 94.4 (2004): 870-895.

Paper for presentation:

- Lileeva, Alla, and Daniel Trefler. "Improved access to foreign markets raises plant-level productivity... for some plants." *The Quarterly journal of economics* 125.3 (2010): 1051-1099.

Chapter 8. Trade and Labor Markets

Readings:

- Berman, Eli, John Bound, and Zvi Griliches. "Changes in the demand for skilled labor within US manufacturing: evidence from the annual survey of manufactures." *The quarterly journal of economics* 109.2 (1994): 367-397.
- Feenstra, Robert C., and Gordon H. Hanson. "Globalization, outsourcing, and wage inequality." *The American Economic Review* 86.2 (1996): 240.
- Feenstra, Robert C., and Gordon H. Hanson. "The impact of outsourcing and high-technology capital on wages: estimates for the United States, 1979–1990." *The quarterly journal of economics* 114.3 (1999): 907-940.
- Hanson, Gordon H., and Ann Harrison. "Trade liberalization and wage inequality in Mexico." *ILR Review* 52.2 (1999): 271-288.
- Harrison, Ann, and Gordon Hanson. "Who gains from trade reform? Some remaining puzzles." *Journal of development Economics* 59.1 (1999): 125-154.
- Bustos, Paula. "Rising wage inequality in the Argentinean manufacturing sector: the impact of trade and foreign investment on technology and skill upgrading." Unpub. Paper, Harvard University (2005).
- Verhoogen, Eric A. "Trade, quality upgrading, and wage inequality in the Mexican manufacturing sector." *The Quarterly Journal of Economics* 123.2 (2008): 489-530.

Paper for presentation:

- Autor, David H., David Dorn, and Gordon H. Hanson. "The China syndrome: Local labor market effects of import competition in the United States." *American economic review* 103.6 (2013): 2121-2168.

Chapter 9. Trade Policy and Political Economy

Readings:

- MMKM chapters 15 and 16 (only parts covered in class); Feenstra chapter 9 and Baldwin and Robert-Nicoud handout "Protection for sale made easy"
- Goldberg, Pinelopi Koujianou, and Giovanni Maggi. "Protection for sale: An empirical investigation." *American Economic Review* 89.5 (1999): 1135-1155.
- Gawande, Kishore, and Usree Bandyopadhyay. "Is protection for sale? Evidence on the Grossman-Helpman theory of endogenous protection." *Review of Economics and statistics* 82.1 (2000): 139-152.
- Mitra, Devashish, Dimitrios D. Thomakos, and Mehmet A. Ulubaşoğlu. "'Protection for sale' in a developing country: democracy vs. dictatorship." *Review of Economics and Statistics* 84.3 (2002): 497-508.
- McCalman, Phillip. "Protection for sale and trade liberalization: an empirical investigation." *Review of International Economics* 12.1 (2004): 81-94.
- Baier, Scott L., and Jeffrey H. Bergstrand. "Do free trade agreements actually increase members' international trade?." *Journal of international Economics* 71.1 (2007): 72-95.
- Broda, Christian, Nuno Limao, and David E. Weinstein. "Optimal tariffs and market power: the evidence." *American Economic Review* 98.5 (2008): 2032-2065.
- Martin, Philippe, Thierry Mayer, and Mathias Thoenig. "Make trade not war?." *The Review of Economic Studies* 75.3 (2008): 865-900.

Paper for presentation:

- Autor, David, et al. "Importing political polarization? The electoral consequences of rising trade exposure." *American Economic Review* 110.10 (2020): 3139-3183.