

**University of Virginia**  
**Department of Economics**  
**International Trade 8210**

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**Fall 2013**

This is a graduate introduction to the economics of international trade. The course will introduce a number of the classic themes of the field and attempt to point the direction to promising frontiers of research.

The following should be available in the bookstore, and are listed as required texts:

- (1) *Advanced International Trade*, by Rob Feenstra. Princeton University Press, 2004. (Henceforth, 'Feenstra.')
- (2) *Imperfect Competition and International Trade*, by Gene M. Grossman (ed.). MIT Press, 1992 (henceforth 'Grossman volume').

The following are also available at the bookstore, and are recommended. I'd certainly suggest that you pick them up if you are planning to do research in trade.

- (3) *International Trade: Selected Readings* (2nd edition), by Jagdish Bhagwati (ed.). MIT Press, 1987 (henceforth 'Bhagwati volume').
- (4) Dixit, Avinash K., and Victor Norman (1980). *Theory of International Trade*. Cambridge, U.K.: Cambridge University Press.

Those two will be on reserve at Clemons library. In addition, an encyclopedic survey of classic trade theory that is a good thing to read and a great reference is the following:

- (5) *Lectures in International Trade* (2nd edition), by Jagdish Bhagwati, Arvind Panagariya and T. N. Srinivasan. MIT Press, 1998 (henceforth 'BPS').

The Feenstra text (1) is a useful graduate survey. The Bhagwati volume (3) draws together many essential papers in the field through the 1980's, and the Grossman volume (2) collects most of the essential papers on imperfect competition in trade, which was arguably the dominant theme of the field through the end of the 1980's and early 1990's. Dixit and Norman (4) is the clearest exposition there is of certain topics. There will also be a lot of uncollected papers posted on the collab page.

Two thirds of the course grade will be based on a final exam, and the remainder on a brief written exercise. The exercise will consist of a 2-4 page referee report on a paper of your choosing, either on the regular syllabus (chosen from among papers we haven't covered in class – or from other suggestions, subject to my approval). Occasional practice problems will be assigned, which may be handed in to me for feedback, but they will be ungraded. The following is an outline of the course content.

### *I. Classical and Neo-classical Trade Models: Basics.*

#### *I.A. Ricardian:*

Feenstra, pp. 1-4.

BPS Ch. 2-4.

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* 67:5 (December), pp. 823-39.

Eaton, Jonathan and Samuel Kortum (2002). "Technology, Geography, and Trade." *Econometrica* 70:5 (September), pp. pp.1741-79.

#### *I.B. Specific Factors.*

Feenstra pp. 72-5.

BPS Ch.7.

Mussa, Michael (1974). "Tariffs and the Distribution of Income: The Importance of Factor Specificity, Substitutability, and Intensity in the Short and Long Run." *Journal of Political Economy* 82, pp. 1191-1204.

#### *I.C. Heckscher-Ohlin and its variants.*

Feenstra, pp. 4-29, Ch. 2, 3.

BPS Ch. 5, 6, and 8.

Jones, R. I. (1965). "The Structure of Simple General Equilibrium Models." *Journal of Political Economy* 73:4, pp. 557-72.

Dornbusch, Rudiger, Stanley Fischer, and Paul A. Samuelson (1980). "Heckscher–Ohlin trade theory with a continuum of goods." *Quarterly Journal of Economics* 95, pp. 203-24.

Zhu, Susan Chun and Daniel Trefler (2005). "Trade and inequality in developing countries: a general equilibrium analysis." *Journal of International Economics* 65, pp. 21-48.

Deardorff, Alan (1979). "Weak Links in the Chain of Comparative Advantage," in Bhagwati volume.

Ethier, Wilfred J. (1984). "Higher Dimensional Issues in Trade Theory," in R.W. Jones and P.B. Kenen (ed.), *Handbook of International Economics*, Elsevier.

*I.D. The duality approach and more general theory.*

Dixit, Avinash K., and Victor Norman (1980). *Theory of International Trade*. Cambridge, U.K.: Cambridge University Press. Ch. 2-4.

Feenstra pp. 179-88.

BPS Ch. 9.

Ariel Burstein, Jonathan Vogel (2010). "Globalization, Technology, and the Skill Premium: A Quantitative Analysis." NBER Working Paper No. 16459.

*I.E. Trade in Tasks.*

Feenstra, Robert C. and Gordon H. Hanson (1996). "Foreign Investment, Outsourcing and Relative Wages." In R.C. Feenstra, G.M. Grossman and D.A. Irwin, eds., *The Political Economy of Trade Policy: Papers in Honor of Jagdish Bhagwati*, Cambridge, MA: MIT Press, pp. 89-127.

Grossman, Gene M., and Esteban Rossi-Hansberg (2008). "Trading Tasks: A Simple Theory of Offshoring." *American Economic Review*, 98(5), pp. 1978–97.

*I.F. Some key empirical approaches.*

Bernhofen, Daniel and John C. Brown (2004). "A direct test of the theory of comparative advantage: the case of Japan." *Journal of Political Economy* 112(1), (excerpt), pp. 62-3.

\_\_\_\_\_ (2005). "An empirical assessment of the comparative advantage gains from trade: evidence from Japan." *American Economic Review*, pp. 95(1), 208-225.

Bowen, Harry P., Edward E. Leamer and Leo Sveikauskas (1987). "Multicountry, Multifactor Tests of the Factor Abundance Theory." *American Economic Review*, 77:5 (December), pp. 791-809.

Trefler, Daniel (1995). "The Case of the Missing Trade and Other Mysteries," *American Economic Review* 85:5 (December), PP. 1029-46.

Feenstra, pp. 41-61; Ch. 4.

Harrigan, James (1997). "Technology, Factor Supplies and International Specialization: Estimating the Neoclassical Model." *American Economic Review* 87:4 (September) pp. 475-494.

Kovak, Brian (2011). "Local Labor Market Effects of Trade Policy: Evidence from Brazilian Liberalization." Working Paper, Carnegie Mellon.

Anderson, James E and Eric van Wincoop (2003). "Gravity with Gravitas: a Solution to the Border Puzzle," *American Economic Review*, (2003), 93, 170-92.

## *II. Classical and Neoclassical Models: Trade Policy.*

Feenstra, pp. 209-20, 254-63.

BPS Ch. 12-4.

Dixit and Norman, Ch. 6.

Bhagwati, J.N. (1971). "The Generalized Theory of Distortions and Welfare," in Bhagwati volume.

Mayer, Wolfgang (1981). "Theoretical Considerations on Negotiated Tariff Adjustments." *Oxford Economic Papers* 33:1 (March), pp. 135-53.

Rodriguez, Carlos Alfredo (1974). "The Non-Equivalence of Tariffs and Quotas Under Retaliation," in Bhagwati volume.

## *III. Dynamics in Neoclassical Models.*

Mussa, Michael (1978). "Dynamic Adjustment in the H-O-S Model." *Journal of Political Economy* 86, pp. 775-91.

Neary, J. Peter (1978). "Short-Run Capital Specificity and the Pure Theory of International Trade," in Bhagwati volume.

Ronald Findlay (1995). *Factor Proportions, Trade, and Growth*. Cambridge, MA: MIT Press. Chapter 2.

Artuç, Erhan, Chaudhuri, Shubham, and John McLaren (2010). "Trade Shocks and Labor Adjustment: A Structural Empirical Approach." *American Economic Review* (June).

#### *IV. Imperfect Competition.*

##### *(i). Monopolistic competition.*

Krugman, Paul R. (1980). "Scale Economies, Product Differentiation, and the Pattern of Trade," in Grossman volume.

Helpman, Elhanan (1981). "International Trade in the Presence of Product Differentiation, Economies of Scale, and Monopolistic Competition: A Chamberlin-Heckscher-Ohlin Approach," in Grossman volume.

Dixit and Norman (1980), pp. 281-94.

Feenstra, Ch. 5.

Melitz, Mark J. (2003). "The Impact Of Trade On Intra-Industry Reallocations And Aggregate Industry Productivity," *Econometrica*, 71:6 (November), pp. 1695-1725.

##### *(ii) Strategic trade policy.*

Brander, James A. and Barbara J. Spencer (1981). "Tariffs and the Extraction of Foreign Monopoly Rents under Potential Entry," in Bhagwati volume.

\_\_\_\_\_(1984). "Tariff Protection and Imperfect Competition," in Grossman volume.

\_\_\_\_\_(1985). "Export Subsidies and International Market Share Rivalry." *Journal of International Economics* 18, pp. 83-100.

Feenstra, pp. 221-33, 286-96.

Eaton, Jonathan and Gene M. Grossman (1986). "Optimal Trade and Industrial Policy under Oligopoly," in Grossman volume.

Markusen, James R. and Anthony J. Venables (1988). "Trade Policy with Increasing Returns and Imperfect Competition: Contradictory Results from Competing Assumptions," in Grossman volume.

Brander, James A. and Paul R. Krugman (1983). "A 'Reciprocal Dumping' Model of International Trade," in Grossman volume.

Krugman, Paul R. (1984). "Import Protection as Export Promotion: International Competition in the Presence of Oligopoly and Economies of Scale," in Grossman volume.

Krishna, Kala (1989). "Trade Restrictions as Facilitating Practices," in Grossman volume.

Bernard, A. B., J. Eaton, J. B. Jensen, and S. Kortum (2003). "Plants and Productivity in International Trade," *American Economic Review*, 93(4), pp. 1268-1290.

Maggi, Giovanni (1996). "Strategic Trade Policies with Endogenous Mode of Competition." *American Economic Review* 86:1(March), pp. 237-258.

Neary, Peter (2002). "Globalisation and market structure," Presidential Address to the European Economic Association Annual Conference, Venice, 22-24 (<http://www.ucd.ie/~economic/staff/pneary/papers/eea2002.htm>).

#### *V. Agglomeration models.*

Krugman, Paul (1991). "Increasing Returns and Economic Geography," *Journal of Political Economy* 99:3 (June), pp. 483-99.

Krugman, Paul R. and Anthony J. Venables (1995). "Globalization and the Inequality of Nations," *Quarterly Journal of Economics* 110:4 (November), pp. 857-80.

Ethier, Wilfred J (1982). "Decreasing Costs in International Trade and Frank Graham's Argument for Protection," *Econometrica* 50:5 (September), pp. 1243-68.

#### *VI. Political Economy.*

Feenstra, pp. 300-15.

Wolfgang Mayer (1984). "Endogenous Tariff Formation," *American Economic Review* 74, pp. 970-85. In Bhagwati volume.

Grossman, Gene and Helpman, Elhanan (1994). "Protection for Sale," *American Economic Review* 84(4), September, 835-50.

Mitra, Devashish. "Endogenous Lobby Formation and Endogenous Protection: A Long-Run Model of Trade Policy Determination," *American Economic Review* 89:5 (December 1999), pp. 1116-34.

Goldberg, Pinelopi and Maggi, Giovanni. "Protection for Sale: An Empirical Investigation." *American Economic Review* 89:5 (December 1999), pp. 1135-55.

Kenneth F. Scheve and Matthew J. Slaughter (1998). "What Determines Individual Trade Policy Preferences?" NBER Working Paper No. W6531 (April).

Grossman, Gene and Elhanan Helpman (2005). "A Protectionist Bias in Majoritarian Politics" *Quarterly Journal of Economics*, vol. 120 (November).

#### *VII. Preferential Trade Policy.*

BPS Sections 31.2-31.4.

Panagariya, Arvind. "Preferential Trade Liberalization: The Traditional Theory and New Developments." *Journal of Economic Literature* 38:2 (June 2000): pp. 287-33.

Romalis, John (2007). "NAFTA's and CUSFTA's Impact on International Trade." *The Review of Economics and Statistics* 89:3 (August), pp. 416-35.

Caliendo, Lorenzo and Fernando Parro (2009). "Estimates of the Trade and Welfare Effects of NAFTA." Working Paper, University of Chicago.

Hakobyan, Shushanik and John McLaren (2012). "Looking for Local Labor Market Effects of NAFTA." NBER Working Paper #16535.

Grossman, Gene and Helpman, Elhanan (1995). "The Politics of Free Trade Agreements," *American Economic Review* 85(4), September, pp. 667-690.

McLaren, John (2002). "A Theory of Insidious Regionalism." *Quarterly Journal Economics* CXVII (May), pp. 571-608.

*VII. Economic Approaches to International Relations.*

Bagwell, Kyle and Robert W. Staiger (1990). "A Theory of Managed Trade." *American Economic Review* 80:4 (September): pp. 779-95.

\_\_\_\_\_ (1999). "An Economic Theory of GATT." *American Economic Review* 89:1 (March 1999) pp. 215-48.

Feenstra, pp. 315-21.

McLaren, J. (1997). "Size, Sunk Costs, and Judge Bowker's Objection to Free Trade," *American Economic Review* 87:3 (June), pp. 400-20.

Maggi, Giovanni, and Andres Rodriguez-Clare (1998). "The Value of Trade Agreements in the Presence of Political Pressures." *Journal of Political Economy* 106:3 (June), pp. 574-601.

Staiger, Robert W. and Guido Tabellini (1989). "Rules and Discretion in Trade Policy," *European Economic Review* 33:6 (July), pp. 1265-77.

\_\_\_\_\_ (1999). "Do GATT Rules Help Governments Make Domestic Commitments?" *Economics and Politics* 11:2 (July): pp. 109-44.

Staiger, Robert W. (1995). "A Theory of Gradual Trade Liberalization," in *Studies in International Trade Policy*. Ann Arbor: University of Michigan Press, pp. 249-84.

Ossa, Ralph (2009). "A New Trade Theory of GATT/WTO Negotiations." Chicago GSB Working Paper.

*VIII. Trade and Growth.*

Feenstra, Ch. 10.

Gene Grossman and Elhanan Helpman (1991). "Quality Ladders and Product Cycles." *Quarterly Journal of Economics* 106:2 (1991), pp. 557-86.

Francisco Rodriguez and Dani Rodrik (2000). "Trade Policy and Economic Growth: A Skeptic's Guide to Cross-National Evidence." *NBER Macroeconomics Annual*, vol. 15.

Feyrer, James (2009). "Trade and Income--Exploiting Time Series in Geography." NBER WP # 14910.