

Economics 101 — Spring 2006

International Trade

April 2, 2006

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Office hours:	Tue 9:00-10:00am, Wed 9:30am-10:00am	
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Classroom:	Center Hall room 101	
Class Time:	TueThu 11:00am-12:20pm	
Class Web Page:	econ.ucsd.edu/muendler/teach/06s/101	
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1 Course Objectives

This course examines theories of international trade in goods and services, as well as international flows of labor and capital, and analyzes 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, this International Trade class focuses on the long-term patterns of balanced trade in merchandize and services. Part I of class is dedicated to classic trade theory in a general equilibrium setting under perfect competition and explains trade among different countries. Part II of class presents recent advances in trade theory under imperfect competition in partial equilibrium and 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 1-2-3. *Recommended:* Economics 100A-B or 170A-B.

3 Readings

Required textbook: Krugman and Obstfeld (2006)

Required readings: Feenstra (1998);
Horlick and Palmer (2001);
Grossman and Helpman (1995); Rodrik (1992), Freeman (1995);
Rodrik (1998), Williamson (1998)

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.

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 Grayson Calhoun, Michael Futch and Tom Corringham will hold sections over the course of the quarter to help you approach the problems. Your solutions to the problem sets will be checked (check/no check) and your performance on them will be a part of the final grade. Problem sets have to be handed in *before* 11:00am 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 essay 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)	4/25, 5/11, 6/6
Midterm 1 (70 minutes):	70 points	4/27
Midterm 2 (70 minutes):	70 points	5/16
Final (110 minutes):	110 points	6/14
<i>Total:</i>	300 points	

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UCSD. You can find this grade distribution at econ.ucsd.edu/muendler/teach/06s/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.

We will offer review sessions to prepare you for the exams.

6 Class Schedule

I. Classic Trade Theory

1. **Tue, April 4:** Introduction to International Trade
(Krugman and Obstfeld 2006/Ch. 2)
 2. **Thu, April 6:** Comparative Advantage due to Productivity Differences
(Krugman and Obstfeld 2006/Ch. 3)
PROBLEM SET 1 OUT
 3. **Tue, April 11:** Multiple Goods and Multiple Factors of Production
(Krugman and Obstfeld 2006/Ch. 3&4)
 4. **Thu, April 13:** Comparative Advantage due to Endowment Differences
(Krugman and Obstfeld 2006/Ch. 4)
- Tue, April 18:** *no class*
5. **Thu, April 20:** Mobile Factors and Endowment Differences
(Krugman and Obstfeld 2006/Ch. 4)
 6. **Fri, April 21:** An Overview of Classic Trade Theory
(Krugman and Obstfeld 2006/Ch. 3 through 5)
room and time TBA
- Mon, April 24:** *Problem set 1 review section*
room and time TBA
7. **Tue, April 25:** Distributional Consequences of Trade
(Krugman and Obstfeld 2006/Ch. 4)
PROBLEM SET 1 DUE
- Wed, April 26:** *Midterm 1 review section* (problem set 1 back)
room and time TBA

Thu, April 27: MIDTERM 1
covering lectures 1 through 7 and Krugman and Obstfeld (2006)/Ch. 2 through 5

II. Imperfect Competition and Trade Theory

8. Tue, May 2: Imperfect Competition and Market Segmentation
(Krugman and Obstfeld 2006/Ch. 6)
PROBLEM SET 2 OUT

9. Thu, May 4: Intra-industry Trade
(Krugman and Obstfeld 2006/Ch. 6)

10. Tue, May 9: International Integration of Production
(Krugman and Obstfeld 2006/Ch. 7 and Feenstra 1998)

Wed, May 10: *Problem set 2 review section*
room and time TBA

11. Thu, May 11: Trade under External Economies of Scale
(Krugman and Obstfeld 2006/Ch. 6)
PROBLEM SET 2 DUE

Mon, May 15: *Midterm 2 review section* (problem set 2 back)
room and time TBA

Tue, May 16: MIDTERM 2
covering lectures 1 through 11, Krugman and Obstfeld (2006)/Ch. 1 through 6 and Feenstra (1998)

III. Trade Policies

12. Thu, May 18: Trade Restrictions in General Equilibrium
(Krugman and Obstfeld 2006/Ch. 5&8)
PROBLEM SET 3 OUT

13. Tue, May 23: Instruments of Trade Policy
(Krugman and Obstfeld 2006/Ch. 8)

14. Thu, May 25: Costs and Benefits of Trade Restrictions in Partial Equilibrium
(Krugman and Obstfeld 2006/Ch. 5&8)

15. Tue, May 30: Aspects of Trade and Growth
(Krugman and Obstfeld 2006/Ch. 6&10, and Grossman and Helpman 1995)

16. Thu, June 1: Political Economy of Trade Policies
(Krugman and Obstfeld 2006/Ch. 9&11, Rodrik 1992, and Freeman 1995)

Mon, June 5: *Problem set 3 review section*
room and time TBA

17. Tue, June 6: Trade Agreements
(Krugman and Obstfeld 2006/Ch. 9 through 11 and Horlick and Palmer 2001)
PROBLEM SET 3 DUE

18. Thu, June 8: Economic Integration: Past and Present
(Rodrik 1998 and Williamson 1998)

Fri, June 9: *Final review section* (problem set 3 back)
room and time TBA

Wed, June 14 (Finals Week): 11:30am-1:30pm FINAL EXAM
covering lectures 1 through 18, Krugman and Obstfeld (2006)/Ch. 1 through 10;
Feenstra (1998), Freeman (1995); Grossman and Helpman (1995), Horlick and Palmer (2001), Rodrik (1992), Rodrik (1998), and Williamson (1998)

References

- FEENSTRA, R. C. (1998): "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, 12(4), 31–50.
- 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.
- KRUGMAN, P. R., AND M. OBSTFELD (2006): *International economics: Theory and policy*. Addison Wesley, Boston, 7th edn.
- 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.
- WILLIAMSON, J. G. (1998): "Globalization, Labor Markets and Policy Backlash in the Past," *Journal of Economic Perspectives*, 12(4), 51–72.