

International Trade

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E-mail:

Office Hours:

Office:

Class Hours:

Class Room:

Course Description

This is a one-semester Ph.D. level course in international trade. We will cover competitive trade theory, including the gains from trade, the sources of comparative advantage, the effects of trade on income distribution; trade monopolistic competition; trade with heterogeneous firms; quantitative trade models; task trade, offshoring and multinationals; trade and growth. We will study policy issues in these frameworks.

Books

There are no required textbooks. The following books are cited in the reading list by the abbreviations indicated.

Avinash Dixit and Victor Norman, *Theory of International Trade* (DN)

Robert Feenstra, (2nd Edition) *Advanced International Trade: Theory and Evidence* (F)

Elhanan Helpman and Paul Krugman, *Market Structure and Foreign Trade* (HK)

Grading

The grade will be based on i) class participation; ii) 2 problem sets; and iii) a class presentation near the end of the semester. Each student will be assigned a paper to present later in the semester.

Please do the required reading ahead of time and come to class prepared to discuss the related topics.

1 GAINS FROM COMPETITIVE TRADE

Essential Before Lecture:

1. DN pp. 65-80.
2. F pp. 186-196.

Required:

1. Dixit, Avinash and Victor Norman (1986) "Gains from trade without lump-sum compensation," *Journal of International Economics*.

2. Deardorff, Alan (1980) "The General Validity of the Law of Comparative Advantage," *Journal of Political Economy*.
3. Bernhofen, D. and J. Brown (2005) "An Empirical Assessment of the Comparative Advantage Gains from Trade: Evidence from Japan," *American Economic Review*.
4. Bernhofen, D. and J. Brown (2004) "A Direct Test of the Theory of Comparative Advantage: The Case of Japan," *Journal of Political Economy*.

2 TRADE EQUILIBRIUM: PERFECT COMPETITION

2.1 Factor Endowments

Essential Before Lecture:

1. F pp. 1-33, 51-82.
2. Jones, R. and P. Neary (1984) "The Positive Theory of International Trade," in (eds.) R. Jones and P. Kenen, *Handbook of International Economics*, vol. 1.

Required:

1. Jones, R. (1965) "The Structure of Simple General Equilibrium Models," *Journal of Political Economy*.
2. DN, chs. 2, 4.
3. HK, ch. 1.
4. Either, W. (1984) "Higher Dimensional Trade Theory," in R. Jones and P. Kenen, *Handbook of International Economics*, vol. 1.

2.2 Technological Differences

Essential Before Lecture:

1. Dornbusch, R., S. Fischer and P. Samuelson (1977) "Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review*.
2. Eaton, Jonathan and Kortum, Samuel (2002) "Technology, Geography, and Trade," *Econometrica*.

Required:

1. Alvarez, Fernando and Robert E. Lucas (2007) "General Equilibrium Analysis of the Eaton-Kortum Model of International Trade," *Journal of Monetary Economics*.
2. Costinot, A., D. Donaldson and I. Komunjer (2012) "What Goods Do Countries Trade? A Quantitative Exploration of Ricardo's Ideas," *Review of Economic Studies*.
3. Dekle, Robert, Eaton, Jonathan and Kortum, Samuel (2007) "Unbalanced Trade," *American Economic Review*.

Optional:

1. Lind and Ramondo (2023) "Trade with Correlation," *American Economic Review*.

2.3 Empirical Studies of the Trade Pattern

Essential Before Lecture:

1. F pp. 33-49, 60-66, 78-81.
2. Helpman, E. (1999) "The Structure of Foreign Trade," *Journal of Economic Perspectives*, 121-144.

Required:

1. Bowen H., E. Leamer and L. Sveikauskas (1987): "Multicountry, Multifactor Tests of the Factor Abundance Theory," *American Economic Review*.
2. Trefler, D. (1993) "International Factor Price Differences: Leontief Was Right!" *Journal of Political Economy*.
3. Trefler, D. (1995) "The Case of the Missing Trade and Other Mysteries," *American Economic Review*.
4. Davis, D. R. and D. E. Weinstein (2001) "An Account of Global Factor Trade," *American Economic Review*.

3 THEORY OF TRADE POLICY

3.1 Positive Analysis of Trade Policy

Essential Before Lecture:

1. Helpman, E. and P. Krugman (1989) *Trade Policy and Market Structure*, Chapter 2.
2. Dixit, A. (1985) "Tax Policy in Open Economies," in (eds.) A. Auerbach and M. Feldstein, *Handbook of Public Economics*.

Required:

1. DN, ch. 5 (pp. 149-163), ch. 6 (pp. 165-175).
2. Broda, Christian, Nuno Limão and David E. Weinstein (2008) "Optimal Tariffs and Market Power: The Evidence," *American Economic Review*.
3. Arnaud Costinot and Andrés Rodríguez-Clare (2014) "Trade Theory with Numbers: Quantifying the Consequences of Globalization," in (ed.) E. Helpman, G. Gopinath, and K. Rogoff, *Handbook of International Economics*, Chapter 4, Volume 4.

3.2 The Political Economy of Trade Policy

Essential Before Lecture:

1. F, ch. 10.

Required:

1. Grossman, G. and E. Helpman (1994) "Protection for Sale," *American Economic Review*.
2. Goldberg, P. and G. Maggi (1999) "Protection for Sale: An Empirical Investigation," *American Economic Review*.
3. Baldwin, R. E. and C. Magee (2000) "Is Trade Policy for Sale: Congressional Votes on Recent Trade Bills," *Public Choice*.
4. Helpman, E. (1995) "Politics and Trade Policy," *NBER Working Paper*.

3.3 Trade Agreements

Essential Before Lecture:

1. Bagwell, K. and R. W. Staiger (2010) "The WTO: Theory and Practice," *Annual Review of Economics*.

Required:

1. Bagwell, K. and R. W. Staiger (1999) "An Economic Theory of GATT," *American Economic Review*.
2. Bagwell, K. and R. W. Staiger (2011) "What Do Trade Negotiators Negotiate About? Empirical Evidence from the World Trade Organization," *American Economic Review*.
3. Maggi, G. and A. Rodriguez-Clare (1998) "The Value of Trade Agreements in the Presence of Political Pressures," *Journal of Political Economy*.

4 IMPERFECT COMPETITION AND TRADE

4.1 Increasing Returns, Monopolistic Competition, and Home Market Effects

Essential Before Lecture:

1. Krugman (1979) "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics*.
2. Krugman, P.R. (1980) "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review*.
3. Dixit and Stiglitz (1977) "Monopolistic Competition and Optimum Product Diversity," *American Economic Review*.
4. Venables (1987) "Trade and Trade Policy with Differentiated Products: A Chamberlinian-Ricardian Model," *Economic Journal*.

Required:

1. HK chs. 1, 6-9.
2. F ch. 5.
3. Helpman, E. and P. Krugman (1989) *Trade Policy and Market Structure*, Chapter 7.

Optional:

1. Krugman and Venables (1995), "Globalization and the Inequality of Nations," *Quarterly Journal of Economics*.
2. Zhelobodko, Kokovin, Parenti, and Thisse (2013), "Monopolistic Competition: Beyond the CES," *Econometrica*.
3. Head and Ries (2001) "Increasing Returns Versus National Product Differentiation as an Explanation for the Pattern of U.S.-Canada Trade," *American Economic Review*.
4. Romalis (2004) "Factor Proportions and the Structure of Commodity Trade," *American Economic Review*.
5. Fajgelbaum, Grossman and Helpman (2011) "Income Distribution, Product Quality, International Trade," *Journal of Political Economy*.
6. Costinot, Donaldson, Kyle, and Williams (2019) "The More we Die, The more we Sell? A Simple Test of the Home-Market Effect," *Quarterly Journal of Economics*.

7. Hanson and Xiang (2004), "The Home-Market Effect and Bilateral Trade Patterns," *American Economic Review*.
8. Helpman (1999), "The structure of foreign trade," *Journal of Economic Perspectives*.
9. Hummels and Levinsohn (1995), "Monopolistic Competition and International Trade: Reconsidering the Evidence," *Quarterly Journal of Economics*.

4.2 Product Differentiation and Gains from Variety

Essential Before Lecture:

1. Feenstra (1994), "New product varieties and the measurement of international prices," *American Economic Review*.
2. Hummels and Klenow (2005), "The Variety and Quality of a Nation's Exports," *American Economic Review*.

Required:

1. Broda and Weinstein (2006), "Globalization and the Gains from Variety," *Quarterly Journal of Economics*.

Optional:

1. Amiti, Dai, Feenstra, and Romalis (2020) "How did China's WTO entry affect U.S. prices?" *Journal of International Economics*.
2. Fernandes, Klenow, Meleshchuk, Pierola, and Rodríguez-Clare (2023) "The Intensive Margin in Trade: How Big and How Important?," *American Economic Journal: Macroeconomics*.

5 Presentation List I

1. Antras and Staiger (2012), "Offshoring and the Role of Trade Agreements," *American Economic Review*.
2. Bartelme, Costinot, Donaldson, and Rodriguez-Clare (2024), "The Textbook Case for Industrial Policy: Theory Meets Data", *Journal of Political Economy*.
3. Branstetter and Feenstra (2002), "Trade and foreign direct investment in China: a political economy approach", *Journal of International Economics*.
4. Burstein, Cravino, and Vogel (2013), "Importing Skill-Biased Technology", *American Economic Journal: Macroeconomics*.
5. Costinot, Donaldson, Kyle, and Williams (2019), "The More We Die, the More We Sell? A Simple Test of the Home-Market Effect", *Quarterly Journal of Economics*.
6. Lashkaripour and Lugovskyy (2023), "Profits, Scale Economies, and the Gains from Trade and Industrial Policy", *American Economic Review*.
7. Morrow and Trefler (2022), "How do endowments determine trade? quantifying the output mix, factor price, and skill-biased technology channels", *Journal of International Economics*.
8. Redding and Sturm (2008), "The Costs of Remoteness: Evidence from German Division and Re-unification", *American Economic Review*.