"International Trade: Theory and Policy"

Winter Semester 2015/16

Course overview and objectives:

The first and main part of this course gives an overview of global trade patterns and discusses reasons for international trade, its benefits and effects. The second part covers trade policies, including the role of international institutions and trade agreements. The course provides an introduction to the basic theories of international trade and covers both perfect competition and imperfect competition models of international trade. It supplements the theory with empirical evidence and applications to current policy issues. The concepts introduced in the lecture are reviewed and deepened in problem sets which are discussed in a biweekly tutorial.

Among other aspects, the course will address questions like:

- Why does trade take place? What are the welfare implications?
- Why do different countries export different products?
- Why do some countries trade similar products?
- What are the distributional effects of trade?
- What role do firms, migration, and foreign direct investment play?
- Are trade liberalizations always a good thing?
- If trade is a good thing, should exports be promoted by subsidies?
- Can interest groups lobby for certain trade policies?

At the end of the course, students will be able to describe the key features of international trade relations. They will be familiar with the basic models of international trade and their empirical validity. Students will be able to address current policy questions related to international trade with theoretically grounded arguments. They will be able to assess and discuss the impact of different trade policies, and they can evaluate the role of institutions which regulate international trade relations.

Participants and prerequisites:

The course addresses *Bachelor* students in economics. Students should have attended classes in intermediate microeconomics. The course language is English.

Dates and rooms:

Wednesdays 10:15-11:45 (Lecture), 00 181 P5 (PhilFak, Jakob-Welder-Weg 18), regularly
The course *starts on November, 4.*

Thursdays 12:15-13:45 (Lecture & Tutorials), RW3 (ReWi I, Jakob-Welder-Weg 9), irregularly (check class schedule!)

Contact Information:

Lecturer:

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http://www.international.economics.uni-mainz.de/169_ENG_HTML.php

Room 00-131, ReWi II, Jakob-Welder-Weg 4

office hours: upon arrangement

Tutorials:

Laura Schmidt

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office hours: upon arrangement

Key references:

[FT] Feenstra, Robert C. and Taylor, Alan M. *International economics*, 3rd edition. New York, NY: Worth Publishers, 2014

[KOM] Krugman, Paul R.; Obstfeld, Maurice and Marc J. Melitz. *International economics*: *theory and polic*y, 10th edition. Addison-Wesley, 2015

A few copies of these books are made available at the library (Fachbereichsbibliothek & Zentralbibliothek).

Course outline

Part I: Introduction

Stylized facts about international trade (FT, chapter 1.1)

Part II: Trade theory

1. Reasons for trade (FT, Ch. 2.1)

2. Classic trade theories and their empirical validity

    a. Ricardian model (KOM, Ch. 3)

    b. Specific-factors model (FT, Ch. 3)

    c. Heckscher-Ohlin model (FT, Ch. 4)

3. International factor movements: migration and foreign direct investment (FT, Ch. 5; Barba Navaretti and Venables 2006: Ch. 1 and 2)

4. New explanations for international trade

    a. Monopolistic competition and increasing returns to scale (Krugman 1979; KOM, Ch. 7; FT, Ch. 6)

    b. Firms in international trade (KOM, Ch. 8; Bernard et al. 2007, Melitz and Trefler 2012)

    c. Offshoring and outsourcing (Blinder 2006; FT, Ch. 7; Barba Navaretti and Venables 2006, Ch. 2.2, 5.2, 5.3)

Part III: Trade policy

1. Institutional environment (KOM, Ch. 10, pp. 252-267)

2. Trade policy under perfect competition (FT, Ch. 8)

3. Trade policy under imperfect competition (FT, Ch. 9)

4. International trade agreements (FT, Ch. 11)

5. Political economy of protection (KOM, Ch. 10 pp. 246-251, Grossman and Helpman 1994)

Further references

Barba Navaretti, Giorgio and Anthony J. Venables (2006): *Multinational Firms in the World Economy*. Princeton: Princeton University Press. Ch 1, 2, 5.2 and 5.3

Bernard, Andrew B.; Jensen, J. Bradford Jensen; Redding, Stephen J. and Peter K. Schott. "Firms in International Trade." *Journal of Economic Perspectives*, 2007, vol. 21(3), pp. 105–130.

Blinder, Alan S. "Offshoring: The Next Industrial Revolution?" *Foreign Affairs*, 2006, vol. 85(2), pp. 113-128.

Caves, Richard E.; Frankel, Jeffrey A. and Jones, Ronald W. World trade and payments: an introduction, 10th edition. Addison Wesley, 2007.

Goldberg, Pinelopi Koujianou, and Nina Pavcnik (2007): "Distributional Effects of Globalization in Developing Countries." *Journal of Economic Literature* 45(1): 39-82

Grossman, Gene and Elhanan Helpman (1994): "Protection for Sale." *American Economic Review*, 84(4): 833 – 850.

Krugman, Paul. "Increasing Returns, Monopolistic Competition, and International Trade." *Journal of International Economics*, 1979, vol. 9, pp. 469-479. (K)

Markusen, James R.; Melvin, James R.; Kaempfer, William and Maskus, Keith. International Trade: Theory and Evidence, McGraw-Hill, 1995. Available at http://spot.colorado.edu/~markusen/textbook.html

Melitz, Marc J. and Daniel Trefler (2012): "Gains from Trade when Firms Matter." *Journal of Economic Perspectives* 26(2): 91-118

<u>Other resources:</u>

All course material will be made available through ILIAS (https://ilias.uni-mainz.de). To log in, use your University of Mainz username and password. To register for the course and access the course material you will need an additional password which will be given in the lecture.