

International Trade, Economic Growth and Wages
August 2011

Instructor: Elias Dinopoulos
E-mail address: elias.dinopoulos@warrington.ufl.edu

SYLLABUS

Course Description: The course will focus on wage income distribution mechanisms in open economies. We will examine the role of trade in determining the skill premium within countries as well as the wage gap between rich and poor countries. More specifically we will analyze three distinct income distribution mechanisms: the Chamberlinian mechanism operates in markets characterized by intraindustry trade; the Schumpeterian mechanism that is based on the process of creative destruction; and the “offshoring” mechanism which depends on the structure of geographic fragmentation of production. These mechanisms will be compared to the traditional Stolper and Samuelson mechanism of income distribution which operates in perfectly competitive markets.

Organization and Requirements: I will make a special effort to present the relevant economic intuition using geometric and algebraic techniques. However, students should be familiar with calculus and optimization techniques (both static and dynamic).

Textbook: Feenstra, Robert, *Advanced International Trade: Theory and Evidence*, 2004, Princeton University Press.

COURSE OUTLINE

Readings preceded by an asterisk (*) will form the basis for class discussion and lectures.

1. Evidence

Lemieux, Thomas, (2008a), “The Changing Nature of Wage Inequality”, *Journal of Population Economics* 21, 21-48.

Lemieux, Thomas, (2008b), “What Do We Really Know About Changes in Wage Inequality?”, University of British Columbia, mimeo.

Epifani P. and Gancia G.A., (2008), “The Skill Bias of World Trade”, *Economic Journal* 118, 927-960.

Autor, D.H., Katz L.F., Kearney M.S., (2008), “Trends in U.S. Inequality: Revising the Revisionists”, *Review of Economics and Statistics* 90 (2): 300-323.

Feenstra, Robert E., (1998), “Integration and Disintegration in the Global Economy”, *Journal of Economic Perspectives* 12: 31-50.

Lemieux, Thomas, W. Bentley MacLeod and Daniel Parent, (2009), “Performance Pay and Wage Inequality”, *Quarterly Journal of Economics* 124 (1):1-49.

2. The Stolper and Samuelson Mechanism.

*Feenstra, Robert, *Advanced International Trade: Theory and Evidence*, 2004, Chapters 1 and 2.

*Helpman, E. and P. Krugman, (1985), *Market Structure and Foreign Trade*, MIT Press, Chapter

1.

Mussa, M. (1979) "The Two-Sector Model in Terms of its Dual: A Geometric Exposition", *Journal of International Economics*, November, pp. 513-526.

Stolper, Wolfgang F., and Paul Samuelson, (1941), "Protection and Real Wages", *Review of Economic Studies* 9: 58-73.

3. The Chamberlinian Mechanism.

*Krugman, Paul R., (1979), "Increasing Returns, Monopolistic Competition and International Trade", *Journal of International Economics*, November, pp. 469-479.

Feenstra, Robert, *Advanced International Trade: Theory and Evidence*, 2004, Chapter 5.

*Dinopoulos, Elias, Costas Syropoulos, Bin Xu, and Yoto Yotov (2011), "Intra-Industry Trade and the Wage Premium: Theory and Evidence", *Journal of International Economics*, forthcoming, available at <http://bear.cba.ufl.edu/dinopoulos/research.html>

4. The Schumpeterian Mechanism

*Dinopoulos, Elias, (1994), "Schumpeterian Growth Theory: An Overview," *Osaka City University Economic Review*, 29, pp. 1-21.

*Grossman, Gene and Elhanan Helpman, (1991), "Quality Ladders in the Theory of Growth", *Review of Economic Studies* 58: 43-61.

*Dinopoulos, Elias and Paul Segerstrom, (1999), "A Schumpeterian Model of Protection and Relative Wages", *American Economic Review* 89, June, 450-473.

5. North-South Trade and Global Income Inequality.

*Dornbusch, R., S. Fischer and P. A. Samuelson, (1977), "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods", *American Economic Review*, 67 (5), 823-39.

*Vernon, Raymond, (1966), "International Investment and International Trade in the Product Cycle", *Quarterly Journal of Economics*, December, pp. 190-207.

*Krugman, Paul, (1979), "A Model of Innovation, Technology Transfer and the World Distribution of Income", *Journal of Political Economy*, pp. 269-84.

Dinopoulos, Elias and Paul Segerstrom, (2007), "North-South Trade and Economic Growth", University of Florida, *mimeo*, available at <http://bear.cba.ufl.edu/dinopoulos/research.html>

5. Offshoring and Wages

*Feenstra, Robert E. and Gordon H. Hanson, (1997), "Foreign Direct Investment and Relative Wages: Evidence from Mexico's Maquiladoras", *Journal of International Economics* 42: 371-93.

Feenstra, Robert E. and Gordon H. Hanson, (1999), "The Impact of Outsourcing and High-Technology Capital on Wages: Estimates from the U.S., 1979-1990", *Quarterly Journal of*

Economics 114: 907-40.

Grossman, Gene M. and Esteban Rossi-Hansberg, (2008), “Trading Tasks: A Simple Theory of Offshoring”, *American Economic Review* 98:5, 1978-97.

Dinopoulos, Elias, and Theofanis Tsoulouhas, (2011), “Performance Pay and Offshoring”, University of Florida, mimeo (in preparation).