

International Trade M2

Syllabus: Winter 2018

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Time and location: Tuesday, 09:00 – 12h15.

Overview: The purpose of this class is to provide an analytical framework to study international trade. Countries around the world trade goods and services, and factors of production move across their borders every day. The models studied in this class give insight into the reasons and consequences of these flows.

Different positive issues will be considered, such as: Why do countries trade? What goods do countries trade? What are the implications of openness for the location of production, industries, occupations, and innovative activity? Furthermore, to account for trade restrictions, we will also discuss the effects of these restrictions on the different countries of the world.

Reading List

Starred papers (*) are to be considered fundamental materials.

There are no assigned textbook for this class. However, the following books may be useful:

- Feenstra, Robert, “Advanced International Trade: Theory and Evidence,” published by Princeton University Press, 2006. This book provides a very good overview of several of the topics that we will cover.
- Dixit, A. and V. Norman, Theory of International Trade, (Cambridge University Press), 1980.
- Helpman, E. and P. Krugman, “Market Structure and Foreign Trade,” (Cambridge, MA, and London, The MIT Press), 1985.
- Krugman, Obstfeld and Melitz, “International Economics” 9th edition, Pearson Edition, 2012.
- Markusen, J., Melvin, R., Kaempfer, W. H. and Maskus K. E., “International Trade: Theory and Evidence, International” ed. (1995). Access this textbook from Prof. Markusen's site: [download it from here](#).

Course Outline (Tentative: may be subject to changes)

1 Introduction and Basic Facts

Some stylized facts about international trade

2 Basic Models of International Trade (Comparative Advantages)

Differences in Technology: Ricardo with n Goods and Ricardo Viner.

- Dornbush, Fisher and Samuelson (1977). Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods, *American Economic Review*, 67(5): 823-839.
- (*) Feenstra, R. (2006), *Advanced International Trade. Theory and Evidence*. Chapter 1.
- Krugman, P., Obstfeld and Melitz, (2012). *International Economics*, Chapter 3, Pearson Edition.
- Multi-country extensions: Eaton, J., and S. Kortum. 2012. "Putting Ricardo to Work" *Journal of Economic Perspective*.

Factor Endowment Differences: Heckscher-Ohlin Model

Factor Price Equalization, Stolper-Samuelson, Rybczynski. Leontief Paradox. Empirical test of Heckscher-Ohlin.

- (*) Feenstra, R. (2006), *Advanced International Trade. Theory and Evidence*. Chapters 1, 2, and 3.
- Jones, R. (1965), "The Structure of Simple General Equilibrium Models," *JPE*.
- Dixit, A. and V. Norman, *Theory of International Trade*, 1980.

Monopolistic Competition and Increasing Returns

- (*) Krugman, P. (1979), "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics* 9(4), 469-479.
- (*) Krugman, P. (1980), "Scale Economies, Product Differentiation and the Pattern of Trade," *AER* 70(5), 950-959.
- Dixit, Avinash and Joseph Stiglitz (1977), "Monopolistic Competition and Optimum Product Diversity." *American Economic Review* 67:297—308.
- Brander and Krugman (1983), "[A 'reciprocal dumping' model of international trade](#)," *Journal of International Economics* 15, 313-321.

4 Firms Heterogeneity and International Trade

- (*) Melitz, Marc J. (2003), "The Impact of Trade on Intra- Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 71:6, pp. 1695-1725.
- (*) Chaney, Thomas (2008), "Distorted Gravity: Heterogeneous Firms, Market Structure and the Geography of International Trade," *American Economic Review*, September 2008, Vol. 98, No. 4.
- Eaton, J. and S. Kortum (2002), "Technology, Geography and Trade," *Econometrica*, September 2002, Vol. 70, No. 5, 1741- 1780.

- Baldwin, R (2005), “Heterogeneous firms and trade: testable and untestable properties of the Melitz model”, CEPR wp.

5 Gravity Equations

- (*) Feenstra, R. (2006), *Advanced International Trade. Theory and Evidence*. Chapter 5
- Anderson, James E. "A Theoretical Foundation for the Gravity Equation." *American Economic Review*, March 1979, 69(1), pp. 106-16.
- Anderson, James E. and Eric van Wincoop "Gravity with Gravitas: A Solution to the Border Puzzle." *American Economic Review*, March 2003, 93(1), pp. 170-92.
- Deardorff, Alan V. "Determinants of Bilateral Trade: Does Gravity Work in a Neoclassical World?" in J. A. Frankel, ed., *The regionalization Regionalization of the world economy*. Chicago: University of Chicago Press, 1998, pp. 7-22.

Other topics (if time allows)

6 Multinational Firms and Production: Proximity Concentration Trade-Off

- Helpman, Elhanan, Marc J. Melitz, and Stephen R. Yeaple (2004), “Exports versus FDI with Heterogeneous Firms,” *American Economic Review*, 94:1, pp. 300-316.

7 Trade Volume and Composition

- Helpman, E. and P. Krugman, “Market Structure and Foreign Trade,” Ch. 7 and 8.
- Feenstra, R. (2006), *Advanced International Trade. Theory and Evidence*. Chapter 5.

8 The Instruments of Trade Policy: Small and Large country.

- Feenstra, R. (2006), *Advanced International Trade. Theory and Evidence*. Chapters 7 and 8.
- Krugman, P., Obstfeld and Melitz, (2012). “International Economics,” Ch. 9, Pearson Edition.

Grading

The grade will be based on final exam (90%) and class participation and discussion (10%).