Economics 471B - International Trade
Fall 2013

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 trading countries? How is the pattern of trade determined? How are the world prices of goods and services-- that are internationally traded-- determined?
2. Understand, analyze, and decipher the positive growth effects of free trade between countries from the (possibly undesirable) distributional outcomes.
3. Understand and analyze 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. Understand and analyze 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 will upload them on the course webpage. There is also a recommended textbook by Krugman, Obstfeld, and Melitz (KOM), *International Economics: Theory and Policy*, (9th ed.). The first 10 chapters of this recommended text are closely related to our course material. You can purchase the e-text version of the text by KOM from the following website:  [http://www.coursesmart.com](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. 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 20% 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. **Exams are collectively worth 60% of your grade.**

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

- **First Exam**  Thursday, October 31, 1:30-3:15 p.m.
- **Second Exam**  Thursday, December 5, 1:30-3:15 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 15% 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 (October 29) and again for lecture sessions 12-18 in completed form on December 3, 2013. **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. **Missing the Second Exam will result in an incomplete grade for this course.**

**Topics of Discussion and the Relevant Readings (the schedule of readings for each session can be found in the outline for each lecture session in the Session Outlines folder under Files on 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), 9th edition.
2. Free trade in a two sector, two factor economy: the Heckscher-Ohlin model.
   Chapter 3 on the course website; recommended reading: Chapter 5 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 155-180

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 56-60 and Ch. 8, pages 180-187

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.

Partial list of other textbooks on international trade:

Partial list of books on contemporary international trade issues:


14. Herman Daly, and John Cobb, Jr., *For the common Good*, Beacon Press, 1989