

Economics 1535: International Trade and Investment Fall 2021

Lecture: Mondays, Wednesdays 13:30-14:45AM

Location: Harvard Hall 103

Section: Tuesdays 19:00-20:00, Littauer Center M42

Web page: <https://canvas.harvard.edu/courses/91722>

Required Text: Paul Krugman, Maurice Obstfeld, and Marc Melitz: *International Economics: Theory and Policy*, 11th edition, Addison Wesley (available at the Coop). **Important Note:** Cheaper copies may be available online.

Instructor

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Note: Please add "Ec1535" to the email subject line

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Course Description and Pre-requisites

This course will analyze the causes and consequences of international trade and investment. We will investigate why nations trade, what they trade, and who gains from trade. We will then analyze the motives for countries or organizations to restrict or regulate international trade and study the effects of such policies on economic welfare.

Topics covered will include the effects of trade on economic growth and wage inequality, multinationals, foreign direct investment and international migration. We will also spend some time discussing aspects of the current debate on the consequences of increased trade with China, as well as the current landscape of trade negotiations and trade wars.

Although the course will emphasize the understanding of past and current events in the world economy, we will rely on formal economic modeling to help us understand these events. We will therefore extensively use microeconomic tools that you have learned in Economics 1010a or 1011a. Having taken one of these courses is a pre-requisite for this class. It is important that you not only be familiar with these tools and models, but that you also feel comfortable using and manipulating them. If you are taking this class, I will assume this to be the case. If you do not feel absolutely comfortable with these models, I strongly urge you to review your Economics 1010a or 1011a textbook and notes early on in the semester.

Grading Policy

1. There will be an in-class midterm exam on Wednesday, October 9th (counting for 35% of the course grade), and a final exam (also 35% of the course grade) on Monday, December 2nd. Please let me know **as soon as possible** if you anticipate any conflict with the midterm date. The exams will cover all the lecture materials (including any extensions covered in section), and all of the assigned textbook readings. The syllabus contains several additional recommended readings that should help you solidify your understanding of the material in the course, but these are not required readings.
2. Six problem sets will be distributed during the semester. These problem sets will be collected and evaluated, and answers will be posted on the course web page. You are encouraged to discuss these problems with your classmates; however, you must write up your own answers (see the Collaboration Policy Statement). Problem sets will count for 20% of the course grade.
3. I expect that you will have read the assigned textbook materials before coming to class. You are strongly encouraged to participate in class discussions, both during lectures and during sections. Class participation will account for the remaining 10% of your course grade.

Collaboration Policy Statement: Collaboration Permitted in Problem Sets

Discussion and the exchange of ideas are essential to doing academic work. For assignments in this course, you are encouraged to consult with your classmates as you work on problem sets. However, after discussions with peers, make sure that you can work through the problem yourself and ensure that any answers you submit for evaluation are the result of your own efforts. In addition, you must cite any books, articles, websites, lectures, etc that have helped you with your work using appropriate citation practices. Similarly, you must list the names of students with whom you have collaborated on problem sets.

A final note

I strongly urge you to carefully go over the assigned readings and to make sure you understand all the material in the problem sets. Doing this, along with class and section attendance, will be the best way to do well in the class. If you are experiencing any problems with this class, please come talk to me as early as possible so that these problems may be addressed.

Course Outline and Reading List

Readings in the textbook are abbreviated as K-O-M. Almost all other readings are available online (see links in the web version of this syllabus). Several readings are also contained in the following three books: *Pop Internationalism* by Paul Krugman, *Free Trade Under Fire* by Douglas Irwin, and *Understanding Global Trade* by Elhanan Helpman. You may also want to consider purchasing these books (again, the best prices are typically found online), though this is not required. All of the assigned readings from the *Pop Internationalism* book will be available online. The Irwin and Helpman books provide an excellent non-technical discussion of most of the topics covered in this course. Another excellent (though a bit dated) textbook, *International Trade, Theory and Evidence* by James Markusen et al, is available (in its entirety) online (see links in the syllabus). You may want to use it as a secondary textbook, especially for the more technical parts of the course. Another recent textbook that may be worth purchasing is John McLaren's *International Trade*, which discusses some of the real-world examples introduced in class.

All of these books are on reserve at the library, together with three additional books that offer an excellent coverage of recent hotly debated issues surrounding trade and globalization as well as interesting historical perspectives. These books are *Has Globalization Gone Too Far?* by Dani Rodrik, *Why Globalization Works* by Martin Wolf, and *The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, And Politics of World Trade* by Pietra Rivoli.

What follows is a tentative schedule for the course, together with the assigned textbook materials and additional recommended readings for each lecture. This is of course subject to change.

Wednesday, September 1st: [Lecture 1](#)

Course Introduction. Basic Facts and Issues in Trade.

- K-O-M Chapters 1 and 2.
- Paul Krugman: “[What do Undergrads Need to Know about Trade?](#)” *AER*, May 1993, p. 23-26 (in Pop Internationalism).
- Alan Deardorff and Robert Stern: “[What the Public Should Know about Globalization and the World Trade Organization](#),” July 2000, Part I and II.
- Douglas Irwin: “[The United States in A New Global Economy? A Century’s Perspective](#),” *AER*, May 1996.
- Douglas Irwin: *Free Trade Under Fire*, Chapter 1.
- Elhanan Helpman: *Understanding Global Trade*, Chapter 1.
- McLaren: *International Trade*, Chapter 1.

Wednesday, September 8th: [Lecture 2](#)

Basic Facts and Issues (cted). Ricardo’s Insight.

- WTO: [International Trade Statistics 2011](#) (overview of broad trade facts)
- Ricardo, David (1817), On the Principles of Political Economy and Taxation, [Chapter 7: “On Foreign Trade”](#).

Monday, September 13th: [Lecture 3](#)

Endowment Economies (I). Consumer Theory Review. In-Class Experiment.

- James Markusen et al: *International Trade*, [Chapter 3](#). (A review of properties of indifference curves and utility maximization.)
- Hal Varian: *Intermediate Microeconomics*, Chapters 2 “6, 9.

Wednesday, September 15th: [Lecture 4](#)

Endowment Economies (II). Aggregation issues. Gains from Trade. Discussion of In-Class Experiment.

- Hal Varian: *Intermediate Microeconomics*, Chapter 31.

Monday, September 20th: [Lecture 5](#) ([first problem set](#) due)

Ricardian Model (I). Motivation. Model Assumptions and Autarky Equilibrium.

- K-O-M Chapter 3.
- Markusen et al. [Chapter 7](#).
- McLaren: *International Trade*, Chapter 2.

- Paul Krugman: [“Ricardo’s Difficult Idea”](#) in *The Economics and Politics of International Trade*.
- Elhanan Helpman: *Understanding Global Trade*, Chapter 2.

Wednesday, September 22nd: [Lecture 6](#)

Ricardian Model (II). Trade Equilibrium, Numerical Example and Main Conceptual Lessons

- Frédéric Bastiat: [“Petition of the Candle Makers”](#) *Economic Sophisms*, 1845

Monday, September 27th: [Lecture 7](#)

Ricardian Model (III). Extensions, Empirical Evidence and Applications

- Arnaud Costinot and Dave Donaldson: [“Ricardo’s Theory of Comparative Advantage: Old Idea, New Test”](#), May 2012, AER Papers and Proceedings.
- Paul Samuelson: [“Why Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization”](#), *Journal of Economic Perspectives* (Summer 2004), 135-146.
- Arvind Panagariya: [“Why the Recent Samuelson Paper is NOT about Offshore Outsourcing”](#)
- The Economist: [Economics Focus](#), Sep 16th 2004.

Wednesday, September 29th: [Lecture 8](#)

The Distributional Effects from Trade: The View from the Specific Factors Model

- K-O-M Chapter 4.
- McLaren: *International Trade*, Chapter 5.
- Markusen et al. [Chapter 9](#).
- Elhanan Helpman: *Understanding Global Trade*, Chapter 3.

Monday, October 4th: [Lecture 9](#)

Specific Factors Model (II). Application to the China Shock

- The China Shock. Autor, David H., David Dorn and Gordon H. Hanson (2013), [“The China Syndrome: Local Labor Market Effects of Import Competition in the United States”](#), *American Economic Review* 6(103): 2121-68.
- Pierce, Justin R., and Peter K. Schott (2016), [“The surprisingly swift decline of US manufacturing employment”](#), *American Economic Review* 106.7 (2016): 1632-62.

Wednesday, October 6th: [Lecture 10](#) ([second problem set](#) due)

Migration Flows. Theory and Evidence

- George Borjas, Richard Freeman and Lawrence Katz, [“Searching for the Effect of Immigration on the Labor Market”](#), *AER*, May 1996, pp. 246-251.
- David Card, [“The Impact of the Mariel Boatlift on the Miami Labor Market”](#), *Industrial and Labor Relations Review*, January 1990.

Monday, October 11th: NO CLASS – Indigenous Peoples' Day

Wednesday, October 13th: [Lecture 11](#)

Heckscher-Ohlin Model (I). Motivation, Autarky Equilibrium. Rybczynski and Heckscher-Ohlin Theorems.

- K-O-M Chapter 5.
- Markusen et al. [Chapter 8](#).
- McLaren: *International Trade*, Chapter 6.
- Hal Varian: *Intermediate Microeconomics*, Chapter 20
- Elhanan Helpman: *Understanding Global Trade*, Chapter 2.

Monday, October 18th: [Lecture 12](#) ([third problem set](#) due)

Heckscher-Ohlin Model (II): Distributional Effects. Stolper-Samuelson Theorem.

- Elhanan Helpman: *Understanding Global Trade*, Chapter 3.
- Paul Krugman: [“In Praise of Cheap Labor,”](#) *Slate*, March 1997. Paul Krugman and Robert Lawrence: [“Trade, Jobs, and Wages,”](#) *Scientific American*, April 1994. (in Pop Internationalism)
- Richard Freeman: [“Are Your Wages Set in Beijing?”](#) *Journal of Economic Perspectives*, Summer 1995.
- Paul Krugman: [“Does Third World Growth Hurt First World Prosperity?”](#) *Harvard Business Review*, July-August 1994 (in Pop Internationalism)
- Douglas Irwin: *Free Trade Under Fire*, Chapter 3.
- Dani Rodrik: *Has Globalization Gone Too Far?*, Chapter 2.

Wednesday, October 20th: MIDTERM EXAM

Monday, October 25th: [Lecture 13](#)

Increasing Returns (I). Motivating Examples and External Economies of Scale.

- K-O-M, Chapter 7.
- McLaren: *International Trade*, Chapter 3.
- Elhanan Helpman: *Understanding Global Trade*, Chapter 4.

Wednesday, October 27th: [Lecture 14](#)

Increasing Returns (II): Internal Economies of Scale, Imperfect Competition and Trade Structure

- K-O-M Chapter 8
- Elhanan Helpman: *Understanding Global Trade*, Chapter 4.

Monday, November 1st: [Lecture 15](#) ([fourth problem set](#) due)

Firms in the Global Economy. Exporting in Theory and in Practice. Oligopoly and Reciprocal Dumping.

- K-O-M Chapter 8
- Elhanan Helpman: *Understanding Global Trade*, Chapter 5.
- Andrew Bernard, J. Bradford Jensen, Stephen Redding, and Peter Schott: [“Firms in International Trade,”](#) *Journal of Economic Perspectives*, Summer 2007.
- Virginia Postrel; [“What Happened When Two Countries Liberalized Trade? Pain, Then Gain,”](#) *New York Times*, January 2005.
- McLaren: *International Trade*, Chapter 4.

Wednesday, November 3rd: [Lecture 16](#)

Firms in the Global Economy (II). Importing in Theory and in Practice. Offshoring. Global Value Chains.

- Andrew Bernard, J. Bradford Jensen, Stephen Redding, and Peter Schott: [“Firms in International Trade,”](#) *Journal of Economic Perspectives*, Summer 2007.
- Grossman, Gene M. and Esteban Rossi-Hansberg, (2008), [“Trading Tasks: A Simple Theory of Offshoring,”](#) *American Economic Review*, 98(5), pp. 1978-97.
- World Development Report 2020: [Trading for Development in the Age of Global Value Chains](#).

Monday, November 8th: [Lecture 17](#)

Multinational Firms and FDI (I). Broad Patterns and Case Studies. Theories.

- K-O-M, Chapter 8
- Elhanan Helpman: *Understanding Global Trade*, Chapter 6.
- James Markusen: [“The Boundaries of Multinational Enterprises and the Theory of International Trade,”](#) *Journal of Economic Perspectives*, Spring 1995.
- Robert Feenstra: [“Integration of Trade and Disintegration of Production in the Global Economy,”](#) *Journal of Economic Perspectives*, Fall 1998.
- Antràs, Pol: [“Global Production: Firms, Contracts, and Trade Structure,”](#) [Chapter 1](#).

Wednesday, November 10th: [Lecture 18](#)

Multinational Firms and FDI (II). Empirical Evidence. Effects of Multinational Firms.

- Lael S. Brainard: [“An Empirical Assessment of the Proximity-Concentration Trade-off Between Multinational Sales and Trade,”](#) *AER*, September 1997, pp. 520-544.
- Antràs, Pol: [“Global Production: Firms, Contracts, and Trade Structure,”](#) [Chapters 5 and 8](#).
- Drusilla K. Brown, Alan V. Deardorff and Robert M. Stern: [“The Effects of Multinational Production on Wages and Working Conditions in Developing Countries,”](#) NBER Working Paper No. 9669, 2003.

Monday, November 15th: [Lecture 19](#) ([fifth problem set](#) due)

Trade Policy (I). Some Examples. Import Tariffs and Quotas.

- K-O-M, Chapter 9
- Robert Feenstra: [“How Costly is Protectionism?”](#) *Journal of Economic Perspectives*, 1992.
- Robert Baldwin: [“The Political Economy of Trade Policy,”](#) *Journal of Economic Perspectives*, Fall 1989.
- Paul Krugman: [“Is Free Trade Passe?”](#) *Journal of Economic Perspectives*, Fall 1987.

Wednesday, November 17th: [Lecture 20](#)

Trade Policy Determination: Optimal versus Actual Policies.

- K-O-M, Chapter 9
- Fajgelbaum, Pablo D., Pinelopi K. Goldberg, Patrick J. Kennedy, and Amit K. Khandelwal (2019), "[The Return to Protectionism](#)," forthcoming *Quarterly Journal of Economics*.

Monday, November 22nd: [Lecture 21](#)

International Trade Agreements, Trade Wars, and the WTO.

- K-O-M, Chapter 10
- Douglas Irwin: *Free Trade Under Fire*, Chapter 5 and 6.
- Alan Deardorff and Robert Stern: "What the Public Should Know about Globalization and the World Trade Organization," July 2000, Part III.
- Paul Krugman: "The Uncomfortable Truth About NAFTA," *Foreign Affairs*, November 1993.
- Fajgelbaum, Pablo D., Pinelopi K. Goldberg, Patrick J. Kennedy, and Amit K. Khandelwal. "The Return to Protectionism," NBER Working Paper No. 25638.

Wednesday, November 24th: NO CLASS " Thanksgiving

Monday, November 29th: [Lecture 22](#) ([sixth problem set](#) due)

Trade and Development. Industrial Policy. Trade Policy. Intellectual Property Rights Protection. Labor and Product Standards. Trade and the Environment.

- K-O-M, Chapter 11 and 12
- McLaren, Chapters 13 and 14
- Jeffrey A. Frankel and David Romer, "Does Trade Cause Growth?" *American Economic Review*, June 1999, pp. 379-399.
- Romain Wacziarg and Karen Horn Welch, "Trade Liberalization and Growth: New Evidence," November 2003
- Douglas Irwin: *Free Trade Under Fire*, Chapter 6.
- Paul Krugman, "A Raspberry for Free Trade," *Slate*, November 1997
- Nicholas Kristof and Sheyl Wu Dunn, "Two Cheers for Sweatshops," *New York Times*, 2000

Wednesday, December 1st: FINAL EXAM