Syllabus

Course Requirements are:

(1) a series of homework assignments
(2) a mid-term exam Oct. 18
(3) a final exam, date TBA

The purpose of this course is to acquaint the student with the basic tools of international trade theory. Trade theory is the richest lode of applied general equilibrium theory. To develop skill and intuition in applied ge theory, I have two sorts of homework. One sort is written mathematical and intuitive exercises. The other sort is programming exercises with simple computable general equilibrium models.

Some important topics skipped here will be covered in Ec875, Political Economy of Trade and Development. These include trade and growth, the political economy of trade, and the institutions of trade. Some attention will be paid to empirical work; the Feenstra textbook is a great resource here.

The reading list is small compared to many graduate reading lists. I think less is more in learning the basics. In contrast, Ec875 assumes the basics and requires extensive reading of recent papers. The reading list has more papers by me than are justified by their pure merit. This is because I can communicate more about the creation of economics in discussing the work I (probably) know best.

Textbooks

A. A. Dixit and V. Norman, Theory of International Trade, Cambridge University Press, 1980. A key reference for core theory material:


A good undergraduate text for review or supplement is Markusen, Maskus, Melvin and Kaempfer, The Theory of International Trade, Ethier, Modern International Economics.
Surveys


Important Monographs

Collection of key essays.

Web sites: this course teaches theory and some applications and we tend to lose sight of why we study the stuff. These sites give information on the application of ideas to the policy issues:
- **WTO**: [www.wto.org](http://www.wto.org) vast amount of information about the WTO and its dispute settlement processes. (How secretive is this organization?)
- Trade negotiations web page: [www.cid.harvard.edu/cidtrade/](http://www.cid.harvard.edu/cidtrade/) lots of news and opinion on a wide range of trade negotiation issues.
- **USTR reports**: [http://www.ustr.gov/reports/index.html](http://www.ustr.gov/reports/index.html). USTR is the negotiation arm of US trade; these are its briefs for disputes.
- **The Economist**: [www.economist.com](http://www.economist.com). Lots of their current stories and opinion are free.

Deardorff’s glossary of international economics terms: [http://www-personal.umich.edu/~alandear/glossary/](http://www-personal.umich.edu/~alandear/glossary/)
Syllabus

Citations marked with an asterisk are basic starting points and fundamental to the lectures.

I. Introduction and A Simplified Trade Model
   Readings:
   *Dixit-Norman, Ch. 1.

II. Supply and Demand with Duality
    Readings
    *DN, ch. 2

III. The Gains from Trade
    Readings
    *DN, ch. 3

IV. Explorations of Special Cases

A. The Ricardian Theory
   readings:
   *DN, Ch. 2
   *Dornbusch, Fischer and Samuelson, 1977, AER, “The Ricardian model with a continuum of goods”

B. The Factor Proportions Theory
   1. The Heckscher-Ohlin-Samuelson Model
      Readings:
      *Handbook, ch. 1
      *Feenstra, ch. 2
      *DN, ch. 4
   2. Extensions of the Model
      Readings
      *Dixit-Norman, Chs. 2, 4.
      *Feenstra, ch. 3
Neary, JP, 1985, "Twoness and Trade Theory",
Econometrica, 53
C. Empirical Work on Core Trade Models

Readings:

*Do Endowments and Technology Explain Trade?*
*Feenstra, chs. 2,3

*Does Trade Affect Factor Prices?*
*Feenstra, ch. 4

D. Trade Costs

Readings:

*“Gravity Lectures”, J. Anderson

Feenstra, ch. 5.
V. Imperfect Competition and Scale Economies

A. Product Differentiation, Monopolistic Competition and Trade
   Readings: 1) *Helpman and Krugman, Chs. 6-11.
   *Feenstra, ch. 5

B. Division of Labor and Scale Economies
   Readings:

C. Firm Behavior, Trade and the Empirics of Productivity
   Readings:

VI. Commercial Policy

A. Theory
   Readings

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

B. Empirical work on Trade Policy
   readings:
   *Feenstra, ch. 7

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

Readings: