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Economics 471A - International Trade

Spring 2015

The course website is located at: canvas.uw.edu

Course Objectives:

This is an intermediate course in the theory of international trade. Using the tools of microeconomic analysis, we study the basis and pattern of trade as well as the welfare and distributional impacts of free trade among various groups in the economy. We also study the reasons for limiting trade and discuss some of the current trade policy issues. Systematic study of the material in this course helps students develop the mental skills necessary to gain insight into the workings of an open economy as well as the state of past and current international economic order.

Student Learning Goals:

Studying the theoretical framework and practicing the framework via solving analytical problems in this course will enable you to:

1. Analyze the basis for mutually beneficial trade between countries and answer questions such as: what factors render free trade to be mutually beneficial to the trading countries? How is the pattern of trade determined? How are the world prices of goods and services-- that are internationally traded-- determined?
2. Analyze and explain the positive growth effects of free trade between countries from the (possibly undesirable) distributional outcomes.
3. Analyze and explain the relationship between the different types of international exchange: trade in goods and services versus movements of factors of production (e.g., migration of labor) between countries.
4. Analyze and explain the effects of limited trade (tariffs and non-tariff barriers), the evolution of the world economic order toward freer trade and the creation of the World Trade Organization (as well as other recent issues such as the rise of outsourcing).

Textbook:

I have written a set of **detailed lecture notes** (Chapters 1-9) for this course and they are uploaded on the course website under *Files*. The folder for the lecture notes is titled, **Chapters**. There is also a recommended textbook by Krugman, Obstfeld, and Melitz (KOM), *International Economics: Theory and Policy*, (10th ed.). The first 10 chapters of this recommended text are closely related to our course material. The Bookstore carries some copies of the custom created recommended text. You can also purchase the e-text version of the text by KOM from the following website: <http://www.coursesmart.com> I will leave one copy of the print version of the KOM textbook for you at the reserve section of the Undergraduate Library.

In addition to the lecture notes and the textbook, I have prepared a few relevant readings (articles) from the Wall Street Journal, the Seattle Times, and other publications. These are available on the course website under *Files*. They are copyright material and should only be used by the students in our class.

Course Requirements:

Home-works: There are 4 sets of home-works (HWs). The home-works will consist of 4 analytical questions and will be posted on the course website approximately one week before the due date. **HWs are collectively 10% of your course grade.**

Exams: There is going to be a First Exam and a Second Exam. The First Exam will cover material of Chapters 2-4 (on the course website). The last exam, the Second Exam, will test you on the material of Chapters 4-9. The First and the Second Exams will each constitute a mix of 25 multiple choice and 2 analytical questions. **The First Exam counts as 35% and the Second Exam constitutes 40% of your grade.**

The First and the Second Exam will be administered on the following days:

First Exam	Tuesday, May 5, 10:30 am-12:15 p.m.
Second Exam	Thursday, June 4, 10:30 am-12:15 p.m.

Weekly in-class writing assignments: The in-class assignments will be a team effort whereby groups of 2 to 4 students spend about 20 minutes analyzing a problem related to the latest material discussed in class (prior to the assignment or from a previous session). **The in-class writing assignments are collectively worth 10% of your grade.**

Journal: Each student is required to address 2 questions after each lecture:

1. What you learned in that lecture session, and 2. The questions or remaining point of confusion, and possibly evaluation/critique of the relationships learned and ideas discussed. (For the questions remaining

make sure you work on those with your peer study group and/or discuss them with me). You can write one or two paragraphs for each item and clearly date it and also write your name on top of the page (journals should be typed or very legibly written). You will turn in a copy of your journal to me in stapled or bound form at the beginning of the 10th lecture session (April 30) and again for lecture sessions 12-18 in completed form on June 2, 2015. **Your journal constitutes 5% of your course grade.** If notes on more than 2 lectures are missing, you will not receive any points for this part of your grade. I will also randomly check students' journals across and if I find identical looking journals, those students receive zero for their journal grade.

Grading:

The Grade Scale (preliminary) is posted on the course website.

Note: There is no make up for any of the tests in this course. We will drop the lowest two grades for the in-class assignments. If you miss more than 2 in-class assignments, please do not ask for a make up. Please plan on attending all the Exams on time and as scheduled. In case of unexpected and unforeseen medical/emergency circumstances for the First Exam (for which you are required to provide a proof or documentation), we will replicate the grade from the Second Exam that the student takes at the end of the quarter and record it also for First Exam. If you miss the Second Exam, you will receive a zero for a grade for that test. If you inform me in advance about an emergency or provide a doctor's note to explain your absence in the Second Exam, then you may receive an *incomplete* grade for this course.

Topics of Discussion and the Relevant Readings (the Schedule of Readings for each session is posted on the homepage of the course website):

1. The simplest model that demonstrates the benefits of free trade: the Ricardian model of comparative advantage.

Chapters 1 and 2 on the course website; recommended reading: Chapter 3 of Krugman, Obstfeld, and Melitz (KOM), 10th edition.

2. Free trade in a two sector, two factor economy: the Hecksher-Ohlin model.

Chapter 3 on the course website; recommended reading: Chapters 5 and 6 (pages 118-123) of KOM.

3. The general equilibrium analysis of free trade and the consequences of economic growth. Chapter 4 on the course website; recommended reading: chapter 6 of KOM.

4. The analysis of free trade when economies of scale are present: imperfect competition and effects of market integration. Chapters 5 and 6 on the course website; recommended reading: chapter 8 of KOM, pages 164-189

5. The effects of the international movement of factors of production (labor and capital) and analysis of foreign direct investment.

Chapter 7 on the course website; recommended reading: KOM Chapter 4, pages 70-76 and Ch. 8, pages 190-200

6. Limiting free trade: the analysis of tariffs and other barriers.

Chapter 8 on the course website; recommended reading: Chapter 9 of KOM.

7. The political economy of trade policy and trade negotiations.

Chapter 9 on the course website; recommended reading: Chapter 10 of KOM.

Academic integrity:

Copying material from another author is considered plagiarism. In our econ 471 class, if you copy the answer to a homework question from an available answer to a practice question (on the course website or elsewhere), or from any other source, you will receive a grade of zero for that HW as well as a warning. If this act is repeated, you will be referred to the Office of Community Standards and Student Conduct and also may receive a grade of zero for the course.

Please be aware that academic integrity is the cornerstone of the Department's rules for student conduct and evaluation of student learning. Students accused of academic misconduct will be referred to the Office of Community Standards and Student Conduct for disciplinary action pursuant to the Student Conduct Code and, if found guilty, will be subject to sanctions. Sanctions range from a disciplinary warning, to academic probation, to immediate dismissal from the Department and the University, depending on the seriousness of the misconduct. Dismissal can be, and has been, applied even for first offenses. Moreover, a grade of zero can be assigned by the instructor for the course. For details of the policy on academic misconduct please go to: http://econ.washington.edu/undergrad/academic_conduct/

Reading Schedule—ECON 471A --- Spring 2015

Session	Date	Readings (to do before class)	Practice Questions from the <i>Analytical Practice Questions</i> under <i>Files</i> and then <i>Practice Questions</i> folder on the website
1	3/31	Ch. 1 Ch. 2 --- Sections 1 & 2	1a, 5a, 6a, 11a
2	4/2	Ch. 2 --- Sections 3 & 4 KOM Ch. 3	1, 4, 5a, 9a, 11a, 14a KOM Ch. 3: 1---9
3	4/7	Ch. 2 --- Section 5 KOM Ch. 3	1 to 15 KOM Ch. 3: 1---9
4	4/9	Ch. 2 --- Section 6 Readings 1 & 2	1 to 15 KOM Ch. 3: 1---9
5	4/14	Ch. 3 --- Sections 1 through 3 Readings 1 & 2 KOM Ch. 5 up to the section: "Effects of Int'l Trade between Two-factor Economies"	16 to 18, 20 to 23 KOM Ch. 5: 1---5
6	4/16	Ch. 3 --- Sections 4 & 5 KOM Ch. 5 up to section "Factor- --Price Equalization"	16 to 18, 20 to 23 KOM Ch. 5: 1---5
7	4/21	Ch. 3 --- Sections 6 & 7 Readings 3 through 6 and Reading 20 KOM Ch. 5 KOM Ch. 6 up to section "The	16 to 18, 20 to 23 KOM Ch. 5: 1---5

		<i>Welfare Changes</i>	<i>Effects in</i>	<i>the</i>	<i>of</i>	<i>Terms of Trade"</i>	
8	4/23	Ch. 3 Section 8	---	and Readings 8 & 9			n/a
9	4/28	Ch. 4 KOM Ch. 6 and Export	---	Section 1 up to section "Tariffs Subsidies"			19, 24, 25, 29, 30
10	4/30	Test Review					n/a
11	5/5	EXAM 1					n/a
12	5/7	Ch. 5					31, 32, 33
13	5/12	Ch. 6 KOM Ch. 8 Responses to Trade: Winners, Losers..."	---	Section 6.1 up to section "Firm			34, 35, 36 KOM Ch. 8: 2, 3
14	5/14	Ch. 6 KOM Ch. 8	---	Sections 6.2 through up to section "Dumping"			37---42 KOM Ch. 8: 4
15	5/19	Ch. 6 6.4 & 6.5 and Ch. 7 --- Section 1 Readings 10 & 11 KOM Ch. 8 "Multinationals and Outsourcing" KOM Ch. 4, pages 62---66	---	Sections 6.2 through up to section "Dumping"			43---47,
16	5/21	Ch. 7 KOM Ch. 8	---	Sections 1 and 2 to end			49---55

17	5/26	Ch. 7 --- Section 2	48, 56, 57 a., 61
		Ch. 8 --- Sections 1 & 2	
		Readings 12, 13, 14	
		<i>KOM page</i> Ch. 9 up to Export Subsidies (or 226)	
18	5/28	Ch. 9 --- Sections 1-3	62
		<i>KOM Ch. 10 up to section "Income Distribution and Trade Policy"</i>	
19	6/2	Test Review	n/a
20	6/4	Exam 2	n/a

Italicized readings are recommended (not required).

Partial list of other textbooks on international trade:

1. Dennis Aplleyard and Alfred Field, *Trade Theory and Policy*, Irwin, latest edition.
2. Richard Jones, Jeffrey Frankel, and Ronald Jones, *World Trade and Payments*, Harper Collins, latest edition.
3. Bharat Hazari and Yin Wong Cheung, *International Trade*, Routledge, 2015

Partial list of books on contemporary international trade issues:

1. Douglas Nelson, *Economics and Politics of Trade Policy*, Imperial College Press, 2014
2. Shintaro Hamanaka, *Asian Free Trade Agreements and WTO Compatibility*, Imperial College Press, 2014
3. Debra Steger, *The World trade Organization*, Routledge, 2014
4. Susy Frankel and Meredith Kolsky Lewis (editors), *Trade Agreements at the Crossroads*, Routledge, 2013
5. Michael Terbilcock, Robert Howse, and Antonia Eliason, *The Regulation of International Trade*, 4th Edition, Rutledge, 2012
6. Douglas A. Irwin, *Peddling Protectionism: Smoot-Hawley and the Great Depression*, Princeton University Press, 2011

7. Daniel Griswold, *Mad About Trade: Why Main Street Should Embrace Globalization*, CATO Institute, 2010
8. Wilfred Ethier and Arye Hillman (editors), *The WTO and the Political Economy of Trade Policy*, Edward Elgar Publishing, 2008
9. David Greenaway, Richard Upward, and Peter Wright (editors), *Globalization and Labor Market Adjustment*, Palgrave Macmillan 2008.
10. Simon Evenett and Bernard Hoekman (editors), *Economic Development and Multilateral Trade Cooperation*, A co-publication of the World Bank and Palgrave Macmillan, UK, 2006. Also available on:

http://publications.worldbank.org/ecommerce/catalog/product?item_id=4521403

11. Joseph E. Stiglitz, *Making Globalization Work*, WW Norton, 2006
12. Joseph E. Stiglitz, *Fair Trade for All*, Oxford University Press, 2005
13. Giorgio B. Navaretti and Anthony J. Venables, *Multinational Firms in the World Economy*, Princeton University Press, 2006
14. C. Fred Bergsten, *The United States and the World Economy: Foreign Economic Policy for the Next Decade*, The Institute for International Economics, 2005
15. Guillermo De La Dehesa, *Winners and Losers in Globalization*, Blackwell Publishing, 2005
16. Douglas Irwin, *Free trade Under Fire*, 2nd edition, Princeton University Press, 2005
17. Jagdish Bhagwati, *In Defense of Globalization*, Oxford University Press, 2004
18. Herman Daly, and John Cobb, Jr., *For the common Good*, Beacon Press, 1989
19. Herman Daly, *Beyond Growth*, Beacon Press, 1997
20. Charles Pearson, *United States Trade Policy, A Work In Progress*, John Wiley and Sons, 2004.
21. Bernard Hoekman and Michael Kosteci, *The political economy of the World Trading System: The WTO and Beyond*, Oxford University Press, 2001.
22. Dani Rodrik, *The New Global Economy and Developing Countries: Making Openness Work*, Johns Hopkins University Press, 1999
23. Michael Reed, *International Trade in Agricultural Products*, Prentice Hall, Inc., 2001
24. Norris Clement, et. al., *North American Economic Integration: Theory and Practice*, Edward Elgar Publishing, Inc., 2000
25. Jagdish Bhagwati, *Fair Trade and Harmonization: Prerequisites for Free Trade?*, MIT Press, 1996
26. Paul R. Krugman, *Pop Internationalism*, MIT Press, 1996