

MIT Econ 14.581: Graduate International Trade, Spring 2009

Instructors:

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Teaching Assistant:

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Time:

Anderson lectures meet twice a week, on Tuesday and Thursday, 2:30pm-4pm.

Matsuyama lectures meet three times a week. Time for a third lecture will be determined on Tuesday, February 24, when his part meets for the first time.

Course Description

Basic literacy in the core theory of international trade will be drawn from Dixit and Norman's textbook: *Theory of International Trade*, Cambridge: Cambridge University Press, 1980. A bridge to empirical validation will be drawn from Feenstra's textbook: *Advanced International Trade*, Princeton: Princeton University Press, 2004. Anderson's lectures also reflect his interest in trade policy and other trade impediments. Anderson's lectures rely on notes posted on his website.

Matsuyama's lectures also reflect his interest in understanding how relative economic performances across countries and regions are affected by the fact that they trade with each other. Matsuyama's lectures also rely heavily on his lecture slides, which will be updated and posted on his website.

The course outline below is likely too ambitious for a single semester, so adjustments will be made as needed.

Grading

Anderson (50%) = Take-home exam (40%) + Exercises and Participation (10%)

Matsuyama (50%) = Take-home exam (40%) + Class Participation (10%)

Both take-home exams will be due on May 4.

Course Schedule

Anderson

Date	Lec#		
02/03	1	Comparative Advantage; Dual Theory of Production	Profit and GDP functions
02/05	2	More Duality & Trade	Direct and indirect trade utility functions; trade expenditure
	TA		
02/10	3	Gains from Trade	
02/12	4	Ricardian Continuum	Endogenous traded/nontraded margin
	TA		
02/17		NO CLASS	
02/19	5	Specific Factors	Distribution and openness
	TA		

Matsuyama (Three lectures per week; time for a third lecture will need to be discussed with students; preferably in Tuesday or Thursday evening)

02/24	6	Back to Ricardian Trade	Nonhomothetic Preferences; Structural Change & North-South Trade
02/24?	7	Factor Proportion	Basic Heckscher-Ohlin Model; Higher Dimension
02/26	8	Factor Proportion	Heckscher-Ohlin Model with 2 Factors & N ($2 < N \leq \infty$) Goods
	TA		
03/03	9	Factor Proportion	Factor-Proportion Model with Technological Heterogeneities
03/03?	10	Monopolistic Competition	Tradeable Differentiated Goods: Gains from Variety & Intra-Industry Trade
03/05	11	Monopolistic Competition	Nontradeable Differentiated Goods: Agglomeration
	TA		
03/10	12	Monopolistic Competition	Costly Trade in Differentiated Goods: Home Market Effect
03/10?	13	Monopolistic Competition	Costly Trade in Differentiated Goods: Economic Geography
03/12	14	Growth and Trade	Dynamic Ricardian Trade with Learning-By-Doing;
	TA		
03/17	15	Growth and Trade	Factor Accumulation and Innovation
03/17?	16	Intertemporal Trade	International Capital Flows and Current Account
03/19	17	Intertemporal Trade	Financial Frictions, Asset Trade
	TA		

Spring Break

Anderson

Date	Lec#		
03/31	18	Heterogeneous Labor	Distribution, openness and labor frictions
04/02	19	Gravity 1	Incidence and measurement
	TA		
04/07	20	Gravity 2	General equilibrium
04/09	21	Trade Policy 1	Public interest
	TA		
04/14	22	Trade Policy 2	Political economy
04/16	23	Institutions 1	Terms of trade
	TA		
04/21		NO CLASS	
04/23	24	Institutions 2	Domestic commitment

Reading

I. Competitive Trade (Anderson)

Lecture 1 (Feb. 3)

Comparative Advantage

Dixit-Norman, ch. 1; Bernhofen-Brown (2004) JPE 112(1), 48-67.

Dual Theory of Production and Consumption

Profit and GDP Functions (Feb. 3)

Dixit-Norman, ch. 2; Anderson notes

Lecture 2 (Feb. 5)

Direct and Indirect Trade Utility Functions; Trade Expenditure Function

A. Woodland, (1980), "Direct and Indirect Trade Utility Functions", RES, 47,907-26.

Feenstra, ch. 3

Anderson notes

Lecture 3 (Feb. 10)

Gains from Trade

Dixit-Norman, ch. 3

Bernhofen-Brown (2005) "An Empirical Assessment of the Comparative Advantage Gains from Trade", AER 95(1), 208-225.

II. Special Cases of Technology (Anderson)

Lecture 4 (Feb. 12)

Ricardian Continuum model

Dornbusch, Fischer and Samuelson, (1977), AER, "The Ricardian model with a continuum of goods"

Matsuyama, K. , "Ricardian Trade Theory," *New Palgrave Dictionary of Economics*, 2nd Ed.

Lecture 5 (Feb. 19)

Specific Factors and Income Distribution

Anderson, JE (2009) "Globalization and Income Distribution: A Specific Factors Continuum Approach" NBER WP 14643.

Lecture 6 (Feb 24)

Back to Ricardian Trade; Non-Homothetic Preferences and North-South Trade

Matsuyama, Lecture Slides; Part II; Section on Non-homothetic Preferences

Matsuyama, "Structural Change in an Interdependent World," JEEA, forthcoming

Flam-Helpman "Vertical Product Differentiation and North-South Trade," AER Dec 1987

Stokey, "The Volume & Composition of Trade between Rich and Poor Countries," REStud Jan 1991

Matsuyama, "A Ricardian Model with a Continuum of Goods under Nonhomothetic Preferences," JPE, Dec 2000

III. Factor Proportion Theory

Lecture 7 through Lecture 9;

Factor Proportion Theory: Heckscher-Ohlin and Its Generalizations

Matsuyama, Lecture Slides; Part III

Ethier, W. "Higher Dimensional Issues in Trade Theory," in Handbook I

Helpman and Krugman, Market Structure and Foreign Trade Ch. 1

Dornbusch-Fischer-Samuelson, "Heckscher-Ohlin Continuum of Goods," QJE, 1980

Davis, "A Heckscher-Ohlin-Ricardo Approach," JIE Oct 1995

Matsuyama, "Beyond Icebergs," Review of Economic Studies, Jan 2007

IV. Monopolistically Competitive Models of Trade

Lecture 10:

Tradeable Differentiated Goods: Gains from Variety and Intra-Industry Trade

Matsuyama, Lecture Slides; Part IV

Krugman, "Increasing Returns, Monopolistic Competition," *JIE* 1979

Krugman, "Intraindustry Specialization, and Gains from Trade," *JPE* 1981

Markusen, "Explaining the Volume of Trade: An Eclectic Approach" *AER* Dec 1986

Foellmi-Hepenstrick-Zweimueller, "Income Effects in the Theory of Monopolistic Competition and International Trade," Oct 2007

Lecture 11;

Nontradeable Differentiated Goods; Agglomeration

Matsuyama, Lecture Slides; Part IV

Helpman and Krugman, *Market Structure and Foreign Trade* Chs. 10-11.

Matsuyama, "Why Are There Rich and Poor Countries?: Symmetry-Breaking in the World Economy," *JJIE* 1996.

Matsuyama and Takahashi, "Self-Defeating Regional Agglomeration," *REStud* April 1998.

Lecture 12

Costly Trade in Differentiated Goods: Home Market Effect

Matsuyama, Lecture Slides; Part IV

Krugman, "Scale Economies, Product Differentiation,," *AER* 1980

Matsuyama, "Geography of the World Economy," unpublished

Lecture 13

Costly Trade in Differentiated Goods: Economic Geography

Matsuyama, Lecture Slides; Part IV

Krugman, "Increasing Returns and Economic Geography," *JPE* June 1991

Krugman and Venables, "Globalization and the Inequality of Nations," *QJE*, 1995

Fujita, Krugman, and Venables. *The Spatial Economy*. Cambridge: MIT Press, 1999

Combes-Mayer-Thisse, *Economic Geography*, Princeton University Press, 2008

V: Growth and Trade

Lecture 14

Growth and Trade: Dynamic Ricardian Trade with Learning-By-Doing

Matsuyama, Lecture Slides; Part V; Section on Learning-By-Doing

Grossman-Helpman, "Technology and Trade," *Handbook of International Economics, Vol. III*, Ch.2, Secs. 1-3.

Matsuyama, "Agricultural Productivity, Comparative Advantage, and Economic Growth," *JET* 1992

Brezis, Krugman and Tsiddon, "Leapfrogging in International Competition," *AER*, Dec 1993.

Lecture 15

Growth and Trade: Factor Accumulation and Innovation

Matsuyama, Lecture Slides; Part V; Section on Factor Accumulation

Acemoglu, *Introduction to Modern Economic Growth*, Princeton University Press, Ch. 18-19

Acemoglu and Ventura, World Income Distribution, *QJE* 2002

Acemoglu, "Patterns of Skill Premia," *REStud* April 2003

Grossman and Lai, "International Protection of Intellectual Property Rights," *AER* Dec 2004

VI: Intertemporal Trade

Lecture 16 and Lecture 17

Dynamics of the Current Account

Obstfeld and Rogoff, *Foundations of Open Economy Macroeconomics*, Chs. 1-3.

Financial Frictions and International Capital Flows

Matsuyama, "Aggregate Implications of Credit Market Imperfections," in *NBER Macroeconomics Annual 2007*

Gertler, and Rogoff, "North-South Lending and Endogenous Domestic Capital Market Inefficiencies," *JME* 1990.

Matsuyama, "Credit Market Imperfections and Patterns of Trade and Capital Flows," *JEEA* April-May 2005

Matsuyama, "Financial Market Globalization,, and Endogenous Inequality of Nations," *ECMA*, May 2004

Matsuyama, "Endogenous Productivity Differences and Patterns of International Capital Flows," in preparation.
Antras and Caballero, "Trade and Capital Flows: A Financial Friction Perspective," Harvard and MIT
Risk, Diversification, and Asset Trade
Obstfeld and Rogoff, *Foundations of Open Economy Macroeconomics*, Ch. 5
Svensson, "Trade in Assets," *AER*, June 1988.
Broner and Ventura, "Globalization and Risk-Sharing," CREI.

VII: Trade and Labor

Lecture 18 (March 31)

Semi-mobile Factors: Heterogeneous Labor

Ohnsorge, F. and D. Trefler (2007), "Sorting it out: international trade with heterogeneous workers", *Journal of Political Economy*, 115, 868-892.

Helpman, E., O. Itskhoki and S. Redding (2008), "Inequality and Unemployment in a Global Economy", NBER WP No. 14478.

VIII: Trade Costs and Gravity Equations

Lecture 19 (April 2)

Gravity: Incidence and Measurement

Anderson-van Wincoop (2004) *J. Econ. Lit.* 42, 691-751.

Anderson-Yotov (2008) "The Changing Incidence of Geography", NBER Working Paper No. 14423.

Lecture 20 (April 7)

Gravity: General Equilibrium

Anderson JE (2009), "Gravity, Productivity and the Pattern of Production and Trade", NBER WP No. 14642.

Eaton, J and S. Kortum (2002) "Technology, Geography and Trade", *Econometrica*, 70, 1741-1779.

Costinot, Arnaud and Ivana Komunjer (2007), "What Goods Do Countries Trade? New Ricardian Predictions", mimeo, UC-San Diego.

IX: Trade Policies

Lecture 21 (April 9)

Trade Policy: Public interest

Anderson-Neary (2005), *Measuring the Restrictiveness of International Trade Policy*, chs. 3,6

Anderson-Neary (2007), "Welfare vs. Market Access: Implications of Tariff Structure for Trade Reform", *Journal of International Economics*, 71 (1), 187-205.

Lecture 22 (April 14)

Trade Policy: Political Economy

G. Grossman and E. Helpman, "Protection for Sale," *American Economic Review* 84:4, September 1994, pp. 833-850;

Grossman-Helpman, *Special Interest Politics*, Ch. 8.

G. Maggi and P. Goldberg, "Protection for Sale: an Empirical Investigation," *American Economic Review* 89:5, December 1999, pp. 1135-1155.

K. Gawande and U. Bandyopadhyay, "Is Protection for Sale? Evidence on the Grossman-Helpman Theory of Endogenous Protection," *Review of Economics and Statistics* 82:1, February 2000, pp. 139-152.

Lecture 23 (April 16)

Institutions : Terms of trade

Bagwell, K. and R. Staiger, *The Economics of the World Trading System*, ch. 2, chs. 4-6.

K. Bagwell and R. Staiger, "An Economic Theory of GATT," *American Economic Review* 89:1, March 1999, pp. 215-48.

Lecture 24 (April 23)

Institutions: Domestic commitment

G. Maggi and A. Rodriguez-Clare, "The Value of Trade Agreements in the Presence of Political Pressures," *Journal of Political Economy* 106:3, June 1998, pp. 574-601
----- (2007) "A political economy theory of trade agreements", *American Economic Review* 97(4), 1374-1406