International Trade

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Class Web Page:	*econ.ucsd.edu/muendler/teach/13x/101*
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1   Course Objectives

This course examines theories of international trade in goods and services and analyzes the consequences of trade policies. The course presents the principle of comparative advantage and its application to classical and modern trade theory. Focusing on the long-term effects of international economic integration, the course discusses the economic effects of trade, as well as trade barriers and trading blocs, on industrial competitiveness, the income distribution, growth and welfare.

   Compared to other classes on international economic integration, such as International Capital Markets or International Monetary Relations, the International Trade class focuses on the long-term patterns of balanced trade in merchandize and services. Part I of the class is dedicated to classic trade theory in a general equilibrium setting under perfect competition and explains trade among different countries. Part II of the class presents recent advances in trade theory under imperfect competition and with heterogeneous firms; it explains trade among similar countries and the formation of multinational enterprises. Part III applies the insights from both partial and general equilibrium models to policy issues related to international economic integration.

2   Prerequisites

Economics 1A-B or 2 or 100B or 170B.

3   Readings

Textbook: Krugman, Obstfeld, and Melitz (2011a)/Ch. 1 through 12

Textbook supplement: Muendler (2013)/Ch. 1 through 4 and 6

   The relevant chapters of the textbook are compiled in a custom reader: Krugman, Obstfeld, and Melitz (2011a), provided for Econ 101 by Pearson Learning Solutions. This special extract is available

for purchase from the bookstore. The complete textbook Krugman, Obstfeld, and Melitz (2011b), which also covers the material of Econ 103, is available for purchase online. Library copies are on reserve.

The textbook supplements Muendler (2013)/Ch. 1 through 4 and 6 are available for download from the class web page (see link above) prior to the respective lectures. The supplements are zipped and password protected. The password is given out on the first day in class.

Lecture notes will be posted on the class web page (see link above) before lecture. The notes are zipped and password protected. The password is given out on the first day in class.

4 Problem Sets

There will be three problem sets, due on scheduled dates throughout the quarter. You are encouraged to work on the problems with your classmates. Your teaching assistant Briana Sullivan will hold sections over the course of the quarter to help you solve the problems, and you can receive assistance during any of the scheduled office hours. Your solutions to the problem sets will be checked by question (check/no check) and your performance on them will be a part of the final grade. Problem sets have to be handed in on paper *before* 11:00a on the due date. You may bring them to class and hand them in *before* class begins.

Problem sets 1 and 2 will contain five exam-like but more elaborate questions, each counting five points. Problem set 3 will have eight exam-like but more elaborate questions, also each counting five points.

5 Assessment

There will be one midterm exam and one final exam. The midterm exam will take only 90 minutes and the final exam only 120 minutes (no extra time). The final exam is cumulative. The midterm exam contains 9 ten-minute questions, and the final exam contains 12 ten-minute questions. Problem sets have to be handed in *before* 11:00am on the due date to be considered.

Your final raw score will be your total points from the three exams and the three problem sets:

Problem sets:	90 points (25+25+40 points)	8/14, 8/21, 9/4
Midterm (90 minutes):	90 points	8/21
Final (120 minutes):	120 points	9/6
Total:	300 points	

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UC San Diego. You can find this grade distribution at *econ.ucsd.edu/muendler/teach/13x/101*. Therefore the difficulty or simplicity of problem sets and exams will not matter, whereas your relative performance in comparison to your classmates will determine your final letter grade. Grades of D or F will not depend on the curve but on a minimal performance standard. Your grader will be Briana Sullivan.

There will be review sessions to help you prepare for the exams.

Participation in exams is mandatory and excused only under the conditions that also permit an incomplete grade: course work must be of non-failing quality and absence must be for a cause beyond the student's control. In particular, the incidence of other exams on the same day is no reason for an excuse from the exam. Under its current rules, Student Health Services offers access to medical excuses that document illness only under extreme circumstances (severe, prolonged illness that necessitates dropping a class or obtaining specific accommodations for class/lab participation, test

taking or make-up). To be excused from the midterm because of illness, the student must inform the instructor *before* the midterm exam. To be excused from the final exam, however, the illness must be sufficiently severe so that Student Health Services or another health-care provider does document the illness.

During exams, only a pen, a pencil, a ruler and an eraser are permitted for use. No other material is allowed. Principles of academic honesty are strictly applied.

Appeals of scores on exams must be submitted in writing, along with all prior exams and problem sets. Following the appeal, all questions on all exams will be reconsidered.

6   Class Schedule

Chapter numbers refer to the textbook chapters in the custom reader.

I. Classic Trade Theory

1. Mon, August 5: Introduction to International Trade
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 1 and 2; Muendler 2013/Ch. 1)

2. Mon, August 5: Comparative Advantage due to Productivity Differences
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 3; Muendler 2013/Ch. 2)
    PROBLEM SET 1 OUT

3. Wed, August 7: Multiple Goods and Multiple Factors of Production
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 4; Muendler 2013/Ch. 3)

4. Wed, August 7: Comparative Advantage due to Endowment Differences
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 5; Muendler 2013/Ch. 4)

5. Mon, August 12: Mobile Factors and Endowment Differences
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 5)

6. Mon, August 12: World Trade Equilibrium in Classic Trade Theory
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 6)

Tue, August 13, 3:30p-4:50p: *Problem set 1 review section* (Peterson 104)

7. Wed, August 14: Distributional Consequences of Classic Trade
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 4; Muendler 2013/Ch. 4)
    PROBLEM SET 1 DUE

8. Wed, August 14: Intermediate Goods Trade and Offshoring
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 8; Muendler 2013/Ch. 6)
    PROBLEM SET 2 OUT

II. Imperfect Competition and Trade Theory

9. Mon, August 19: Imperfect Competition and Market Segmentation
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 8)

10. Mon, August 19: Intra-industry Trade
    (Krugman, Obstfeld, and Melitz 2011a/Ch. 8)

Mon, August 19, 3:00p-4:20p: *Problem set 2 review section* (Peterson 104)

Tue, August 20, 3:30p-4:50p: *Midterm review section*: (Peterson 104)

Wed, August 21: MIDTERM (90 minutes)
covering lectures 1 through 10; Krugman, Obstfeld, and Melitz (2011a)/Ch. 1 through 8; Muendler (2013)/Ch. 2 through 4 and 6
PROBLEM SET 2 DUE

11. Mon, August 26: Diverse Firms, Trade, and Reallocation
(Krugman, Obstfeld, and Melitz 2011a/Ch. 8)
PROBLEM SET 3 OUT

12. Mon, August 26: Multinational Production
(Krugman, Obstfeld, and Melitz 2011a/Ch. 8)

III. Trade Policy

13. Wed, August 28: Instruments of Trade Policy
(Krugman, Obstfeld, and Melitz 2011a/Ch. 9)

14. Wed, August 28: Costs and Benefits of Trade Restrictions
(Krugman, Obstfeld, and Melitz 2011a/Ch. 9)

Tue, September 3, time TBA: *Problem set 3 review section* (room TBA)

15. Wed, September 4: Trade under External Economies of Scale
(Krugman, Obstfeld, and Melitz 2011a/Ch. 7)
PROBLEM SET 3 DUE

16. Wed, September 4: Political Economy of Trade Policies
(Krugman, Obstfeld, and Melitz 2011a/Ch. 10 through 12)

Thu, September 5, 3:30p-4:50p: *Final review section*: (Center 222)

Fri, September 6, 11:30a-1:30p: FINAL EXAM (120 minutes)
covering lectures 1 through 18, Krugman, Obstfeld, and Melitz (2011a)/Ch. 1 through 12; Muendler (2013)/Ch. 1 through 4 and 6

References

KRUGMAN, P. R., M. OBSTFELD, AND M. J. MELITZ (2011a): *International Economics: Theory & Policy*, Pearson Custom Business Resources. Pearson Learning Solutions, New York, special extract compiled for International Trade Econ 101.

——— (2011b): *International economics: Theory and policy*. Pearson, Boston, 9th edn.

MUENDLER, M.-A. (2013): "The Economics of Globalization," University of California, San Diego, unpublished textbook manuscript.