

Princeton University – Department of Economics  
Spring Term 2010  
**ECO 352 – International Trade**

**Lectures:** Tuesdays and Thursdays 3.00-4.20 p.m., Friend Center 006

**Precepts:** Mondays 11.00-11.50 and 1.30-2.20, Fisher Hall B-03

**Professor:** Avinash Dixit

Office location: Fisher Hall Rm. 212

Office hours: Tuesdays and Wednesdays 12.30–2.00 p.m.

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**Preceptor:** Tao Wang

Office hours location: Fisher Hall Rm. G-10

Office hours: Thursdays 9.50-11.50

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**Required Text:**

Paul Krugman and Maurice Obstfeld: *International Economics*, 8<sup>th</sup> edition, Addison-Wesley.  
Available at Labyrinth Books but cheaper copies are probably available on the internet.

**Also recommended for purchase:**

Paul Krugman: *Pop Internationalism*, MIT Press.

Douglas Irwin: *Free Trade Under Fire*, Princeton University Press.

**Course Description and Pre-requisites:**

This course is about the microeconomics and political economy of international trade and foreign direct investment. We will analyze the causes and consequences of international trade and investment. We will investigate why nations trade, what they trade, and who gains and who loses from this trade. We will then analyze the motives, both economic and political, 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 and foreign direct investment, international trade agreements and current trade policy disputes. We will also spend some time discussing aspects of the current debate on “globalization” such as the use of international labor standards, interactions between trade and environmental concerns, and the role of non-government organizations (NGOs).

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 micro-economic tools that you have learned in ECO 300 or 310 (a pre-requisite for this class). It is extremely 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 ECO 300 or 310 text and notes early on in the semester.

## Course Requirements

There will be one in-class midterm exam on Thursday March 11 (25% of the course grade), and one final exam (50% of the course grade). The exams will cover all the lecture material (including any extensions covered in section), all of the assigned textbook reading, and some of the additional readings. The specific readings that will be required for each exam will be announced well ahead of each exam date.

Six problem sets will be distributed during the semester. These problem sets will be collected and evaluated, and answers will be subsequently posted on Blackboard. You are encouraged to discuss these problems with your classmates; however, you must write up your own answers. The average of your best 5 problem set grades will count for 25% of the course grade.

## Relations Among Lectures, Precepts, Books etc.

The various components of the course - lectures, precepts, textbook, other readings, problem sets - are intended to form a package. They are mutual complements, not substitutes. The lectures will not follow the textbook slavishly; the precepts will not repeat the lecture material but will extend and apply it; the other readings will reinforce the ideas. I strongly urge you to do the assigned textbook reading in advance, and to make sure you understand all the material and methods in the problem sets by carefully reading the answer keys when they are posted. The reading list indicates roughly the weeks when we will cover each topic, and shows the corresponding textbook chapter. Advance reading, along with lecture and precept attendance and problem set work, 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 Other Readings

Readings in the textbook are abbreviated as “K-O”. Almost all of the other readings are available on physical or e-reserve. Several readings are also contained in two books, *Pop Internationalism* and *Free Trade Under Fire*, which are both on hardcopy reserve at Firestone library. You may also want to consider purchasing these books (again, the best prices are found online), though this is not a requirement. The *Free Trade Under Fire* book provides an excellent non-technical discussion of most of the topics covered in this course. All of the assigned readings from the *Pop Internationalism* book are available on e-reserve. Another excellent (though a bit dated) textbook, *International Trade, Theory and Evidence* by James Markusen et al, is available (in its entirety) online; the URL is: <http://spot.colorado.edu/~markusen/textbook.html>. You may want to use it as a secondary textbook, especially for the more technical parts of the course. Some of the technical materials in the course will also be posted as notes on Blackboard.

Lastly, there are two other books on reserve at Firestone library: *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. Both books offer an excellent coverage of recent hotly debated issues surrounding trade and globalization - and help to connect the course material to the related press coverage.

## Topics and Reading List

### Introduction (week 1)

- K-O, Chapter 1-2
- Paul Krugman: “What do Undergrads Need to Know about Trade?,” *AER*, May 1993. (in POP)
- 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.

### Technology, Factor Endowments, and Comparative Advantage (weeks 2-5)

- James Markusen et al: *International Trade*, Chapter 3. (Review properties of indifference curves and utility maximization.)
- K-O, Chapter 3 (for week 2)  
K-O Chapter 3 from 6<sup>th</sup> edition (available on e-reserve) (for weeks 3-4)  
K-O Chapter 4 (for weeks 4-5)  
K-O Chapter 5 (for week 5)
- Paul Krugman: “Ricardo’s Difficult Idea,” in *The Economics and Politics of International Trade*.
- Paul Krugman: “In Praise of Cheap Labor,” *Slate*, March 1997.
- Frédéric Bastiat: “Petition of the Candle Makers”, *Economic Sophisms*, 1845.
- Alan Deardorff: “Benefits and Costs of Following Comparative Advantage,” January 1998.
- FTFF, Chapter 2.

### Trade and Wages (further reading related to the above)

- Paul Krugman and Robert Z. Lawrence: “Trade, Jobs, and Wages,” *Scientific American*, April 1994. (in POP)
- 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)
- Douglas Irwin, *Free Trade Under Fire*, Chapter 3.
- Dani Rodrik: *Has Globalization Gone Too Far?*, Chapter 2.

### Scale Economies and Imperfect Competition (week 7)

- K-O, Chapter 6
- Paul Krugman: “The Increasing Returns Revolution in Trade and Geography,” *American Economic Review*, June 2009. On e-reserve; the lecture can be viewed at [http://nobelprize.org/nobel\\_prizes/economics/laureates/2008/krugman-lecture.html](http://nobelprize.org/nobel_prizes/economics/laureates/2008/krugman-lecture.html)

### **Trade Policy (weeks 8-9)**

- K-O, Chapter 8-9
- Robert Feenstra: “How Costly is Protectionism?,” *Journal of Economic Perspectives*, Summer 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.

### **Migration, Trade, and Wages (week 9)**

- K-O, Chapter 7, pp. 154-159.
- Recap the reading in the topic “Trade and Wages” above.

### **Multinational Enterprises and Foreign Direct Investment (week 10)**

- K-O, Chapter 7, pp. 160-169.
- 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.

### **Trade and Development (week 10)**

- K-O, Chapter 10
- 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*, September 2000.

### **Trade Policies in Advanced Industrial Countries (week 11)**

- K-O, Chapter 11
- Douglas Irwin: *Free Trade Under Fire*, Chapters 4, 5.
- Drusilla Brown, Alan Deardorff, and Robert Stern: “Issues of Environmental and Labor Standards in the Global Trading System,” May 1997.

### **Trade Agreements (weeks 11,12)**

- Douglas Irwin: *Free Trade Under Fire*, Chapter 7.
- 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. (in Pop Internationalism)