

Assignment Project Exam Help

ECON 422: International Economics

Lecture 1: Introduction

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Pablo Fajgelbaum

WeChat: ^{UCLA}
cstutorcs
Winter 2019

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- Organization
- International trade: brief introduction and topics in this course
- Facts on globalization

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^{Organization}
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- Professor: Pablo Fajgelbaum, pfaigelbaum@gmail.com
 - Monday and Wednesdays, 6-7:15 PM
 - No classes on holidays: January 21 and February 18
 - Office hour: by appointment
- T.A. Manolis Hatzikonstantinou, mhatzikonstantinou@gmail.com
 - Discussion Sections: Wednesdays 12-12:50pm and 1-1:50pm in 3170 Bunche
 - Office hour: Monday and Friday 10-11 AM in 2249 Bunche Hall
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Organization (cont'd)

- Main sources:
 - Robert Feenstra, *Advanced International Trade: Theory and Evidence*, 2nd edition
 - Graduate-level, more technical
 - Krugman, Obstfeld and Melitz, *International Economics: Theory and Policy*, 10th or 11th Edition
 - Undergraduate level, more intuitive
 - 11th edition only available online
 - Papers and Slides

- Grading
 - 5 problem sets (15% each)
 - Made available around weeks 3 and 7
 - A class presentation (10% of grade)
 - In last 2 weeks
 - A midterm (20%)
 - **on February 6 in class**
 - Final (40%)
 - March 21 from 11:30-2:30pm

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- Books

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- Undergraduate level, more intuitive
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- Irwin, Douglas, *Free Trade Under Fire*, 4th edition

- Background discussion of policy topics

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- Papers and Slides

- Additional readings in the syllabus (papers, blog articles, podcasts)

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- 2 problem sets (15% each)
 - Made available around weeks 3 and 8
- A class presentation (10% of grade)
 - In last 2 weeks
- A midterm (20%)
 - **on February 6 in class**
- Final (40%)
 - March 21 from 11:30-2:30pm
- Class participation is encouraged!
 - If you are marginal between two letter grades, class participation will make you get the better grade

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- 20-minute presentation, in the last 2 weeks
- Based on a report on a trade topic that you will have to do as part of your 2nd problem set
- You must work in groups of 4 or 5 people

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International trade: brief overview and topics in this course

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Why Study International Trade?

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Why Study International Trade?

- Production technologies and factors of production are very different across countries
 - Mobility factors is limited across countries (for both policy and geographic reasons)
 - Large differences in government institutions (e.g. legal systems, labor market institutions)

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- As a result, factor prices vary across countries, creating incentives to trade
- In contrast, intra-country barriers to mobility are more limited
 - E.g., the US constitution prohibits individual states from regulating their interstate trade (Interstate Commerce Clause)
 - However, some within-country barriers exist
 - E.g., intranational transport costs, especially in developing countries

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Why Study International Trade?

- Some of the most important policy questions in the world today are about trade

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- Some of the most important policy questions in the world today are about trade

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- TPP
- NAFTA-USMCA
- US-China trade war
- Brexit
- China's OBOR
- ...

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- and there is widespread controversy about the impact of these policies

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E.g., Trans-Pacific Partnership (TPP)

- # Assignment Project Exam Help
- E.g., the Trans-Pacific Partnership – was a proposed trade agreement involving 12 countries that border the Pacific Ocean (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam + U.S.)
- Involved trade policy (e.g., tariffs)
 - Many regulatory aspects (e.g., technical and sanitary regulations of traded goods, intellectual property rights, government procurement)
 - Rules to settle disputes between multinational corporations and governments

- www.citizen.org (January 2016): "If passed, the TPP would: make it easier for big corporations to ship our jobs overseas, pushing down our wages and increasing income inequality, flood our country with unsafe imported food, jack up the cost of medicines by giving big pharmaceutical corporations new monopoly rights to keep lower cost generic drugs off the market, empower corporations to attack our environmental and health safeguards, ban Buy American policies needed to create green jobs, (...) and undermine human rights."

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E.g., Trans-Pacific Partnership (TPP)

- Office of the United States Trade Representative (January 2016, under Obama):

"The TPP writes the rules for global trade—rules that will help increase Made-in-America exports, grow the American economy, support well-paying American jobs, and strengthen the American middle class. (...) TPP will make it easier for American entrepreneurs, farmers, and small business owners to sell Made-In-America products abroad by eliminating more than 18,000 taxes & other trade barriers on American products across the 11 other countries in the TPP."

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E.g., Trans-Pacific Partnership (TPP)

- Office of the United States Trade Representative (January 2017, under Trump): "The Office of the U.S. Trade Representative (USTR) issued a letter to signatories of the Trans-Pacific Partnership Agreement that the United States has formally withdrawn from the agreement per guidance from the President of the United States. The letter emphasizes the commitment of the United States to free and fair trade, and encourages future discussions on measures designed to promote more efficient markets and higher levels of economic growth."

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- Office of the USTR: "On a level playing field, Americans can compete fairly and win"
 - What does it mean to "win" at trade?

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People's Views on NAFTA

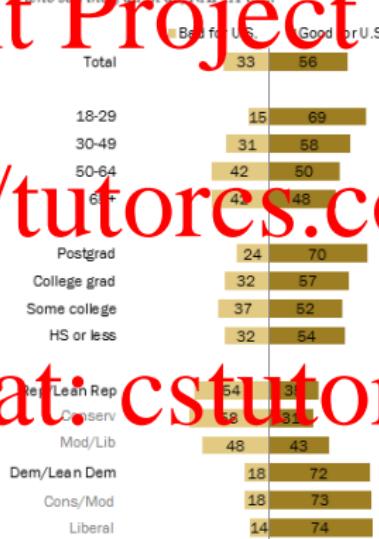


Source: GALLUP

People's Views on NAFTA

NAFTA seen as good for the U.S., but partisans differ widely on its impact

% who say that all in all NAFTA is...



Note: Don't know responses not shown.
Source: Survey conducted Oct. 25-30, 2017.

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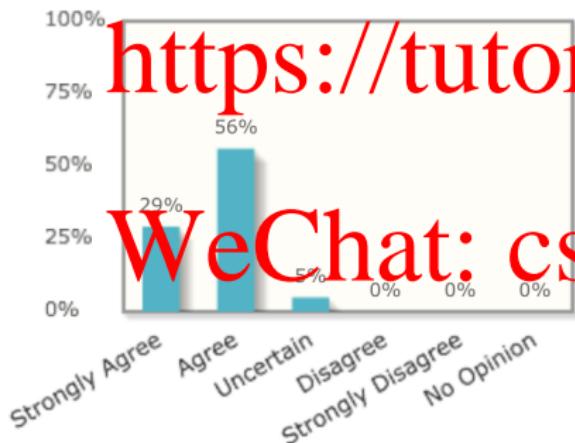
Source: Pew Research Center, Survey Oct 2017

Yet, a Lot of Agreement Among Economists

Question A: Free trade improves productive efficiency and offers consumers better choices, and in the long run these gains are much larger than any effects on employment.

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Responses



Responses weighted by each expert's confidence



Source: IGM Experts Panel - Free Trade Survey

Main Lessons of Trade Theory

This agreement among economists stems from two broad lessons of trade theory:

- ① The gains from trade typically benefit all the countries involved

- Both if the countries are very different (e.g., rich versus poor) or very similar
- Both through mobility of goods and mobility of people (migration)

- ② Trade may hurt particular groups of people within countries, but it is theoretically possible to compensate the losers

- E.g., workers in some sectors or unskilled workers in general

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- In sum, trade is not a zero-sum game

- Every country and group within country can theoretically win
- But this redistribution is hard to achieve through actual policies!

- Main reason: **comparative advantages**

- Neoclassical theory: 1830-1980

- Smith, Ricardo
- Heckscher-Ohlin-Samuelson

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- New trade theory: 1980-

- Krugman
- Grossman and Helpman

- Empirical: 1990-

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- Leamer, Trefler, Davis and Weinstein

- Heterogeneous firms and quantitative analysis: 2000-

- Melitz, Eaton and Kortum

This Course

① Facts about globalization

- How can we measure globalization, and how big is it?

② Gains From Trade and the Law of Comparative Advantage

- How do countries benefit from trade?

③ Ricardian Model

- How do technology differences impact international trade?

④ Factor Endowments, Specific-Factors, and Distributional Effects in the U.S.

- How does trade impact the distribution of income within countries?

⑤ Trade Policy

- What are the effects of tariffs?

⑥ Trade Agreements

- Why do trade agreements exist, and what do they do?

⑦ NAFTA/USMCA

- What were the effects of the NAFTA?

⑧ The U.S.-China Trade War

- What are the current and expected effects of the ongoing trade war?

⑨ Monopolistic Competition and Gains from Variety

- What is the role of individual firms in international trade?

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