MIT Econ 14.581: Graduate International Trade, Spring 2009

Instructors:

James E. Anderson (Twelve Lectures; #1-#5; #18-#24)
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Website: http://www2.bc.edu/~anderson

Kiminori Matsuyama (Twelve Lectures; #6-#17)
Office Hours; TBA
Email; k-matsuyama@northwestern.edu, or kiminori@mit.edu
Website: http://faculty.wcas.northwestern.edu/~kmatsu/

Teaching Assistant:

Sahar Parsa (sparsa@mit.edu).

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
to empirical validation will be drawn from Feenstra’s textbook: Advanced International 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

<table>
<thead>
<tr>
<th>Date</th>
<th>Lec#</th>
<th>Topic</th>
<th>Notes</th>
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<tbody>
<tr>
<td>02/03</td>
<td>1</td>
<td>Comparative Advantage; Dual Theory of Production</td>
<td>Profit and GDP functions</td>
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<td>02/05</td>
<td>2</td>
<td>More Duality &amp; Trade</td>
<td>Direct and indirect trade utility functions; trade expenditure</td>
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<tr>
<td>02/10</td>
<td>3</td>
<td>Gains from Trade</td>
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<td>02/12</td>
<td>4</td>
<td>Ricardian Continuum</td>
<td>Endogenous traded/nontraded margin</td>
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<td>02/17</td>
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<td>NO CLASS</td>
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<td>02/19</td>
<td>5</td>
<td>Specific Factors</td>
<td>Distribution and openness</td>
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Matsuyama (Three lectures per week; time for a third lecture will need to be discussed with students; preferably in Tuesday or Thursday evening)

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<th>Topic</th>
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<tr>
<td>02/24</td>
<td>6</td>
<td>Back to Ricardian Trade</td>
<td>Nonhomothetic Preferences; Structural Change &amp; North-South Trade</td>
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<td>7</td>
<td>Factor Proportion</td>
<td>Basic Heckscher-Ohlin Model; Higher Dimension</td>
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<td>02/26</td>
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<td>Heckscher-Ohlin Model with 2 Factors &amp; N (2 &lt; N ≤ ∞) Goods</td>
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<td>03/03</td>
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<td>Factor Proportion</td>
<td>Factor-Proportion Model with Technological Heterogeneities</td>
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<td>Monopolistic Competition</td>
<td>Tradeable Differentiated Goods: Gains from Variety &amp; Intra-Industry</td>
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<td>Trade</td>
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<td>Monopolistic Competition</td>
<td>Nontradeable Differentiated Goods: Agglomeration</td>
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<td>Monopolistic Competition</td>
<td>Costly Trade in Differentiated Goods: Home Market Effect</td>
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<td>Monopolistic Competition</td>
<td>Costly Trade in Differentiated Goods: Economic Geography</td>
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<td>Growth and Trade</td>
<td>Dynamic Ricardian Trade with Learning-By-Doing;</td>
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<td>03/17</td>
<td>15</td>
<td>Growth and Trade</td>
<td>Factor Accumulation and Innovation</td>
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<td>Intertemporal Trade</td>
<td>International Capital Flows and Current Account</td>
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<td>Intertemporal Trade</td>
<td>Financial Frictions, Asset Trade</td>
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Spring Break

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<td>03/31</td>
<td>18</td>
<td>Heterogeneous Labor</td>
<td>Distribution, openness and labor frictions</td>
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<td>Trade Policy 2</td>
<td>Political economy</td>
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<td>04/23</td>
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<td>Institutions 2</td>
<td>Domestic commitment</td>
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Reading

I. Competitive Trade (Anderson)
Lecture 1 (Feb. 3)
Comparative Advantage

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

Feenstra, ch. 3
Anderson notes

Lecture 3 (Feb. 10)
Gains from Trade
Dixit-Norman, ch. 3


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”


Lecture 5 (Feb. 19)
Specific Factors and Income Distribution

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


III. Factor Proportion Theory

Lecture 7 through Lecture 9;
Factor Proportion Theory: Heckscher-Ohlin and Its Generalizations

Matsuyama, Lecture Slides; Part III


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


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

Lecture 11;
Nontradeable Differentiated Goods; Agglomeration
Matsuyama, Lecture Slides; Part IV

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

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

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,” RStud April 2003

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, “Credit Market Imperfections and Patterns of Trade and Capital Flows,” JEEA April-May 2005


Risk, Diversification, and Asset Trade

Obstfeld and Rogoff, Foundations of Open Economy Macroeconomics, Ch. 5


Broner and Ventura, “Globalization and Risk-Sharing,” CREI.

VII: Trade and Labor

Lecture 18 (March 31)

Semi-mobile Factors: Heterogeneous Labor


VIII: Trade Costs and Gravity Equations

Lecture 19 (April 2)

Gravity: Incidence and Measurement


Lecture 20 (April 7)

Gravity: General Equilibrium


IX: Trade Policies

Lecture 21 (April 9)

Trade Policy: Public interest

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


Lecture 22 (April 14)

Trade Policy: Political Economy


Lecture 23 (April 16)

Institutions: Terms of trade


Lecture 24 (April 23)

Institutions: Domestic commitment