

THE GEORGE WASHINGTON UNIVERSITY
Department of Economics

International Trade Theory	Economics 381.10
Fall 2010	M 5:10 — 7:00
	Conference Room

Professor Joseph Pelzman	Office — Monroe 319
Office Hours	M – 3:00 – 4:45 and by Appointment
Office Phone	202-994-7108
E-Mail	jpelz@gwu.edu

COURSE DESCRIPTION AND PREREQUISITES:

This course concentrates on international trade theory with a discussion of empirical evidence, where appropriate. The approach to the topics covered will be technical in nature. It is my goal that students after successfully completing this course will not only be able to successfully tackle the literature in the journal articles but will also be able to proceed further with a dissertation topic in international economics.

Students are expected to have either taken the graduate Micro Theory sequence or are currently attending the class. Students without those prerequisites are **strongly discouraged** from taking this course and are directed to the less theoretical alternative - Econ 283.

There are two textbooks referred to throughout the course along with a whole set of journal articles. The readings are marked as both required and suggested. The dates on the syllabus are planned presentation dates. We may be able to speed up or slow down depending on the complexity of the topic. Students are expected to read the material prior to the lectures.

COURSE REQUIREMENTS:

There will be a midterm and a final exam. The midterm exam will be on November 1, 2010 and the final exam will be on December 13, 2010. The midterm exam will count for 40% of the grade and the final exam will count for 60 %. The format of the exams is usually take-home problems.

REQUIRED TEXTS:

Bhagwati, J.N., A. Panagariya, A. and T.N. Srinivasan. 1998. *Lectures on International Trade* (2nd Edition) MIT Press. [Hereinafter noted as (Lectures)].

Feenstra, Robert C. 2004. *Advanced International Trade: Theory and Evidence*. Princeton University Press. [Hereinafter noted as (Feenstra)].

OTHER RELEVANT REFERENCES:

Bowen, Hollander, and Viaene, *Applied International Trade Analysis*, Michigan.

Bhagwati (ed.), *International Trade: Selected Readings*, MIT Press, second edition.

Choi and Harrigan, *Handbook of International Trade*, Blackwell, 2003.

Dixit, A.K. and V. Norman. *Theory of International Trade: A Dual, General Equilibrium Approach*. Cambridge University Press, 1980.

Feenstra, R. (ed.), *Empirical Methods for International Trade*, (Cambridge, MA, and London, The MIT Press), 1988.

Fujita, Krugman and Venables, *The Spatial Economy*, (Cambridge, MA, and London, The MIT Press), 1999.

Gandolfo, Giancarlo. 1987. *International Economics I: The Pure Theory of International Trade*. Springer-Verlag.

Grossman, G.M. and K. Rogoff (eds.), *Handbook of International Economics*, Vol. III, (Amsterdam, North Holland), 1995.

Grossman, G.M. and E. Helpman, *Innovation and Growth in the Global Economy*, (Cambridge, MA, and London, The MIT Press), 1991.

Grossman G.M. (ed.), *Imperfect Competition and International Trade*, (Cambridge, MA, and London, The MIT Press), 1992.

Helpman, Elhanan and Paul Krugman. *Market Structure and Foreign Trade*. (Cambridge, MA, and London, The MIT Press), 1985.

Helpman, Elhanan and Paul Krugman. *Trade Policy and Market Structure*. , (Cambridge, MA, and London, The MIT Press), 1989.

Jones, R.W. and P.B. Kenen (eds.), *Handbook of International Economics*, Vol. I, (Amsterdam, North Holland), 1984.

Jones, R.W.. *International Trade: Essays in Theory*. 1979.

Kemp, M.C.. *The Pure Theory of International Trade*. 1964.

Kierzkowski, H. (ed.), *Monopolistic Competition and International Trade* (Oxford: Oxford University Press), 1984.

Krugman, Paul R. 1990. *Rethinking International Trade*. (Cambridge, MA, and London, The MIT Press), 1990.

Leamer, E.E., *Sources of International Comparative Advantage*, (Cambridge, MA, and London, The MIT Press), 1984.

Neary (ed), *International Library of Critical Writings in Economics: International Trade*, Edward Elgar.

Takayama, Akira.. *International Trade: An Approach to the Theory*. 1972

Woodland, A. D., *International Trade and Resource Allocation*. North Holland. 1982

MAJOR SURVEY ARTICLES:

Chipman, J.S., "A Survey of the Theory of International Trade," *Econometrica*, Vol. 33, July, pp. 477-519; October, pp. 685-760; Vol. 34, January 1966, pp. 18-76.

Bhagwati, J., 1964. "The Pure Theory of International Trade," *EJ*, 74:293, 1-84.

Mundell, R.A., 1960. "The Pure Theory of International Trade," *AER*, 50:1, 67-110.

Jones, R., 1965. "The Structure of Simple General Equilibrium Models," *JPE*, 73:6, 557-572.

IMPORTANT (OLD) COLLECTIONS:

AEA, *Readings in the Theory of International Trade*, noted as RITT.

AEA. 1968. *Readings in International Economics*, noted as RIE.

AEA. 1969. *Readings in Welfare Economics*.

READINGS AND LECTURE LIST

Readings marked with an asterisk should be considered as recommended readings in this course.

1. Introduction Trade and Welfare

8/30

Required:

Dixit, A. and Norman, V., “Gains from Trade without Lump-Sum Compensation,” *Journal of International Economics*, 21 (1986) 111-122.

Dixit and Norman, Chapters 1-3.

Feenstra, Chapter 1.

Lectures, Chapter 1.

2. Trade and Welfare

9/13 —9/20

Required:

Deardorff, A., “The General Validity of the Law of Comparative Advantage”, *Journal of Political Economy*, (Oct., 1980) 88:5, 941-57.

Dixit and Norman, Chapter 4.

Feenstra, pp. 64-75, 83-88.

Helpman, E., “The Factor Content of Foreign Trade “, *Economic Journal*, (March, 1984) 94:373, 84-94.

W. Ethier, “Higher Dimensional Trade Theory,” in Jones, R.W. and P.B. Kenen (eds.), *Handbook of International Economics*, Vol. I, (Amsterdam, North Holland), 1984.

Recommended:

Samuelson, P.A., “The Gains from International Trade”, *Canadian Journal of Economics and Political Science*, (5:2) (May,1939) 195-205.

Baldwin, R.E., “The New Welfare Economics and Gains from International Trade”, *Quarterly Journal of Economics*, 66:1 (1952) 91-101.

Samuelson, P.A., “The Gains from International Trade Once Again”, *Economic Journal*, 72: 288 (Dec., 1962) 820-829.

Ohyama, M., "Trade and Welfare in General Equilibrium", *Keio Economic Studies*, 9:2, (1972), 37-73.

Dornbusch, R., S. Fischer and P. A. Samuelson. "Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods," *AER* 67:5, (Dec. 1977) 823-839.

Smith, M.A.M., "Intertemporal Gains from Trade", *Journal of International Economics*, 9:2, (1979) 239-248.

Grossman, G.M., "The Gains from Intentional Factor Movements", *Journal of International Economics*, 17 (1984) 73-83.

3. The Ricardian Theory

9/27

Required:

Lectures, Chs. 2, 3 and 4.

Costinot, A. and Ivana Komunger, "What Good do Countries Trade? New Ricardian Perspectives," USC 2006.

Davis, D.R., "Intra-Industry Trade: A Heckscher-Ohlin-Ricardo Approach," *Journal of International Economics*, 39(1995) 201-26.

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

Jones, R.W., "Technical Progress and Real Incomes in a Ricardian Trade Model," in his *International Trade: Essays in Theory*, (Amsterdam, North Holland), 1979.

Ruffin, "The Missing Link: The Ricardian Approach to the Factor Endowments Theory of Trade", *American Economic Review*, (September 1988), 78:4, 759-772.

Trefler, D., "International Factor Price Differences: Leontief was Right!", *Journal of Political Economy*, (December, 1993), 101:6, 961-87.

Recommended:

Edgeworth, F., "The Theory of International Values", Parts I, II, and III in his *Papers Relating to Political Economy*, Vol. II.

Graham, F.D., “The Theory of International Values”, *Quarterly Journal of Economics*, (Aug., 1932), 46:4, 581-616.

McKenzie, L., “Specialization and Efficiency in World Production”, *Review of Economic Studies*, 1953-54. 21:3, 165-180.

Jones, R.W., “Comparative Advantage and the Theory of Tariffs: A Multicountry Multi-commodity Model”, *Review of Economic Studies*, (June 1961) 28:3, 161-175.

Wilson, C., “On the General Structure of Ricardian Models with a Continuum of Goods”, *Econometrica*, (November 1980) 48:7, 1675-1702.

4. Testing The Ricardian Theory

10/4

Feenstra, pp. 41-60, 76-83, 93-97.

Helpman, E., “The Structure of Foreign Trade,” *Journal of Economic Perspectives*, (Spring, 1999) 13:2, 121-144.

McDougall, G.D.A., “British and American Exports: A Study Suggested by the Theory of Comparative Costs”, Part I, *Economic Journal*, (Dec., 1951), 61:244, 697-724.

McDougall, G.D.A., “British and American Exports: A Study Suggested by the Theory of Comparative Costs”, Part II, *Economic Journal*, (Sept., 1952), 62:247, 487-521.

Stern, R.M., “British and American Productivity and Comparative Costs in International Trade”, *Oxford Economic Papers*, (October 1962), 14:3, 275-96.

5. The Heckscher-Ohlin-Samuelson Theory

10/4 – 10/18

Required:

Lectures, Chapters 5, 6, 8, 9 & 10.

Feenstra, Chapters 2 and 3.

Dixit and Norman, Chapter 4.

Deardorff, A., “The General Validity of the Heckscher-Ohlin Theorem”, *American Economic Review*, 72:4, (September, 1982), 683-94.

Helpman and Krugman, 1985, Chapter 1.

Jones, R.W., "The Structure of Simple General-Equilibrium Models," *Journal of Political Economy*, (Dec.,1965), 73:6, 557-72.

Recommended:

Deardorff, A., “Weak Links in the Chain of Comparative Advantage”, *Journal of International Economics*, 1979. 9:2, 197-209.

Dixit, A. and A. Woodland, “The Relationship between Factor Endowments and Commodity Trade”, *Journal of International Economics*, 1982. 13 (3-4) 201-214.

Dornbusch, R., S. Fischer and P.A. Samuelson, “Heckscher-Ohlin Theory with a Continuum of Goods”, *Quarterly Journal of Economics*, (Sept., 1980), 95:2. 203-224.

Ford, J.L., “The Ricardian and Heckscher-Ohlin Explanations of Trade: A General Proof of an Equivalence Theorem and its Implications”, *Oxford Economic Papers*, (March, 1982) 34:1, 141-149.

Jones and Neary, "The Positive Theory of International Trade", in Jones and Kenen.

Jones, R.W., “Factor Proportions and the Heckscher-Ohlin Theorem”, *Review of Economic Studies*, 1956-57, 24:1, 1-10.

Jones, R.W., "A Three Factor Model in Trade, Theory and History", in Bhagwati et. al. (editors), *Trade, Balance of Payments and Growth*, North Holland, 1971.

Jones, R.W., and J.A. Scheinkman, “The Relevance of the Two-Sector Production Model in Trade Theory”, *Journal of Political Economy*, (Oct., 1977) 85:5. 909-935.

Lerner, A., “Factor Prices and International Trade”, *Economica*, (Feb., 1952), 19:73, 1-15.

Mayer, "Short-Run and Long-Run Equilibrium for a Small Open Economy," *Journal of Political Economy*, 1974, 82:5. 955-967.

McKenzie, L., “Equality of Factor Prices in World Trade”, *Econometrica*, (July, 1955), 23:3, 239-257.

Mussa, "Tariffs and the Distribution of Income: the Importance of Factor Substitutability, and Intensity in the Short and Long Run", *Journal of Political Economy*, (Nov/Dec., 1974) 82:6, 1191-1203.

Neary, P.J., "Short-Run Capital Specificity and the Pure Theory of International Trade", *Economic Journal*, (Sept., 1978), 88:351, 488-510.

Neary, P.J., “Two-by-Two Trade Theory with Many Goods and Factors”, *Econometrica*, (Sept., 1985), 53:5. 1233-47.

Ohlin, *International and Interregional Trade*, Harvard.

Samuelson, P.A., "International Trade and the Equalization of Factor Prices", *Economic Journal*, (June 1948), 58:230, 163-184.

Samuelson, P.A., "International Factor Price Equalization Once Again," *Economic Journal*, (June 1949), 59:234, 181-197.

Samuelson, P.A., "Prices of Factors and Goods in General Equilibrium", *Review of Economic Studies*, 1953-4. 21:1, 1-20.

Stolper, W.F. and P.A. Samuelson, "Protection and Real Wages," *Review of Economic Studies*, 1941, 9:1. 58-73.

Rybczynski, J.M., "Factor Endowments and Relative Commodity Prices", *Economica*, (Nov., 1955), 22:88, 336-341.

Vanek, J., "Factor Proportions Theory: The N-factor Case", *Kyklos*, 1968.

6. Testing the Heckscher-Ohlin-Samuelson Theory

10/25

Required:

Leamer, E.E., "The Leontief Paradox , Reconsidered", *Journal of Political Economy*, (June 1980) 88(3) 495-503.

Magee, S.P., "Three Simple Tests of the Stolper-Samuelson Theory", in Oppenheimer, P. (ed.), *Issues in International Economics*, 1980.

Leamer, Chapters 4 and 6.

"Bowen, H.P., E. Leamer and L. Sveikauskas , "Multicountry, Multi-factor Tests of the Factor Abundance Theory", *American Economic Review*, (December 1987) 77:5, 791-809.

Trefler, D., "The Case of the Missing Trade and Other Mysteries", *American Economic Review*, (December 1995), 85:5, 1029-46.

Leamer, E.E. and J. Levinsohn, "International Trade Theory: The Evidence", in Grossman and Rogoff.

Davis, D.R., D.E. Weinstein, S.C. Bradford and K. Shimpo, "Using International and Japanese Regional Data to Determine When the Factor Abundance Theory of Trade Works," *American Economic Review*, (June 1997), 87:3, 421-446.

Recommended:

Baldwin, R.E., “Determinants of the Commodity Structure in U.S. Trade,” *American Economic Review*, (March, 1971) 61:1, 126-146.

Brecher, R.A. and E.V. Choudri, “The Leontief Paradox Continued “, *Journal of Political Economy*, (Aug., 1982) 90:4, 820-23.

Deardorff, A.V., “Testing Trade Theories and Predicting Trade Flows”, in Jones and Kenen.

Gruber, W., D. Mehta and R. Vernon, “The R&D Factor in International Trade and International Investment of United States Industries”, *Journal of Political Economy*, (Feb., 1967) 75:1, 20-37.

Hunter L. and J. Markusen, “Per-Capita Income as a Determinant of Trade”, in Feenstra.

Hunter, L., “The Contribution of Non-Homothetic Preferences to Trade”, *Journal of International Economics*, (May, 1991) 30:3 and 4, 345-458.

Harrigan, J., “Factor Endowments and the International Location of Production: Econometric Evidence from the OECD, 1970-1985,” *Journal of International Economics*, (November, 1995) 39:3-4, 123-141..

Kenen, P.B., “Nature, Capital and Trade”, *Journal of Political Economy*, (October 1965), 73:5, 437-460.

Keesing, D., “Labor Skills and Comparative Advantage”, *American Economic Review*, (March 1966) 46:1/2 249-258.

Leontief, W.W., “Domestic Production and Foreign Trade: The American Capital Position Re-examined”, *Economica Internazionale*, 1954.

Leontief, W.W., “Factor Propositions and the Structure of American Trade: Further Theoretical and Empirical Results”, *Review of Economics and Statistics*, (Nov., 1956) 38:4 386-407.

Maskus, K.E., “A Test of the Heckscher-Ohlin-Vanek Theorem: The Leontief Commonplace”, *Journal of International Economics*, (November 1985), 19:3-4, 201-212.

Stern, R.M. and K.E. Maskus, “Determinants of the Structure of U.S. Foreign Trade, 1958-76”, *Journal of International Economics*, (May 1981), 11:2, 207-224.

7. Commodity Market Distortions

11/8 — 11/15

Required:

Lectures, Chs. 11, 21, 23, 24, & 30.

Feenstra, Chapter 5.

Ben-Zvi, S. and E. Helpman, “Oligopoly in Segmented Markets,” in Grossman.

Brander, J.A., and Krugman, P.R., “A Reciprocal Dumping Model of International Trade”, *Journal of International Economics*, November 1983, 15(3/4), 313-21.

Helpman, E., “Increasing Returns, Imperfect Markets, and Trade Theory”, in Jones and Kenen (pp.337-48).

Helpman and Krugman, *Market Structure and Foreign Trade*. 1985, Chapters 3-5.

Helpman, E., Monopolistic Competition in Trade Theory (Princeton University, *International Finance Section Special Paper No. 16*, 1990.

Krugman, "Increasing Returns, Monopolistic Competition and International Trade," *Journal of International Economics*, 9(4) November 1979, 469-479.

Krugman, P.R. and A. Venables, “Globalization and the Inequality of Nations “, *Quarterly Journal of Economics*, November 1995, 110(4), 857-880.

Krugman, P.R., “Increasing Returns, Imperfect Competition and the Positive Theory of International Trade,” in Grossman and Rogoff.

Markusen, "Trade and the Gains from Trade with Imperfect Competition," *Journal of International Economics*, 11(4) November 1981, 531-551.

Melvin, "Commodity Taxation as a Determinant of Trade," *Canadian Journal of Economics*, 3(1) February 1970.

Puga, D. and A.J. Venables, “The Spread of Industry: Spatial Agglomeration in Economic Development,” *Journal of the Japanese and International Economies*, December 1996, 10(4), 440-64.

Recommended:

Brander, J.A., "Intra-Industry Trade in Identical Commodities", *Journal of International Economics*, February 1981 11(1) 1-14.

Burestam Linder, S., *An Essay on Trade and Transformation*, 1961.

Caves, R.E., International Trade, International Investment and Imperfect Markets, Special Papers in International Economics No. 10, International Finance Section, Princeton University, 1976.

Ethier, W.J., "National and International Returns to Scale in the Modern Theory of International Trade", *American Economic Review*, June 1982, 3(2) 389-405.

Helpman, "International Trade in the Presence of Product Differentiation, Economies of Scale Monopolistic Competition: A Chamberlinian-Heckscher-Ohlin Approach," *Journal of International Economics*, August 1981, 11(3) 305-340.

Horn, H. and O. Shy, "Bundling and International Market Segmentation", *International Economic Review*, February 1996, 37(1) 51-69.

Horstmann and Markusen, "Endogenous Market Structures in International Trade", *Journal of International Economics* February 1992, 32(1-2) 109-129.

Krugman, "Scale Economies, Product Differentiation, and the Pattern of Trade", *American Economic Review*, September 1980, 70(5) 950-959.

Venables, A.J., "International Capacity Choice and National Market Games", *Journal of International Economics*, 1990 29(1-2) 23-42.

8. Theory of Protection

11/22 — 12/6

Required:

Lectures, Chapters. 12 - 16, 34 & 35.

Feenstra, Chapters 7, 8 and 9.

Baldwin, R. E. 1960. "The Effects of Tariffs on International and Domestic Prices," *QJE*. 74:1 pp. 65-78.

Bhagwati, J., V.K. Ramaswami and T.N. Srinivasan. 1969. "Domestic Distortions, Tariffs, and the Theory of Optimum Subsidy: Some Further Results," *JPE*. (Nov. Dec.) 77(6) 1005-1010.

_____ and T.N. Srinivasan. 1969. "Optimal Intervention to Achieve Non-Economic Objectives." *REStudies*. (Jan.) 36(1) 27-38.

_____ and Srinivasan. 1980. "Revenue-Seeking: A Generalization of the Theory of Tariffs." *JPE*. December. 88(6) 1069-1087.

Johnson, H.G. "Optimal Trade Intervention in the Presence of Domestic Distortions." In Baldwin et. al., *Trade, Growth and the Balance of Payments*. pp. 184-217.

_____. 1960. "The Cost of Protection and the Scientific Tariff." *JPE*. (August). 68(4) 327-345.

_____. 1959. "International Trade, Income Distribution, and the Offer Curve and the Effects of Tariffs." *Manchester School*. 27(3) 241-260.

_____. 1960. "Income Distribution, the Offer Curve and the Effects of Tariffs." *Manchester School*. 28(3) September 215-242.

_____. 1958. "Optimum Tariffs and Retaliation." reprinted in Johnson, *International Trade and Economic Growth* pp. 31-61.

FINAL EXAM

12/13