

POLITICAL ECONOMY OF TRADE AND DEVELOPMENT

EC 875
21 Campanella Way 480P

Spring 2009
TTh 9:00-10:00

James E. Anderson
Room 471, 552-3691
Office Hours: M, 3:30-4:30, TTh 10:30-11:30

This course treats international trade as an outcome of the interaction of economic and political processes.

Part of the course covers key topics not covered in Ec871, and is thus in standard graduate course work mode. The remainder of the topics are focused on a single article or two, chosen for significance of course, but analyzed from the point of view of discovering how to do research by working out how the paper got written.

Students will be expected to work through the assigned reading before the class period in which it is discussed. The course grade will be based on a final exam, a class presentation, and two papers. The first paper will be a critical review of a paper selected from the reading list; the class presentation is to be based on that critical review. The second paper is to reflect original work either extending one of the models on the reading list or building something entirely new. More detailed instructions will be given in class.

Grading:
Final exam 40%
Each paper 25%
Presentation 10%

READING LIST

I. TRADE POLICY IN THE PUBLIC INTEREST

A. Theory

Readings

*Anderson, JE and JP Neary, Measuring Trade Restrictiveness, (2004) chs. 3,6,7.

*Anderson, JE and JP Neary, "Welfare vs. Market Access: The Implications of Tariff Structure for Tariff Reform" (2005)
(www2.bc.edu/~anderson/WelvsMktAccess.pdf)

*Anderson, JE and JP Neary, "Revenue Tariff Reform" (2006),
(www2.bc.edu/~anderson/RevenueTarReform.pdf).
Anderson, JE, "The Theory of Protection" in D. Greenaway and LA
Winters Surveys

A. Dixit, "Taxation in Open Economies," Chapter in
Handbook of Public Finance

B. Empirical work on Trade Policy

readings:

*Feenstra, ch. 7

*R. Feenstra, "Estimating the Effects of Trade Policy", 1995
Handbook, vol. 3.

Anderson and Neary Measuring Trade Restrictiveness, chs. 11, 12,
14.

C. Strategic Trade Policy

Readings:

*J. Brander, "Strategic Trade Policies" in Handbook, vol. 3.

*G. Maggi, "Strategic Trade Policies with Endogenous Modes of
Competition", AER, 1996, 237-58.

Brander and Spencer, "Tariff Protection and Imperfect
Competition" and Eaton and Grossman, "Optimal Trade and
Industrial Policy under Oligopoly", chs. 6 and 7 in Grossman,
Imperfect Competition and International Trade.

J. McLaren 1997, "Size, Sunk Cost and Judge Bowker's Objection to
Free Trade", AER, 400-420.

II. POLITICAL ECONOMIC MODELS OF POLICY-MAKING

Median Voter Models:

W. Mayer, "Endogenous Tariff Formation," *American Economic Review* 74:5,
December 1984, pp. 970-985.

R. Fernandez and D. Rodrik, "Resistance to Reform: Status Quo Bias in the
Presence of Individual-Specific Uncertainty," *American Economic Review*
81:5, December 1991, pp. 1146-1155.

Lobbies and Information

Grossman and Helpman, *Special Interest Politics*, chs. 4,5.

S. Esteban and D. Ray (2006), "Inequality, Lobbying and Resource Allocation",
American Economic Review, 96, 257-79.

Lobbies as Principals, Government as Agent:

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.

Legislatures

Grossman and Helpman, *Special Interest Politics*, ch. 9

Political Competition:

Grossman and Helpman, *Special Interest Politics*, ch. 10.

Government as Principal, Bureaucrats as Agents:

D. Acemoglu and T. Verdier, "The Choice Between Market Failures and Corruption," *American Economic Review* 90:1, March 2000, pp. 194-211.

III. TRADE AGREEMENTS

Multilateral Frameworks:

*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.

Enforcement

R. Staiger and K. Bagwell, "A Theory of Managed Trade", *American Economic Review* 80:4, September 1990, pp. 779-795.

R. Staiger and G. Tabellini, "Do GATT Rules Help Governments Make Domestic Commitments?" *Economics and Politics* 11:2, July 1999, pp. 109-144.

G. Maggi, "The Role of Multilateral Institutions in International Trade Cooperation," *American Economic Review* 89:1, March 1999, pp. 190-214.

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.

----- (2005) "A political economy theory of trade agreements", NBER WP No. 11716. AER 2007.

Regionalism and Multilateralism

P. Krishna, "Regionalism and Multilateralism: A Political Economy Approach," *Quarterly Journal of Economics* 113:1, February 1998, pp. 227-51.

Bagwell and Staiger, ch. 7.

Aghion, Philippe, Pol Antras and Elhanan Helpman, "Negotiating Free Trade", JIE, forthcoming. NBER WP No. 10721.

- *W. Ethier, "The International Commercial System," Princeton: International Finance Section, 1998.
- *W. Ethier, "Reciprocity, Nondiscrimination and a Multilateral World", Penn. Mimeo 2000.
- *C. Freund, "Multilateralism and the Endogenous Formation of Preferential Trade Agreements," *Journal of International Economics* 52:2, December 2000, pp. 359-76.
- P. Krishna and D. Mitra, "Reciprocated unilateralism in trade policy," *JIE* (2005), 65(2), 461-87.

Labor and Environmental Standards

Bagwell and Staiger, ch. 8; also their paper in *QJE* May 2001.

WTO Framework and Competition Policy

Bagwell and Staiger, ch. 9

Empirical Assessment of Trade Agreements

A. Subramanian and S. Wei (2007), "The WTO Promotes Trade Strongly, but Unevenly", *Journal of International Economics*, 72, 151-75.

S. Baier and J. Bergstrand (2007), "Do free trade agreements actually increase members' international trade?", *Journal of International Economics*, 71, 72-95.

IV. INSECURITY AND TRADE

A. Holdup

J. McLaren, "Supplier Relations and the Market Context: A Theory of Handshakes," *Journal of International Economics* 48:1, June 1999, pp. 121-138.

J. McLaren, "Globalization and Vertical Structure," *American Economic Review* 90:5, December 2000, pp. 1239-1254.

N. Nunn, (2007), "Relationship Specificity, Incomplete Contracts and the Pattern of Trade", *Quarterly Journal of Economics*, 132(2), 569-600.

B. Predation

J. E. Anderson and D. Marcouiller, (2002) "Insecurity and the Pattern of Trade: An Empirical Investigation," *Review of Economics and Statistics*, 84 (2), 345-52.

J. E. Anderson and O. Bandiera, (2006) "Traders, Cops and Robbers", *Journal of International Economics*, 70(1), 197-215.

J. E. Anderson, (2009) "Terrorism, Trade and Public Policy", NBER WP No. xx.

C. Informal Governance

A. K. Dixit, *Lawlessness and Economics*, (2004), Princeton University Press, chs. 1-5.

V. Labor Market Heterogeneity

. 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), "Wages, Unemployment and Inequality with Heterogeneous firms and Workers"

Grossman, Gene (2004), "The distribution of talent and the pattern and consequences of international trade", *JPE* 112: 209 – 39.

Grossman, Gene and Giovanni Maggi (2000), "Diversity and trade", *American Economic Review*, 90: 1255 – 75.