



## Department of Economics Course Outline

		<b>Term:</b>	Winter 2010
<b>Course:</b>	Economics 621 International Trade Theory	<b>Section:</b>	01
<b>Time:</b>	TR 11:00-12:15	<b>Place:</b>	SS 423 (subject to change)
<b>Instructor:</b>	M. Scott Taylor		
<b>Office:</b>	SS 428	<b>Telephone:</b>	220-8912
<b>Office Hours:</b>	Thursdays, 4:00-5:30	<b>E-mail:</b>	mstaylor@ucalgary.ca

**Textbook(s):** There is no textbook required for the course. Copies of required reading will be available on Blackboard.

**Book(s) on Reserve:** n/a

**Course Outline:** This is an introductory graduate course in international trade theory. The course is designed in such a way that you could enter with no knowledge of international trade theory. Good work in international economics starts with a question of some importance to welfare, examines the issue within a theoretical setting, and ends with empirical work estimating the important magnitudes involved. A necessary prerequisite for this type of work is a good understanding of several relatively simple general equilibrium models commonly employed in international economics. This course is designed to give you this understanding. It will hopefully give you an appreciation for when an existing model is appropriate, and how we may use it to address important policy questions. There are three main sections to the course. Section one focuses on the role of technology in international trade. Section two focuses on the role of factor endowments. The last section primarily studies the implications of increasing returns. The course follows a fairly rigid structure. For each topic, I will spend one lecture presenting the basic material at an advanced undergraduate level since I assume no knowledge of trade theory. I then spend several lectures presenting the material at a graduate level using papers from journal articles as source material. These lectures give you the tools needed to work with these models on your own. In each of the section areas, we will ask and answer three basic questions. What determines the pattern of trade, the volume of trade, and what are the welfare implications of trade. A partial list of the readings I hope to cover is given below. If we figure 14 weeks = 28 lectures minus 3 tests = 25 lectures spread across 3 topics. This makes for about 8 lectures each

section, with one taken for the introductory lecture. If I cover on average an article a class, then we have perhaps 7 readings per area. All starred \* readings will be available on Blackboard in pdf format including the chapters from books. Just for fun I have included a paper of my own that fits into each area.

### **I. The Role of Technology (to midterm 1)**

- \*Matsuyama, K., "Ricardian trade theory," forthcoming in L. Blume and S. Durlauf, eds., the New Palgrave Dictionary of Economics, 2nd Edition, Macmillan.
- \*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*, 67: 823-39.
- \*Eaton, J., and S. Kortum, 2002. "Technology, geography, and trade," *Econometrica*, 70: 1741-1779.
- \*Krugman, P., 1979. "A Model of Innovation, Technology Transfer, and the World Distribution of Income," *Journal of Political Economy*, 87: 253-266.
- \*Antras, P., 2005. "Incomplete Contracts and the Product Cycle," *American Economic Review*, 95: 1054-1073.
- \*Taylor, M.S., 1994. "Trips, Trade, and Growth", *International Economic Review*, 35: 361-381.
- Eaton, J., Kortum, S., 1999. "International technology diffusion: theory and measurement," *International Economic Review*, 40: 537-570.
- Eaton, J. and S. Kortum, 1996. "Trade in Ideas: Patenting and Productivity in the OECD," *Journal of International Economics*, 40: 251-278.

### **Thursday, February 11 - Midterm Exam**

### **II. Factor Endowment Driven Trade (from midterm 1 to midterm 2)**

- \*Jones, R., 1965. "The Structure of Simple General Equilibrium Models," *Journal of Political Economy*, 73: 557-572.
- \*Jones R. and P. Neary, "The positive theory of international trade," in R. Jones and P. Kenen, *Handbook of International Economics*, vol.1, pp.14-27.
- \*Melvin, J., 1968. "Production and Trade with Two Factors and Three Goods", *American Economic Review*, 58: 1249-1268.

\*Woodland, A.D., *International Trade and Resource Allocation*, North-Holland, Chapters 2, 3, 4 and 7.

\*Copeland, B.R. and M.S. Taylor, 1994. "North-South Trade and the Environment," *Quarterly Journal of Economics*, 109: 755-787.

Dixit, A.K., and V. Norman, *Theory of International Trade*, Cambridge, Chapters 1, 2 and 5.

Neary, J.P, 1978. "Short-Run Specificity and the Pure Theory of International Trade," *Economic Journal*, 88: 488-510.

### **Thursday March 11 – Midterm Exam**

### **III. The Implications of Increasing Returns (from midterm 2 to midterm 3)**

\*Melvin, J., 1969. "Increasing Returns to Scale as a Determinant of Trade," *Canadian Journal of Economics*, 2: 389-402.

\*Ethier, W. 1982. "Decreasing Costs in International Trade and Frank Graham's Argument for Protection," *Econometrica*, 50: 1243-68.

\*Krugman, P. 1979. "Increasing Returns, Monopolistic Competition and International Trade," *Journal of International Economics*, 9: 469-79.

\*Krugman, P. 1980. "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review*, 70: 950-59.

\*Melitz, M. J. 2003. "The Impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 71: 1695-725.

\*Brander, J.A., 1995. "Strategic Trade Policy," in *Handbook of International Economics*, Grossman, G. and K. Rogoff (eds.), Volume 3, Ch.27.

\*Grossman, G. and E. Helpman, 2002. "Integration versus Outsourcing in Industry Equilibrium," *Quarterly Journal of Economics*, 117: 85-120.

Grossman, G. and E. Helpman, 2005. "Outsourcing in a Global Economy," *Review of Economic Studies*, 72: 135-159.

Markusen J., 1995. "The Boundaries of Multinational Enterprises and the Theory of International Trade." *Journal of Economic Perspectives*, 9: 169-89.

Melvin, J., and J.R. Markusen, 1981. "Trade, Factor Prices, and the Gains from Trade with Increasing Returns to Scale," *Canadian Journal of Economics*, 14: 450-469.

Krugman, P., 1981. "Intraindustry Specialization and the Gains from Trade," Journal of Political Economy, 89: 959-74.

### Thursday, April 8 - Midterm Exam

#### Grade Determination and Final Examination Details:

Three midterms, each of equal weight. The dates for the midterms are:

Thursday Feb 11th, Thursday March 11th, and Thursday April 8th.

Tests and final exams are marked on a numerical (percentage) basis, and then converted to letter grades. The course grade is then calculated using the weights indicated above. As a guide to determining standing, these letter grade equivalences will generally apply:

A+	95	B	75	C-	55
A	90	B-	70	D+	50
A-	85	C+	65	D	45
B+	80	C	60	F	40

Tests and exams will not involve multiple-choice questions.

Students' Union Vice-President, Academic

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#### Notes:

- Students seeking reappraisal of a piece of graded term work (term paper, essay, etc.) should discuss their work with the Instructor within two weeks of the work being returned to the class.
- It is the student's responsibility to request academic accommodations. If you are a student with a documented disability who may require academic accommodation and have not registered with the Disability Resource Centre, please contact their office at 403-220-8237. Students who have not registered with the Disability Resource Centre are not eligible for formal academic accommodation. You are also required to discuss your needs with your instructor no later than fourteen (14) days after the start of this course.

Safewalk / Campus Security: 403-220-5333

Emergency Assembly Point – Professional Faculties Food Court