

# Why Trade? What are The Effects of Trade on the Domestic Economy?

We develop different frameworks to identify the winners and losers of (domestic & global) trade.

"International Trade" covers

- (1) pure theory
- (2) trade empirics
- (3) trade policy

It is important to understand the gains and losses that arise from trade to identify the winners and losers in a global economy. To do this, we develop different frameworks to analyze the effects of trade and factor movements (capital and labor).

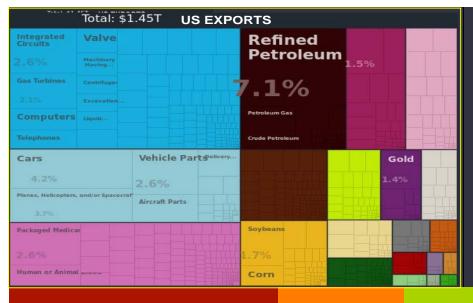
"Pure theory" is "normative." Normative means pure theory helps us understand the impact of trade without judging if effects are "good" or "bad" – we just want to understand what the effects are. "Pure" trade theory illuminates the determinants of trade patterns (why countries import/export certain types of goods) as well as the domestic and international gains/losses from trade

"Trade empirics" provide a quantitative understanding of the implications of international trade by matching theory to observed data in case studies.

"Trade policy" deals with the effects of policy tools such as tariffs, trade agreements, and the World Trade Organization (WTO). Recently, trade policy has become a hot topic in the news. We need to understand the limitations and potential Prof. Theo Eicher OH: By Appointment Office: Zoom Web: <u>tinyurl.com/UW471</u>

outcomes of different trade policies, as well as the winners and losers, in order to appreciate the pros and cons of various trade policies.

Throughout the course, the focus is on providing students with a deep understanding of how to apply analytical frameworks to policy questions and current events. Each class will include opportunities for students to apply theory and empirics to real-world issues through verbal analytical discussions. Being able to apply theories to policy verbally is a key learning objective of the course. It is a crucial skill for anyone who wants to work as an economist.



### **Goals & Learning** Objectives

This class will help you 1) understand costs, benefits, and reasons for Trade 2) assess welfare implications associated with trade flows 3) function like an economist by conveying economic concepts verbally in groups and through interactions in class, with the instructor, to dissect real-world problems.

### Student Background and Prerequisites:

This course requires a clear grasp of basic microeconomic concepts (firm/consumer optimization, factor prices, and general equilibrium. If unsure of your about your level of preparation, ask the instructor.

If you have special needs, requests or immediately. Washington state law requires that UW develop a policy for accommodation of student absences or significant hardship due to reasons of faith or conscience, or for organized religious activities. The UW's policy, including more information about how to https://registrar.washington.edu/staffandfac ulty/religious-accommodations-policy. Accommodations must be requested within

the first two weeks of this course using the Religious Accommodations Request form https://registrar.washington.edu/students/r eligious-accommodations-request.

Econ Dep't Policy on Academic Conduct: Unless stated otherwise, your work is your work <u>only</u>, NOT GROUP WORK. Without exception. each case of suspected cheating is reported to the UW Office of Community Standards & Student Conduct. If cheating is course and possible expulsion from UW. Investigations of suspected cheating are noted on the student's permanent academic record. See also tinyurl.com/EconIntegrity

### How Do Students Succeed in Econ 472?

The key to success in this this class is "learning economics by doing economics." This means actively verbalizing and thinking economics to develop and communicate economic intuition. To this end. the class is designed to provide students with opportunities to puzzle through different policy questions and real-world problems.

#### Passing

Discussion participation is valuable. The focus is not on correct answers but on the way you attempt to answer questions correctly. If you struggle, you can "PASS" to deflect a question without consequences.

#### Tent Cards

Some students prefer not to participate in discussions we have in class. I distribute tent cards with your name, please bring your tent card to each class. If you do not display your tent card, I will assume you do not want to participate in the discussion. Analytical Discussion is part of your grade.

### **Electronic Gadgets in Class**

If you do not engage in class discussions, you deprive yourself of the opportunity to actively think through questions at hand. I ask you to leave all electronics in your backpack.

### **Teaching Philosophy:**

My teaching philosophy may not be standard, and I aim to clearly communicate what students can expect from this course. Erich Fromm has an excellent description of the type of learning I favor: He describes students' "having" mode (passive learning) and "being" mode (active learning). For more info, , please check out this link.

### Econ 471

## **Teaching Staff**



Theo S. Eicher, Office: SAV 355. Email: teclass@uw.edu, I try to answer emails within 24 hours.

- Office Hours: Office Hours are held via Zoom and by appointment only.
- **Grading Questions** require preparation, see <u>link</u>.
- Recommendations require preparation, see link.

### Readings

Textbook: Feenstra and Taylor "International Trade" 5<sup>th</sup> edition (ebook)

Wall Street Journal: (required) A WSJ student offer is available here for \$4/mo.

### Additional Reading:

Mondays: POLITICO WEEKLY TRADE (required).

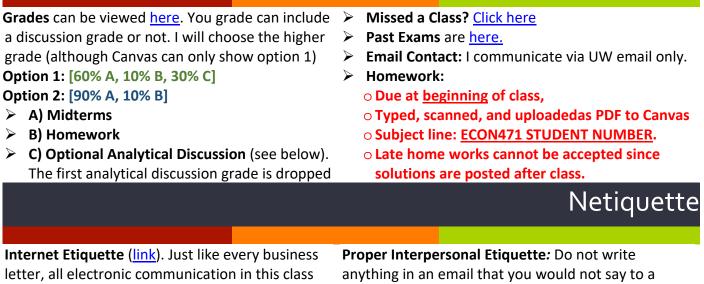
The Slide Decks can be accessed after each class here.

The Syllabus can be found here

All Readings, podcasts, and audiovisual materials posted on the class schedule are to be completed before class.

Class blog (irregular): ThinkEcon

### Grading



must include:

### **Proper Identification:**

- I) subject line
- II) salutation
- III) body
- IV) your name in the closing line

person in discussion or conversation.

### **Correct and Proper English:**

- complete sentences I)
- II) proper spelling,
- III) no chat acronyms such as IMHO.

### Analytical Discussion Guidelines

No matter what your major or your future career path may be, speaking confidently in front of a group of peers about substantive, real-world issues is a crucial skill. This is one learning objective of this class. Please note

It is absolutely normal to feel nervous at first. As compared to the real world, however, the classroom is a good place to take chances to hone your improvisational speaking skills. Use the PASS feature or contact the instructor early if you struggle.

At times, students suggest they should receive a perfect analytical discussion grade because they "attended every class and never used a computer/phone during class time." This is a misunderstanding. The analytical discussion grade for this class does not measure if you are present of if you participated, it measures

- a) your preparedness to communicate the content of (i) reading/news, (ii) past models, (iii) case studies;
- b) your ability to engage and verbalize solution attempts to policy puzzles presented in class;
- c) the quality not the quantity of your contributions.

It is not how many times you raised your hand but the quality of your contribution that matters. Quality contributions display your command of the analytical tools learned and the ability to apply them to real-world questions.

**Imagine yourself in a corporate boardroom.** You meet your bosses, the CEO, CFO, or COO of the company. The CEO turns to the Chief Economist (you) and asks: *"you have read this morning's Wall Street Journal, what does today's employment report suggest?"* Here are possible 9 answers roughly correlating with a 0%-100% analytical discussion grades.

- 1. I don't know
- 2. good
- 3. employment is up
- 4. employment is up, the economy is good
- 5. employment rose by 150,000, that is a strong jobs report
- 6. employment rose by 150,000, that is a strong jobs report, which may induce the FED to increase interest rates
- 7. employment rose by 150,000, that is a strong jobs report, this may exert pressure on wages. This may lead the FED
- to increase interest rates

8. employment rose by 150,000, that is a strong jobs report, this may exert pressure on wages, which may translate into higher prices. Higher prices, in turn, may lead the FED to increase interest rates to prevent high inflation

9. employment rose by 150,000, that is a strong jobs report, this may exert pressure on wages, which may translate into higher prices, which in turn may lead the FED to increase interest rates. Higher interest rates may slow economic growth

The best analytical discussion grades (90%-100%) go to students who prepare for class by doing the reading, and who have made the connection how case studies relate to the reading and to the models. These students recall how last week's class connects to this week's class and to this week's reading. Successful students engage in attempts to apply class theory to policy and they attempt to apply acquired knowledge to case studies.

Satisfactory analytical discussion grades (70%-90%) go to students who participate verbally, and give short answers but limited answers. These students mostly follow the class nonverbally, but are willing to try to apply their knowledge to some degree when asked.

Weak analytical discussion grades (<70) go to students who struggle to verbalize their thoughts and perhaps don't even don't try. These students struggle to find time to prepare for class and have a hard time connecting learned material to the case studies, or connect how case studies to readings.

### Discussion grades are announced several times throughout the quarter to give you an idea of where you stand *please act immediately* if you realize the grade you received does not square with your expectations.

#### How To Improve Your Analytical Discussion?

#### A) Fully integrate the lessons from Eric Fromm about being a prepared student (see link).

B) If you struggle to organize your thoughts verbally, or if you encounter difficulties formulating answers, plan to prepare <u>before each class</u> written answers to expected questions and practice these answers by speaking them out loud. This can be done for case studies, reviews, WSJ, and for all concepts/models you read about. You will quickly find there is a pattern to the questions asked in each class. Each class starts with very similar questions. Each model starts with very similar questions. Each case study starts with very similar questions.

C) Be clear <u>before you come to class</u> what the objective of the reading was and how it connects to the case studies. Be able to explain each figure that represents the day's model. Write out each figure's explanation so it comes to you easily and read the explanation until you are comfortable. Then find a roommate who knows nothing about econ and tell the roommate the topic/graph and give your summary without looking at your answers.

D) Form a study group that <u>uses only English language</u> and go through discussing the reading and the case studies **before each class.** Each student in the group should take turns commenting about review, model summary, and case study. If you are a foreign student, it is much easier to explain material in your native language - force yourself to prepare only in English.

	Strong work <sup>i</sup>	Needs development	Unsatisfactory
Listening	Actively and respectfully listens to peers and instructor	Sometimes displays lack of interest in comments of others	Projects lack of interest or disrespect for others
Preparation	Arrives fully prepared with all assignments completed, and notes on reading, observations, questions	Sometimes arrives unprepared or with only superficial preparation	Exhibits little evidence of having read or thought about assigned material
Quality of contributions	Comments are relevant and reflect understanding of: assigned text(s); previous remarks of other students; and insights about assigned material	Comments sometimes irrelevant, betray lack of preparation, or indicate lack of attention to previous remarks of other students	Comments reflect little understanding of either the assignment or previous remarks in seminar
Impact on seminar	Comments frequently help move seminar conversation forward	Comments sometimes advance the conversation, but sometimes do little to move it forward	Comments do not advance the conversation or are actively harmful to it
Frequency of participation	Actively participates at appropriate times	Sometimes participates but at other times is "tuned out"	Seldom participates and is generally not engaged

#### If you follow A)-D) and still have problems, I urge you to contact me, I will be happy to tailor strategies to your needs.

<sup>i</sup> Class participation deserving of an A grade will be strong in most categories; Participation that is strong in some categories but needs development in others will receive a B; a grade of C reflects a need for development in most categories; D work is typically unsatisfactory in several categories; and F work, unsatisfactory in nearly all.

#### 8/15/08

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## **Detailed** Outline

	-	ge! Do not print readings weeks in advance.
		, MAKE SURE YOU READ THE LINKS, TOO!
		NATIONAL TRADE NEWS FROM POLITICO'S WEEKLY TRADE
	-	link pls email me at te@uw.edu
Date	Торіс	Readings/Assignments (Many are <u>Web Links</u> )
Wed, 1/4	<ul> <li>Introduction</li> <li>What are The Course Topics?</li> <li>Understanding the Syllabus</li> <li>Remembering Prerequisites</li> </ul>	Set up reading: POLITICO WEEKLY TRADE blog. Read most recent edition         Review of Consumer and Producer Theory:         • IsoCosts, IsoQuants, Indifference Curves, Budget Constraints         • PPF, General Equilibrium especially the exercise!
Mo, 1/9	<b>Trade and Data</b> : Visualizing the International Economy Flows of Goods, Flows of Capital, Flows of People Knowing Trumps Trade Wars	<ul> <li><u>Case Study 1: Trump Trade War Timeline</u> (PIIE Study, 7500 w, 45 min reading)</li> <li>Record each "Battle"</li> <li>Know the justifications for each battle</li> <li>Know broad product categories for each battle</li> <li><u>Case Study 2: Why Does(n't) the US-China Trade Deficit</u> <u>Matter?</u> (CNBC article, 2000w, 7 min reading)</li> <li><u>Case Study 3: Who Gets Credit For the IPhone</u> (WSJ article, 363w, 3 min reading)</li> <li><u>Case Study 4: Value Added Trade: Collateral Damage in</u> <u>Trade Wars</u> (Blog, 80w, 2 min reading)</li> <li><u>Voluntary Reading:</u></li> <li>F/T Ch 1 "Trade in the Global Economy"</li> <li><u>List of Trump Tariff Exemptions</u></li> </ul>
	Ρ	ure Trade Theory
Wed, 1/11	<ul> <li>Trade and Technology</li> <li>The Ricardian Model</li> <li><u>Inter</u>industry trade (cloth/wine)</li> </ul>	<ul> <li>F/T Ch 2 "Trade and Technology, the Ricardian Model"</li> <li>Morning Trade 40 min</li> <li><u>Case Study 1: European Straight Talk about Comparative</u> <u>Advantage (Speech, 2300w, 10 min reading)</u></li> <li><u>Case Study 2: Comparative Advantage, Manufacturing &amp;</u> <u>Exports</u> Blog plus 2 newspaper articles 2400w, 10 min reading)</li> <li><u>Case Study 3: Fear of Free Trade</u> 1500w, 6 min reading)</li> </ul>
Mon, 1/16	MLK Day	

Wed, 1/18	Trade and Factor Endowments Part I: The Short Run: The Specific Factors Model Written Homework 1 (Ricardo) Problems #2-6 Due. HW must be - Typed, in PDF format, graphs ok by hand, emailed before class to poliapet@uw.edu with subject line: Econ471 & Student ID - Homework Solution	<ul> <li>F/T Ch 3 "Gains and Losses from Trade, the Specific Factor Model"</li> <li>Morning Trade 40 min</li> <li>Case Study 1: <u>TAA?</u> (WSJ, 900w, 5min)</li> <li>Case Study 2: <u>TAA, Creative Destruction &amp; The American</u> <u>Dream</u> (WSJ/MW article 1500w, 10min reading)</li> <li>Voluntary         <ul> <li>Case Study 3: <u>Another TAA Case? Netflix</u>, (Article 1100w, 7min)</li> <li><u>Database of firms with TAA relief</u>, more Amazon <u>here &amp; here</u></li> </ul> </li> </ul>
		ANALYTICAL DISCUSSION GRADE 1 Posted After Class (dropped if lower than the avg of all remaining analytical discussion grades)
Mon, 1/23	Trade and Factor EndowmentsPart II: The Heckscher Ohlin ModelInterindustry trade (shoes forcomputers)Written Homework 2 (HO)Problem #2Due. HW must beTyped, in PDF format, graphs ok byhand, emailed before class topoliapet@uw.edu with subject line:Econ471 & Student IDHomework Solution	<ul> <li>F/T Ch 4 "Trade and Resources: The Heckscher-Ohlin Model"</li> <li>Skip Section: "Leontief Paradox"</li> <li>Start Reading "Factor Endowments"</li> <li>Skip "Leontief's paradox again</li> <li><u>Case Study 1: Farmers and TPP (200w, 2min)</u></li> <li><u>Case Study 2: Two Cheers For Sweatshops (2000w, 10min)</u></li> <li><u>Case Study 3: Sanctions and the nature of Russian (graphic) exports/imports (study THE TYPE of goods Russia exported/ imported in 2019, what do you notice?)</u></li> </ul>
Wed, 1/25	<i>Midterm 1</i> (1 hour, 50 minutes)	<ul> <li><u>Here is a link to (past) exams and solutions</u>.</li> <li>Previous exams reference (news) items/topics not covered in this class. Exams are curved</li> </ul>
		Trade Policy
Mon, 1/30	<b>Trade Policy</b> Tariffs, Quotas, Trade Policy	<ul> <li>F/T Ch 8 "Import Tariffs/Quotas Under Perfect Competition"</li> <li>Start at Section 8.2 "Gains from Trade"</li> <li><u>Trump's Most Powerful Trade Official</u></li> <li><u>Case Study 1 Who Are the Consumers of Imports?</u> PIIE article (500w, 10 min)</li> <li><u>Case Study 2: Effects of Trade Wars on WA (2min video)</u></li> <li><u>Case Study 3 Steel:</u></li> <li><u>Case Study 3a: Free Trade and the Steel Industry (6min vid)</u></li> <li><u>Case Study 3b: Do Steel Tariffs Save Jobs? (400w, 2 min)</u></li> <li><u>Case Study 3c: Steel Tariffs Affect Other Jobs (2000w, 10min)</u></li> <li><u>Case Study 3d: KORUS 2018: Korean VERs (1000w, 5 min)</u></li> </ul>

Wed, 2/1	<b>Trade Agreements</b> Preferential (NAFTA) Bilateral (USMEXCA)	Voluntary: Effects of Trump Tariffs 1, Effects of Trump Tariffs         2, Dumping: Solar Panels, WA Trade War Impact, 1828/1832         Tariffs, Trade War Database, Surfing the Tides of Foreign         Trade (Video), Bush Legs and Trump Feet, Cost of Trumps         Washing Machine Tariff, Trump adm. likely to replace steel         tariffs with quotas, Who Pays / Paid for US-China-Tariffs,         Aluminum Tariff Impact         ▶       F/T Ch 11.2 "Regional Trade Agreements" (Skip         "Trade Diversion in a Graph")         ▶         Morning Trade 40 min
	Written Homework 3: <u>Problem #11</u> Due. HW must be HW must be -Typed, in PDF format, graphs ok by hand, emailed before class to	<ul> <li><u>Case Study 1: US PTAs (peruse list, 2 min)</u></li> <li><u>Case Study 2: The Effects of Nafta (3000w, 15 min)</u></li> <li>ANALYTICAL DISCUSSION GRADE 2 Posted After Class</li> </ul>
	poliapet@uw.edu with subject line: Econ471 & Student ID Homework Solution	
Mon, 2/6	<b>Trade Agreements</b> Multilateral (WTO)	<ul> <li>F/T Ch 8.1 A brief History of the WTO &amp; WTO Provisions</li> <li>F/T Ch 11 WTO</li> <li>Case Study 1: WTO List of Trade Agreements</li> </ul>
		<u>Case Study 3: How to Avoid Unfavorable WTO Rulings</u> (400w, 2 min)
		Voluntary: <u>Case Study: Preferential vs Multilateral Agreements</u> , <u>Retaliation: Trump's China Trade War Timeline</u> , <u>Why Trump</u> <u>Shot The Sheriffs (21 slides)</u> <u>WTO Appeals Into The "Void"</u> <u>Biden in no rush to revive the WTO</u>
Wed, 2/8	<b>Trade with Imperfect Competition</b> <u>Intra</u> industry Trade (cars for cars)	<ul> <li>F/T Ch 6</li> <li>Morning Trade 40 min</li> </ul>
Mon, 2/13	Midterm 2 (1 hour, 50 minutes)	<ul> <li><u>Case Study 1: Paul Krugman's Nobel Prize (6min vid)</u></li> <li><u>Case Study 2: Cars and Intra Industry Trade (1400w, 15min)</u></li> </ul>
1011, 2713		<ul> <li>Link to (past) exams and solutions</li> <li>Exams are cumulative</li> </ul>
		Extensions
Wed, 2/15	Trade and FDI Facilitation in the Real World	<ul> <li>Learning How To Export (read + vid)</li> <li>Export Plan</li> <li>Export Readiness</li> </ul>
	Guest Speaker Lisa White, Foreign Commercial Service Officer, US Int'l Trade Admin.	<ul> <li>Why Export?</li> <li>Nintendo</li> </ul>
Mon, 2/20	US Commerce Department Presidents Day	ANALYTICAL DISCUSSION GRADE 3 Posted After Class

### Econ 471

Wed, 2/22	Political Economy of Trade Policy	➢ F/T Ch 9
weu, 2/22	Protection for Sale	<ul> <li>Morning Trade 40 min</li> </ul>
	Protection for Sale	
		<u>Case Study 1: Lollipop War [Planet Money] (5 min podcast)</u>
		<u>Cast Study 2: How Lobbies Pay Politicians</u>
		Voluntary: List of Trump Tariff Exemptions
Mon, 2/27	Factor Movements	▶ F/T Ch 5
	Labor (Migration)	➤Skip: "Box Diagram"
	Capital (Foreign Direct Investment)	Skip: "Determination of the Real Wage and Real Rental"
		Skip: "Increase in the Amount of Home Labor"
		Start reading again: "Effect of Immigr. on Ind. Outputs")
		≻Morning Trade
		Case Study "Our Town" Podcast Documentary (1 hour)
		• Case Study 1a: "Our Town" (Long Podcast, 1h. You must
		listen at least starting min 31 onward)
		Case Study 1b: "Our Town" The Economists' Report (20
		<u>min)</u>
		Voluntary
		<ul> <li>BRICs FDI, How Tax Law Drives FDI&amp;Trade, High Tech</li> </ul>
		Immigration, Microsoft Style
Wed, 3/1	Outsourcing	→ F/T Ch 7
, ,	J.	Morning Trade 40 min
		<ul> <li>Case Study 1, US Outcoursing Prospects (blog plus links to 2)</li> </ul>
		<ul> <li>Case Study 1: <u>US Outsourcing Prospects</u> (blog plus links to 2 articles, 1300w, each, 15min)</li> </ul>
		<ul> <li><u>Case Study 2: How to destroy American jobs (1000w, 5 min)</u></li> </ul>
		<ul> <li><u>Case Study 2: How to destroy American Jobs (1000w, 5 min)</u></li> <li><u>Case Study 3: Boeing Outsourcing Pitfalls (1100w, 5 min)</u></li> </ul>
		• <u>Case study 5. Boeing Outsourcing Pittails (1100w, 5 min)</u>
		Voluntary
		<ul> <li><u>Review of "The World Is Flat" if you only do one</u></li> </ul>
		voluntary reading this quarter, THIS IS IT! From one of
		the best writers/economists out there.
		<ul> <li><u>The other side of outsourcing</u>, <u>Outsource this!</u></li> </ul>

### Econ 471

Mon 3/6	Trade and the Environment	
	<ul> <li>Scale/Composition/Technique</li> </ul>	I) General Scale/Composition/Technique Effects
	Effects	Case Study 1: Scale/Technique/Composition effects of
	<ul> <li>Green Paradox</li> </ul>	<u>trade (600w 10 min)</u>
	<ul> <li>Localvores</li> </ul>	Case Study 3: "Just A Composition Effect"? (Summer's
		<u>memo 500w, 5 min)</u>
		Case Study 4: Europe's Green Tariffs on Dirty Imports
		(blog, 700w, 5 min)
		Case Study 5: Outsourcing Carbon Emissions (1100w, 10)
		<u>min)</u>
		II) General Empirical Evidence of
		Scale/Composition/Technique
		Case Study 6: Profiting From Pollution, Is Tesla Clean?
		<u>(1500w, 20 min)</u>
		Case Study 7: Environmental Kuznets Curve? (Is Solar
		<u>"clean"?) 500w, 10 min)</u> ( <u>Background on the original</u>
		Kuznets curve here)
		III) <u>Green Paradox</u>
		Case study 8a: Green Paradox (500w, 5 min)
		<u>Case Study 8b: Green Paradox Solution?</u> (900 w, 10 min)
		IV) <u>Localvores</u>
		Case Study 9: Localvores & GHG-intensity (1250w, 20 min)
		Case Study 10: Trying to be Planet Friendly: Its Complicated
		<u>(twitter)</u>
		Voluntary
		- Enviro impact of food production
		- Food and Greenhouse Gas Emissions
		- How To Reduce Food Carbon Footprints
		- Food and Deforestation
		ANALYTICAL DISCUSSION GRADE 4 Posted After Class
Wed, 3/8	Midterm 3 (1 hour, 50 minutes)	Here is a link to (past) exams and solutions
		Exams are cumulative