

Economics 1535: The Global Economy

Fall 2024

Lecture: Mondays, Wednesdays 10:30-11:45AM

Section: TBA

Web page: <https://canvas.harvard.edu/courses/137718>

Recommended Text: Paul Krugman, Maurice Obstfeld, and Marc Melitz: *International Economics: Theory and Policy*, 12th edition, Addison Wesley (available at the Coop). **Important Note:** Cheaper copies may be available online.

Instructor

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Course Description and Pre-requisites

A wave of protectionism has rocked the world economy in recent years. In the United States, the Trump administration abandoned the country's traditional position as a defender of international trade, viewing global trade as a "zero-sum" game in which only some countries benefit at the expense of others. In the UK, the consequences of voting for Brexit are not yet entirely clear, but free access to the European market that guaranteed membership of the European Union is no longer possible. Contemporaneously, there has been an active debate on the extent to which geopolitical tensions (such as the increasing tensions between Russia and the West) and technological change (automation, 3D-printing, etc) might work to reduce the level of trade integration across countries. What would be the economic consequences of the increase in protectionism and of technologically driven "de-globalization" around the world?

The purpose of this course is to review in an accessible and concise manner the causes and consequences of globalization and of (potential) "de-globalization" episodes. In the first lectures, the concept of "globalization" will be defined and an overview of the benefits and costs associated with trade integration will be offered. The course will highlight the role of firms, and of multinational firms more specifically, in shaping global production and consumption patterns. A few lectures will be devoted to the economics and politics of trade policy.

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 often use microeconomic tools that I expect you have learned in Economics 1010a or 1011a. Having taken one of these particular courses is not a pre-requisite for this class, but you will find the course less challenging if you are familiar with these tools and models. If you do not feel absolutely comfortable with microeconomic modelling, it would be wise 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 Wednesday, December 4th. 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. Five 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. 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 certainly 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.

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 4th: 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*).
- Douglas Irwin: *Free Trade Under Fire*, Chapter 1.
- Elhanan Helpman: *Understanding Global Trade*, Chapter 1.
- McLaren: *International Trade*, Chapter 1.
- Antràs, Pol. 2021. "De-Globalization? Global Value Chains in the Post-COVID-19 Age." 2021 ECB Forum: "Central Banks in a Shifting World" Conference Proceedings.

Monday, September 9th: Lecture 2

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

- K-O-M Chapters 1 and 2.
- Barjamovic, G., Chaney, T., CoÅr, K. and HortaÅssu, A., 2019. "Trade, Merchants, and the Lost Cities of the Bronze Age" *Links to an external site.* The Quarterly Journal of Economics, 134(3), pp.1455-1503.
- Ricardo, David (1817), On the Principles of Political Economy and Taxation, *Chapter 7: On Foreign Trade* "Links to an external site..

Wednesday, September 11th: Lecture 3

Gains from Trade. The Ricardian Model (I).

- K-O-M Chapter 3.
- McLaren: *International Trade*, Chapter 2.
- Paul Krugman: "Ricardo's Difficult Idea" *Links to an external site.* in *The Economics and Politics of International Trade*.
- Elhanan Helpman: *Understanding Global Trade*, Chapter 2.

Monday, September 16th: Lecture 4

Ricardian Model (II). Empirical Evidence and Applications.

- Frédéric Bastiat: "Petition of the Candle Makers" *Links to an external site.* *Economic Sophisms*, 1845

Wednesday, September 18th: Lecture 5

Ricardian Model (II). Empirical Evidence and Applications. A Primer on Offshoring. In-Class Experiment.

- 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.

Monday, September 23rd: Lecture 6

Endowment Economies: Gains from Trade and Distributional Effects.

- Hal Varian: *Intermediate Microeconomics*, Chapters 2, 6, 9, 31.
- Bernhofen, Daniel M., and John C. Brown. [“An Empirical Assessment of the Comparative Advantage Gains from Trade: Evidence from Japan”](#), *American Economic Review* 95, no. 1 (2005): 208-225.

Wednesday, September 25th: Lecture 7 (first problem set due)

Specific Factors Model. Motivation. The China Shock

- K-O-M Chapter 4.
- McLaren: *International Trade*, Chapter 5.
- Elhanan Helpman: *Understanding Global Trade*, Chapter 3.
- 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* 103(10): 2121-2136.
- Pierce, Justin R., and Peter K. Schott (2016), [“The Surprisingly Swift Decline of US Manufacturing Employment”](#), *American Economic Review* 106.7 (2016): 1632-62.

Monday, September 30th: Lecture 8

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.

Wednesday, October 2nd: Lecture 9

Heckscher-Ohlin Model. Motivation, Rybczynski and Heckscher-Ohlin Theorems. Empirical Evidence

- 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 7th: Lecture 10 (second problem set due on Friday!)

Long-Run Distributional Effects of Trade. Stolper-Samuelson Theorem. Trade and Income Inequality.

- Elhanan Helpman: *Understanding Global Trade*, Chapter 3.
- Paul Krugman: [“In Praise of Cheap Labor”](#)[Links to an external site.](#) *Slate*, March 1997. Paul Krugman and Robert Lawrence: [“Trade, Jobs, and Wages”](#)[Links to an external site.](#), *Scientific American*, April 1994. (in Pop Internationalism)
- Richard Freeman: [“Are Your Wages Set in Beijing?”](#)[Links to an external site.](#) *Journal of Economic Perspectives*, Summer 1995.
- Paul Krugman: [“Does Third World Growth Hurt First World Prosperity?”](#)[Links to an external site.](#) *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 9th: MIDTERM EXAM

Monday, October 14th: NO CLASS “ Indigenous Peoples' Day

Wednesday, October 16th: Lecture 11

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.
- Atkin, David, Azam Chaudhry, Shamyla Chaudry, Amit K. Khandelwal, and Eric Verhoogen. [“Organizational Barriers to Technology Adoption: Evidence from Soccer-Ball Producers in Pakistan.”](#)[Links to an external site.](#) *The Quarterly Journal of Economics* 132, no. 3 (2017): 1101-1164.

Monday, October 21st: Lecture 12

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

- K-O-M Chapter 8
- Elhanan Helpman: *Understanding Global Trade*, Chapter 4.
- Costinot, Arnaud, Dave Donaldson, Margaret Kyle, and Heidi Williams. [“The More We Die, the More We Sell? A Simple Test of the Home-Market Effect.”](#)[Links to an external site.](#) *The Quarterly Journal of Economics* 134, no. 2 (2019): 843-894.
- Almunia, Antràs, Lopez-Rodriguez, and Morales, [“Venting Out: Exports During a Domestic Slump”](#)[Links to an external site.](#), *American Economic Review*, 111 (11): 3611-62.

Wednesday, October 23rd: Lecture 13 (third problem set due)

Firms in the Global Economy. Exporting in Theory and in Practice.

- 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”](#)[Links to an external site.](#), *New York Times*, January 2005.
- Atkin, David, Amit K. Khandelwal, and Adam Osman. [“Exporting and Firm Performance: Evidence from a Randomized Experiment.”](#)[Links to an external site.](#) *The Quarterly Journal of Economics* 132, no. 2 (2017): 551-615.

Monday, October 28th: Lecture 14

Firms in the Global Economy (II). Oligopoly and Reciprocal Dumping. Importing, Offshoring and Global Value Chains.

- Andrew Bernard, J. Bradford Jensen, Stephen Redding, and Peter Schott: [“Firms in International Trade”](#), *Journal of Economic Perspectives*, Summer 2007.
- McLaren: *International Trade*, Chapter 4.
- Antràs, P. and Yeaple S.R. (2013), [Multinational Firms and the Structure of International Trade](#), In: Helpman, E., Rogoff, K., & Gopinath, G. eds. *Handbook of International Economics*, Elsevier. Vol. 4.
- Antràs, P. and Davin Chor (2021), [“Global Value Chains”](#), *Handbook of International Economics*, Volume 5, 2022, Pages 297-376
- 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](#)

Wednesday, October 30th: Lecture 15

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

- K-O-M, Chapter 8
- Elhanan Helpman: *Understanding Global Trade*, Chapter 6.

Monday, November 4th: Lecture 16

Multinational Firms and FDI (II). Theories. Empirical Evidence.

- 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 6th: Lecture 17 (fourth problem set due)

Multinational Firms and FDI (III). Effects of Multinational Firms and the Taxation of Multinationals.

- 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.
- Alfaro-Urena, Alonso, Isabela Manelici, and Jose P. Vasquez. [“The effects of joining multinational supply chains: New evidence from firm-to-firm linkages.”](#) *The Quarterly Journal of Economics* 137, no. 3 (2022): 1495-1552.

Monday, November 11th: Lecture 18

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 13th: Lecture 19

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. [“The Return to Protectionism”](#) *Links to an external site.*, *The Quarterly Journal of Economics* 135, no. 1 (2020): 1-55.

Monday, November 18th: Lecture 20

International Trade Agreements, Trade Wars, and the WTO.

- K-O-M, Chapter 10
- Douglas Irwin: *Free Trade Under Fire*, Chapter 5 and 6.
- Fajgelbaum, Pablo D., Pinelopi K. Goldberg, Patrick J. Kennedy, and Amit K. Khandelwal. [“The Return to Protectionism”](#) *Links to an external site.*, *The Quarterly Journal of Economics* 135, no. 1 (2020): 1-55.
- Amiti, Mary, Stephen J. Redding, and David E. Weinstein. [“The Impact of the 2018 Tariffs on Prices and Welfare”](#) *Links to an external site.*, *Journal of Economic Perspectives* 33, no. 4 (2019): 187-210.

Wednesday, November 20th: Lecture 21

Trade, Growth and Development. Industrial 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?”](#) *Links to an external site.*, *American Economic Review*, June 1999, pp. 379-399.
- Pascali, Luigi. [“The Wind of Change: Maritime Technology, Trade, and Economic Development”](#) *Links to an external site.*, *American Economic Review* 107, no. 9 (2017): 2821-54.
- Feyrer, James. 2021. [“Distance, Trade, and Income-the 1967 to 1975 Closing of the Suez Canal as a Natural Experiment”](#) *Links to an external site.*, *Journal of Development Economics*, Volume 153.
- Juhász, Róka. 2018. [“Temporary Protection and Technology Adoption: Evidence from the Napoleonic Blockade”](#) *Links to an external site.*, *American Economic Review*, 108 (11): 3339-76.
- Douglas Irwin: *Free Trade Under Fire*, Chapter 6.
- Paul Krugman, [“A Raspberry for Free Trade”](#) *Links to an external site.*, *Slate*, November 1997
- Nicholas Kristof and Sheyl Wu Dunn, [“Two Cheers for Sweatshops”](#) *Links to an external site.*, *New York Times*, 2000

Monday, November 25th: Lecture 22 (fifth problem set due)

The Future of Globalization. Globalization and Pandemics (Part I)

- Antràs, Pol. 2021. [“De-Globalization? Global Value Chains in the Post-COVID-19 Age”](#), 2021 ECB Forum: "Central Banks in a Shifting World" Conference Proceedings.
- Tang, Heiwai. 2020. [“Globalization in Crisis”](#), mimeo Hong Kong University.

Wednesday, November 27th: NO CLASS “ Thanksgiving

Monday, December 2nd: Lecture 23

Any pending material + Review Session

