

Economics 101 — Fall 2010
International Trade

October 21, 2010

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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 motives for trade policies and presents the economic effects of trade barriers and trading blocs on industrial competitiveness, income distribution 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 merchandise 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 within 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

Required textbook: Krugman and Obstfeld (2009)/Ch. 1 through 11

Required readings: Krugman and Obstfeld (2003)/Ch. 3;
Feenstra (1998);
Horlick and Palmer (2001); Stiglitz and Charlton (2005)/Ch. 2;
Grossman and Helpman (1995); Rodrik (1992), Freeman (1995);
Rodrik (1998), Williamson (1998)

Advanced reading (beyond class): Melitz (2003)

The textbook is available for purchase from the bookstore. Several library copies are on reserve.

The readings (articles) help you review the lecture material beyond the textbook. They are available through the class web page (see link above). Web links to copyrighted readings only work from on-campus domains.

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 assistants Martin Tobal and Irina Zhecheva 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* 12:30p on the due date. You may bring them to class and hand them in *before* class begins.

Problem sets 1 through 3 will contain five exam-like but more elaborate questions, each counting three points. Problem set 3 will have one open question in addition, counting five points.

5 Assessment

There will be two midterm exams and a final exam. The two midterm exams will take 70 minutes each and the final exam will take 110 minutes. All exams are cumulative.

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

Problem sets:	50 points (15+15+20 points)	10/14, 11/4, 11/30
Midterm 1 (70 minutes):	70 points	10/19
Midterm 2 (70 minutes):	70 points	11/9
Final (110 minutes):	110 points	12/10
<i>Total:</i>	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/10f/101. So 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. The graders will be Martin Tobal, Guangming Xu, Albert Yoon and Irina Zhecheva.

Albert Yoon will offer three review sessions to prepare you for each exam.

6 Class Schedule

I. Classic Trade Theory

1. **Thu, September 23:** Introduction to International Trade
(Krugman and Obstfeld 2009/Ch. 1 and 2)
2. **Tue, September 28:** Comparative Advantage due to Productivity Differences
(Krugman and Obstfeld 2009/Ch. 3)
PROBLEM SET 1 OUT
3. **Thu, September 30:** Multiple Goods and Multiple Factors of Production
(Krugman and Obstfeld 2009/Ch. 4, and Krugman and Obstfeld 2003/Ch. 3)
4. **Tue, October 5:** Comparative Advantage due to Endowment Differences
(Krugman and Obstfeld 2009/Ch. 4, and Krugman and Obstfeld 2003/Ch. 3)
5. **Thu, October 7:** Mobile Factors and Endowment Differences
(Krugman and Obstfeld 2009/Ch. 4)
6. **Tue, October 12:** World Trade Equilibrium in Classic Trade Theory
(Krugman and Obstfeld 2009/Ch. 3 through 5)
- Wed, October 13:** *Problem set 1 review section*
Martin Tobal, 7:00-8:20p, Center Hall room 119
7. **Thu, October 14:** Distributional Consequences of Trade
(Krugman and Obstfeld 2009/Ch. 4)
PROBLEM SET 1 DUE
- Mon, October 18:** *Midterm 1 review section* (problem set 1 back)
Albert Yoon, 7:00-8:20p, Center Hall room 115
- Tue, October 19:** MIDTERM 1
covering lectures 1 through 7; Krugman and Obstfeld (2009)/Ch. 2 through 5; Krugman and Obstfeld (2003)/Ch. 3

II. Imperfect Competition and Trade Theory

8. **Thu, October 21:** Imperfect Competition and Market Segmentation
(Krugman and Obstfeld 2009/Ch. 6)
PROBLEM SET 2 OUT
9. **Tue, October 26:** Intra-industry Trade
(Krugman and Obstfeld 2009/Ch. 6)
10. **Thu, October 28:** Trade, Exporters, and Firm Dynamics
(advanced reading: Melitz 2003)
11. **Tue, November 2:** International Integration of Production
(Krugman and Obstfeld 2009/Ch. 7 and Feenstra 1998)
- Wed, November 3:** *Problem set 2 review section*
Martin Tobal, 7:00-8:20p, Center Hall room 119

12. Thu, November 4: Trade under External Economies of Scale
(Krugman and Obstfeld 2009/Ch. 6)
PROBLEM SET 2 DUE

Mon, November 8: *Midterm 2 review section* (problem set 2 back)
Albert Yoon, 7:00-8:20p, Center Hall room 115

Tue, November 9: MIDTERM 2
covering lectures 1 through 12; Krugman and Obstfeld (2009)/Ch. 1 through 7; Krugman and Obstfeld (2003)/Ch. 3; Feenstra (1998)

III. Trade Policies

13. Thu, November 11: no class (*Veterans Day Holiday*)

14. Tue, November 16: Instruments of Trade Policy
(Krugman and Obstfeld 2009/Ch. 5&8)
PROBLEM SET 3 OUT

15. Thu, November 18: Costs and Benefits of Trade Restrictions
(Krugman and Obstfeld 2009/Ch. 5&8)

16. Tue, November 23: Political Economy of Trade Policies
(Krugman and Obstfeld 2009/Ch. 9&11, Rodrik 1992, and Freeman 1995)

Mon, November 29: *Problem set 3 review section*
Irina Zhecheva, 7:00-8:20p, Center Hall room 115

17. Tue, November 30: Trade Agreements
(Krugman and Obstfeld 2009/Ch. 9 through 11, Horlick and Palmer 2001, and Stiglitz and Charlton 2005)/Ch. 2
PROBLEM SET 3 DUE

18. Thu, December 2: Economic Integration: Past and Present
(Rodrik 1998 and Williamson 1998)

Thu, December 2: *Final review section* (problem set 3 back)
Albert Yoon, 6:30-7:50p, Pepper Canyon Hall room 106

Fri, December 10 (Finals Week): 11:30am-1:30pm FINAL EXAM
covering lectures 1 through 18, Krugman and Obstfeld (2009)/Ch. 1 through 11; Krugman and Obstfeld (2003)/Ch. 3;
Feenstra (1998), Freeman (1995); Grossman and Helpman (1995), Horlick and Palmer (2001), Stiglitz and Charlton (2005)/Ch. 2, Rodrik (1992), Rodrik (1998), and Williamson (1998)

References

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- FREEMAN, R. B. (1995): "Are Your Wages Set in Beijing?," *Journal of Economic Perspectives*, 9(3), 15–32.
- GROSSMAN, G. M., AND E. HELPMAN (1995): "Technology and Trade," in *Handbook of international economics*, ed. by G. M. Grossman, and K. Rogoff, vol. 3 of *Handbooks in Economics*, chap. 25, pp. 1279–1337. Elsevier, North-Holland, Amsterdam, New York and Oxford.
- HORLICK, G. N., AND C. R. PALMER (2001): "The Negotiation of a Free Trade Area of the Americas," *Integration and Trade*, 5(13), 151–64.
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- MELITZ, M. J. (2003): "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 71(6), 1695–1725.
- RODRIK, D. (1992): "The Limits of Trade Policy Reform in Developing Countries," *Journal of Economic Perspectives*, 6(1), 87–105.
- (1998): "Symposium on Globalization in Perspective: An Introduction," *Journal of Economic Perspectives*, 12(4), 3–8.
- STIGLITZ, J. E., AND A. CHARLTON (2005): *Fair trade for all: How trade can promote development*. Oxford University Press, Oxford and New York.
- WILLIAMSON, J. G. (1998): "Globalization, Labor Markets and Policy Backlash in the Past," *Journal of Economic Perspectives*, 12(4), 51–72.