

INTERNATIONAL TRADE

WWS301/ECO352, Spring 2019

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Course Prerequisites: WWS 300 or ECO 300 or ECO 310

The course will use basic algebra and elementary calculus (partial and total differentiation), as well as intermediate microeconomics. The first precept will review some of the simple calculus and microeconomic concepts that are needed for the course.

Course Description:

The course examines the causes and consequences of international trade. We investigate why countries trade, what goods they export and import, and who gains and loses from trade. We then focus on economic and political motives for countries to regulate international trade and examine the economic effects of trade policies. Additional topics will include the connection between globalization and wage inequality, the effects of the "China shock" on the U.S. economy and politics, the implications of multinational corporations and global value chains, the motivation for trade agreements, and a discussion of recent events such as NAFTA/USMCA Trade Agreement and the US-China Trade War.

Ground Rules

1. Grading

Mid Term Exam - 25%
Final Exam - 50%
Class/Precept Participation - 5%
Problem sets - 20% (Best 4 out of 5)

2. Electronics

The use of laptops, tablets, smart phones, and other electronic devices is **not allowed** in lectures and precepts. If you have an extraordinary and compelling need to use a laptop during lectures, please obtain a note from the Office of Disability Services and email it to the preceptor, Charly Porcher (cporcher@princeton.edu). Lecture slides, problem sets and

solutions will be posted on Blackboard. You may download lecture notes before class and take notes on them, if that works best for you.

3. Problem Sets

There will be five problem sets, due on Tuesdays in weeks 3, 5, 8, 10, and 12. Each problem set will be posted on Blackboard under Assignments at least one week before the due date. Those who miss precept on the due date may hand in their problem set *before 1:30 pm* in the drawer labelled with the course number on the A floor of JRRB. A student's grade for the problem sets will be the average of his or her four best scores.

Students must write up solutions *independently*. However, students may collaborate with one (and only one) classmate while working on the problems. Please list the name of any collaborator on the first page of your solution set. Graded problem sets will be distributed at precept one week after the due date. If you miss that precept, you may collect your problem set from the course drawer on the A level. An answer key for each problem set will be posted on Blackboard under Assignments.

4. Mid-Term and Final

A **mid-term exam** will be held during mid-terms week; details about time and place to follow. The **final** will be a three-hour exam during the exam period. Both exams are closed-book and subject to the University's Honor Code.

Textbooks

I do not follow any textbook closely. *Some* students find it helpful to have a text that offers an alternative presentation of *some* of the material. No textbook purchase is required or essential for success in the course. In case you want to have this alternative aid, I list in the syllabus relevant chapters and pages from

Paul Krugman, Maurice Obstfeld and Marc Melitz,) *International Economics: Theory and Policy*, 11th ed., Pearson. (**KOM** on syllabus)

The 11th edition exists only in electronic form. It can be rented for \$99 at

<http://www.mypearsonstore.com/bookstore/international-economics-theory-and-policy-rental-edition-9780134519579?xid=PSED>

The syllabus also refers to the following book, which is available from Amazon or at Labyrinth. This book offers an easily digestible overview of some of the concepts and empirical findings.

Douglas Irwin, *Free Trade under Fire*, 4th ed., Princeton University Press (**I** on syllabus)

Lectures, Precepts, and Required Readings

Attendance at **lectures** is critical for success in the course. I will post lecture notes, but these are rather dense and may be difficult to absorb without hearing the lectures. The **precepts** will be complimentary to the lectures; they will review and clarify material covered in lecture, respond to questions, and/or cover additional material. Problem sets will **not** be discussed in precept; students should review the posted solutions and consult with the preceptor during office hours as necessary. **Textbook readings** in KOM are *optional*; they are intended to give you a different (perhaps gentler) exposition of the material. **Other readings** will supplement and (hopefully) enrich the lectures; they are considered to be “required” even if not discussed explicitly in lecture.

Special Guest

On Thursday, February 21, we will host **Dr Chad Bown**, the Reginald Jones Senior Fellow at the Peterson Institute of International Economics. Dr Bown previously served as senior economist for international trade and investment for the Obama Council of Economic Advisors and as the lead economist for trade policy at the World Bank. Co-host of the popular weekly podcast, *Trade Talks*, Dr Bown is the world leading expert on the details and consequences of current day trade policies.

Readings

I. Introduction and Basic Facts about Trade

KOM chs 1,2

I, ch1

E. Ortiz-Ospina and M. Roser, “International Trade”. Available at:

<https://ourworldindata.org/international-trade>

W. Nordhaus, “The Trump Doctrine on International Trade, Parts One and Two”

<http://voxeu.org/article/trump-doctrine-international-trade-part-one>

<http://voxeu.org/article/trump-doctrine-international-trade-part-two>

II. Comparative Advantage and the Gains from Trade

KOM, ch 6

I, ch 2

D. Bernhoven and J. Brown, “Gains from Trade: Evidence from Nineteenth Century Japan.” Available at:

<http://microeconomicinsights.org/gains-trade-evidence-nineteenth-century-japan/>

A. Deardorff, “Benefits and Costs of Following Comparative Advantage,” University of Michigan School of Public Policy Disc Paper No. 423. Available at:

<https://pdfs.semanticscholar.org/2547/af6a30db5ce825df38fb05fecbbdc6fc27a9.pdf>

D. Rodrik, “Why Doesn’t Everyone Get the Case for Free Trade”, ch. 3 in *The Globalization Paradox*, W.W. Norton and Co, 2011.

III. The Ricardian Model

KOM 3

P. Krugman, “Ricardo’s Difficult Idea.” Available at: <http://web.mit.edu/krugman/www/ricardo.htm>

A. Costinot and D. Donaldson, “Ricardo’s Theory of Comparative Advantage: Old Idea, New Evidence.” *American Economic Review* May 2012, pp. 453-8.

IV. The Heckscher-Ohlin Model

KOM, ch 5, incl, appendix

P. Krugman, “In Praise of Cheap Labor”. *Slate* March 21, 1997. Available at:

http://www.slate.com/articles/business/the_dismal_science/1997/03/in_praise_of_cheap_labor.html

V. Testing the Heckscher-Ohlin Theory

R. Baldwin, *The Development and Testing of Heckscher-Ohlin Trade Models*, MIT Press 2008, chs 3,4.

VI. Trade and Income Distribution

KOM ch 4

I, ch 4

Robert Z. Lawrence, *Blue-Collar Blues: Is Trade to Blame for Rising US Income Inequality*, Peterson Institute for International Economics, 2008, ch.3.

VII. The China Shock

- R. Freeman, "[Are your Wages Set in Beijing](#)," *Journal of Economic Perspectives*, Summer 1995, 15-32.
D. Autor, D. Dorn and G. Hanson, "[The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade](#)," *Annual Review of Economics* 2016, 205-40.

VIII. Offshoring

- R. Baldwin, *The Great Convergence: Information Technology and the New Globalization*, Harvard Univ. Press 2017, chs. 4,5.
G. Grossman and E. Rossi-Hansberg, "[The Rise of Offshoring: It's Not Wine for Cloth Anymore](#)," *The New Economic Geography: Effects and Policy Implications*, Federal Reserve Bank of Kansas City, 2006.

IX. Economies of Scale and Intra-industry Trade

- KOM, ch 8, 170-187
G. Ip, "[Consumer Beware: With Less Trade Comes Less Choice](#)," *Wall Street Journal*, Nov. 28, 2018.
R. Feenstra, "[New Evidence on the Gains from Trade](#)," *Review of World Economics*, Dec. 2006, 1-25.

X. Heterogeneous Firms and Trade

- KOM, Ch 8, 187-210
A. Bernard, J.B. Jensen, S. Redding and P. Schott, "[Firms in International Trade](#)," *Journal of Economic Perspectives*, Summer 2007, pp. 105-130.

XI. The Empirical Landscape of Trade Policy

- C.P. Bown and M.A. Crowley, "[The Empirical Landscape of Trade Policy](#)," Ch. 1 in R.W. Staiger and K. Bagwell, eds., *Handbook of Commercial Policy*, North Holland, 2017.

XII. Trade Policy: First Best

- KOM ch 9, incl. appendix
I, ch 3
R. Feenstra, "[How Costly is Protectionism?](#)" *Journal of Economic Perspectives* Summer 1992, pp. 159-178

XIII. Trade Policy: Second Best

- KOM ch 11, 12
I, ch 6
U.S. Dept. of Commerce International Trade Administration, [The Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices](#), 2005.
Lael Brainard, Robert E. Litan and Nicholas Warren, "Insuring America's Workers in a New Era of Offshoring," The Brookings Institution Policy Brief #143, July 2005. Available at: <https://www.brookings.edu/wp-content/uploads/2016/06/pb143.pdf>
R. Baldwin, "[The Case against Infant-Industry Tariff Protection](#)," *Journal of Political Economy* May 1969, 295-305.

XIV. The Political Economy of Trade Policy

KO, ch 10

R. Baldwin, "[The Political Economy of Trade Policy](#)," *Journal of Economic Perspectives*, Fall 1989, pp. 119-135.

R. Baldwin and F. Robert-Nicoud, "Protection for Sale Made Easy." CEP Discussion Paper No. 800, Available at: http://eprints.lse.ac.uk/19713/1/Protection_for_Sale_Made_Easy.pdf

XV. Trade Agreements

I, ch 7

G. Grossman, "What Trade Deals are Good For." *Harvard Business Review* May 24, 2016. Available at: <https://hbr.org/2016/05/what-trade-deals-are-good-for>

G. Grossman, "[The Purpose of Trade Agreements](#)," , Ch. 7 in R.W. Staiger and K. Bagwell, eds., *Handbook of Commercial Policy*, North Holland, 2017. pp. 1-12.

XVI. NAFTA/USMCA

G.C. Hufbauer, C. Cimino, and T. Moran, "NAFTA at 20: Misleading Charges and Positive Achievements," in Petersen Institute of International Economics, PIIE Briefing No. 14-3, November 2014. Available at: <https://piie.com/publications/policy-briefs/nafta-20-misleading-charges-and-positive-achievements>

M.A.Villarreal and I. Fergusson, "The North American Free Trade Agreement." Congressional Research Service Report R42965, May 24, 2017, pp. 1-21. Available at: <https://fas.org/sgp/crs/row/R42965.pdf>

G.C. Hufbauer and S. Globberman, "[The United States-Mexico-Canada Agreement: Overview and Outlook](#)," *Fraser Research Bulletin*, November 2018.

XVII. US-China Trade War

D. Wong and A.C. Koty, "[The US-China Trade War: A Timeline](#)," *China Briefing*, Dec. 14, 2018.

G.C. Hufbauer and Z. Lu, "[Section 301: US Investigates Allegations of Forced Technology Transfers to China](#)," *East Asia Forum*, Oct. 17, 2017.

R.Z. Lawrence, "[How the United States Should Confront China Without Threatening the Global Trading System](#)," *Peterson Institute for International Economics Policy Brief 18-17*, August 2018.