Fall 2016

Princeton University
Department of Economics

ECONOMICS 551: INTERNATIONAL TRADE I

TTh: 10:40 – 12:10
317 Bendheim Hall

Instructor:

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Content:

This 12-week segment will cover competitive trade theory, including the gains from trade, the sources of comparative advantage, the effects of trade on income distribution, and the theory of trade policy. We will then turn trade under imperfect competition and trade and growth. If time permits, we will begin to discuss the role of (heterogeneous) firms in international trade.

Books:

There are no required textbooks. The following books are cited in the reading list by the abbreviations indicated. Some copies of these books are available for purchase in Labyrinth; those intending to do research in this field may want to have them in their personal libraries.

Avinash Dixit and Victor Norman, *Theory of International Trade* (DN)
Robert Feenstra, *Advanced International Trade: Theory and Evidence¸2nd edition* (F)
Gene Grossman and Elhanan Helpman, *Innovation and Growth in the Global Economy* (GH)
Elhanan Helpman and Paul R. Krugman, *Market Structure and Foreign Trade* (HK)

COURSE OUTLINE AND READING LIST

Essential items are overviews/introductions and should be read **before** the lecture on the topic. Required items should be read shortly thereafter.

I. GAINS FROM COMPETITIVE TRADE

Essential:

DN pp. 65-79
F, pp.187-196

Required:

A. Dixit and V. Norman, "Gains from trade without lump-sum compensation," JIE 1986, 111-122
A. Deardorff, "The general validity of the law of comparative advantage," JPE 1980, 941-957
D. Bernhofen and J. Brown, "An empirical assessment of the comparative advantage gains from trade: Evidence from Japan," AER 2005, 208-225.

D. Bernhofen and J. Brown, "A direct test of the theory of comparative advantage: The case of Japan," JPE 2004
C. Arkolakis, A. Costinot and A. Rodriguez-Claré, "New Trade Model, Same Old Gains?" AER 2012, 94-130.

II. TRADE EQUILIBRIUM: PERFECT COMPETITION

A. Factor Endowments: Special Models

Essential:

F, pp. 4-23, 25-33, 75-79
R. Jones and P. Neary, "The positive theory of international trade," in R. Jones and P. Kenen, *Handbook of International Economics*, vol.1, pp 14-27.

Required:

R. Jones, "The structure of simple general-equilibrium models." JPE 1965.

B. Factor Endowments: General Theory

Essential:

F, pp. 51-60, 67-70.

Required:

DN, chs. 2,4.
HK, ch. 1
W. Ethier, "Higher dimensional trade theory," in R. Jones and P. Kenen, *Handbook of International Economics*, vol.1
E. Helpman, "The factor content of foreign trade," EJ 1984, 84-94.

C. Technological Differences

Essential:

F 1-3, 70-75, 172-174
K. Matsuyama, "Ricardian trade theory," in L. Blume and S. Durlauf, eds., *the New Palgrave Dictionary of Economics*, 2nd Edition, Macmillan.

Required:

R. Dornbusch, S. Fischer and P. Samuelson, "Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods," AER 1977, 823-839.
J. Eaton and S. Kortum, "Technology, geography, and trade," EMA, 2002, 1741-1779.
A Costinot, D. Donaldson and I. Komunger, "What goods do countries trade: A quantitative exploration of Ricardo's ideas," RES 2012, 581-608.
L. Caliendo and F. Parro, "Estimates of the Trade and Welfare Effects of NAFTA," RES 2015, 1-44.

D. Empirical Studies of the Trade Pattern

Essential:

F 33-48, 60-66, 78-79
E. Helpman, "The structure of foreign trade," *Journal of Economic Perspectives* 1999, 121-144.

Required:

H. Bowen, E. Leamer and L. Sveikauskas, "Multicountry, multifactor tests of the factor abundance theory," AER 1977, p.791-809
D. Trefler, "International Factor Price Differences: Leontief was Right!" JPE 1993, 961-987.
D. Trefler, "The case of the missing trade and other HOV mysteries," AER 1995, 1029-1046
D. Davis and D. Weinstein, "An account of global factor trade," AER 2001, 1423-1453.

E. Sorting: Heterogeneous Workers

Essential:

G. Grossman, "Heterogeneous workers and international trade," Rev World Econ 2013.
A Costinot, "An elementary theory of comparative advantage," Ema 2009.

Required:

G. Grossman and G. Maggi, "Diversity and trade," AER 2000.
A. Costinot and J. Vogel, "Matching and inequality in the world economy," JPE 2010, pp. 747-786..
P. Antràs, L. Garicano, and E. Rossi-Hansberg, "Offshoring in a Knowledge Economy," QJE 2006, pp. 31-77.
G. Grossman, E. Helpman and P. Kircher, "Matching, Sorting and the Distributional Effects of International Trade," 2015.

III EXTERNAL ECONOMIES AND TRADE

Essential:

HK, chapter 3.
E. Helpman, "Increasing returns, imperfect markets and trade theory," in in R. Jones and P. Kenen, *Handbook of International Economics*, vol.1.

Required:

W. Ethier, "Internationally decreasing costs and world trade," JIE 1979, 1-24.
G. Grossman and E. Rossi-Hansberg, "External economies and international trade redux," QJE 2010, pp. 829-858.
K. Kucheryavyy, G. Lyn and A. Rodriguez-Clare. "Grounded by Gravity: A Well-Behaved Trade Model with External Economies," 2016.

IV. THEORY OF TRADE POLICY

A. First and Second Best Trade Policy

Essential:

F 217-224,
A. Dixit, "Tax policy in open economies," in Auerbach and Feldstein (eds.), *Handbook of Public Economics*, 1985

Required:

DN, chapter 5 (pp.149-163), 6 (pp.165-175)
P. Krishna and A. Panagariya, "A Unification of Second Best Results in International Trade." *Journal of International Economics*, 2000, 235-257.
C. Broda, N. Limao, and D. Weinstein, "Optimal tariffs and market power: The evidence," AER, 2009.
C. Magee and S. Magee, "The United States is a small country in world trade," *Review of Intl. Economics*, 2008, 990-1004.

B. The Political Economy of Trade Policy

Essential:

F, 299-310

Required:

G. Grossman and E. Helpman, "Protection for sale," AER 1994, 833-850
A. Dixit and J. Londregan, "The determinants of the success of special interests in redistributive politics," Jnl of Politics, 1996, 1132-1155.
P. Goldberg and G. Maggi, "Protection for sale: An empirical investigation," AER 1999, 1135-1155
R.E. Baldwin and C. Magee, "Is trade policy for sale: Congressional votes on recent trade bills," *Public Choice* 2000, pp.79-101

C. Trade Agreements

Essential:

F 311-322
K. Bagwell and R. Staiger, "The World Trade Organization: Theory and practice," Annu. Rev. of Econ, 2010, 223-256.
C. Freund and E. Ornelas, "Regional trade agreements," Annu. Rev. Econ, 2010, 39-66.

Required:

G. Grossman and E. Helpman, "Trade wars and trade talks," JPE 1995, 675-708
K. Bagwell, "Self-enforcing trade agreements and private information" NBER 14812, 2009.
G. Maggi and A. Rodríguez-Clare, "The value of trade agreements in the presence of political pressures," JPE 1998, 574-601
A. Panagariya, "Preferential trade liberalization: The traditional theory and new developments," JEL 2000, 287-331

V. IMPERFECT COMPETITION AND TRADE

A. Monopolistic Competition

Essential:

F 119-123, 125-133, 144-147
P. Neary, "Monopolistic competition and international trade theory" in S. Brakman and B.J. Heijdra (eds.): *The Monopolistic Competition Revolution in Retrospect*, Cambridge: Cambridge University Press, 2004, 159-184..

Required:

HK, chs. 1, 6-8
P. Krugman and A. Venables, "Globalization and the inequality of nations," QJE 1995, 857-880.
E. Helpman, "International trade in the presence of product differentiation, economies of scale, and monopolistic competition," JIE 1981
G. Grossman, E. Helpman and P. Fajgelbaum, "Income distribution, product quality, and international trade," JPE 2011, 721-765.

B. Oligopoly

Essential:

HK, chapter 5

Required:

J. Brander and P. Krugman, "A reciprocal dumping model of international trade," JIE 1983, 313-321.
D. Bernheim and M. Whinston, "Multimarket contact and collusive behavior," *Rand Journal of Economics*, 1990, 1-26.
P. Neary, "International trade in general oligopolistic equilibrium," 2016, forcoming in *Rev of Intl Econ*.

VI. TRADE AND GROWTH

A. Factor Accumulation

Required:

A. Smith, "Capital theory and trade theory," in Jones and Kenen (eds.), *Handbook of International Economics*, vol. 3. .
J. Ventura, "Growth and interdependence," QJE 1997, 57-84.

B. Exogenous Technological Progress

Essential:

G. Grossman and E. Helpman, "Technology and trade", sec.2, in Grossman and Rogoff (eds), *Handbook of International Economics, vol.3*.

Required:

P. Krugman, "A 'Technology Gap' model of international trade," in Krugman, *Rethinking International Trade*, MIT Press, 1990.

C. Learning by Doing

Essential:

G. Grossman and E. Helpman, "Technology and trade," sec.3, in Grossman and Rogoff (eds), *Handbook of International Economics, vol.3*.

Required:

A. Young, "Learning by doing and the dynamic effects of international trade," QJE 1991, 369-405.
E. Brezis, P. Krugman, and D. Tsiddon, "Leapfrogging in international competition," AER 1993, 1211-1219.

D. Endogenous Innovation

Essential:

G. Grossman and E. Helpman, "Technology and trade," sec.4, in Grossman and Rogoff (eds), *Handbook of International Economics, vol.3*.

Required:

GH, chs. 3 (skim), 4 (skim), 7, 8, 9
A. Atkeson and A. Burstein, "Innovation, firm dynamics, and international trade," JPE 2010.

E. North-South Trade and the Product Cycle

Required:

GH, ch. 11.
G. Grossman and E. Lai, "International protection of intellectual property," AER December 2004.

VII. HETEROGENEOUS FIRMS IN TRADE
(If time allows)

A. Reduced-Form Evidence

Essential:

A. Bernard, JB Jensen,S. Redding, and P. Schott, P. "Firms in International Trade," *JEP* 2007, 105–130.

Required:

A. Bernard, JB Jensen,S. Redding, and P. Schott, P. "The Empirics of Firm Heterogeneity and International Trade," *Annu Rew of Econ*, 2012, 283-313.
J. Eaton, S., Kortum, Sam and F. Kramarz "An Anatomy of International Trade: Evidence from French Firms," *Ema* 2011, 1453-1498.

B. Theory of Heterogeneous Firms

Essential:

F 157-177
S. Redding. "Theories of Heterogeneous Firms and Trade," *Annu. Rev. of Econ* 2011, 77-105.

Required;

M. Melitz. "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Ema* 2003, 1695-1725.
T. Chaney. "Distorted Gravity: The Intensive and Extensive Margins of International Trade," *AER* 2008, 1707-1721.
M. Melitz and G. Ottaviano, "Market Size, Trade and Productivity," *RES* 2008, 295-316.
E. Helpman, M. Melitz, and Y. Rubinstein. "Estimating Trade Flows: Trade Partners and Trade Volumes," *QJE* 2008, 441-487.