

## International Trade (Course # 3038)

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Class: Mon 14-16, Wed 14-16

Course description: The recent rise of economic populism in Europe and the US has brought trade policy to center stage. This course will attempt to provide much needed economic sense/literacy to this subject. It consists of two parts. In the first part (theory) we develop a general framework for understanding why countries trade, what goods they import and export, how trade affects the allocation of resources and the distribution of income, the benefits from international trade, and the implications of trade -commercial-policy. The second part (applications) covers topics that are the focus of current policy and political debates, such as the effects of international trade on unemployment in the industrial countries ("saving jobs"), the relationship between trade and economic growth, the effects of globalization on the environment, and so on.

Evaluation: The grade will be determined by a final exam (75 minutes) consisting of essay and multiple choice questions. A practice exam -which does not count for the course grade- will be offered to familiarize the students with the testing requirements at the end of March.

Readings: For the first part of the course (theory) we will follow R. Caves, J. Frankel, R. Jones (CFJ): World Trade and Payments, Pearson Addison Wesley, 10<sup>th</sup> ed. But the same material can be found in any other International Trade textbook, so feel free to use whatever is available in the library. For the second part (applications) we will rely mostly on class notes as well as on a small number of articles. Most of the material contained in these articles can also be found in the book *Free Trade Under Fire* by Douglas A. Irwin. These as well as other trade books can be found in the VWI library (and also in the library of the WTI).

### Non-textbook readings

The class notes provide an adequate summary of the topics covered in the applications. You *may* also want to skim through the items below in order to acquire a better knowledge. They are available in the VWI library.

#### 1. Trade and unemployment

Freeman, R., 1995, Are your wages set in Beijing, *Journal of Economic Perspectives*, 15-32 (Sum.)  
Krugman, P., and R. Laurence, 1994, Trade, jobs and wages, *Scientific American* (April), 44-49.

#### 2. Trade and growth

Irwin, D. and M. Tervio, 2002, Does trade raise income? Evidence from the twentieth century, *Journal of International Economics* 58 (2002) 1–18.

#### 3. Trade and the environment

Werner Antweiler; Brian R. Copeland; M. Scott Taylor, 2001, Is Free Trade Good for the Environment? *The American Economic Review* Vol. 91, No. 4, 877-908.

#### 4. Other readings

Krugman, P., 1993, What do undergrads need to know about trade, *American Economic Review*, May, 23-26.  
Bastiat, F., 1996, *Economic Sophisms*, ch. 7 (A petition), FEE. (also available on the course web page).  
Krugman, P., 1998, In praise of cheap labor, in *The accidental Theorist*, W.W Norton & Co.

## **Topics covered**

Introduction, course overview (class notes)

Gains from trade (CFJ, ch. 2 & appendix A, B)

Applications of the basic model (CFJ, ch. 3.1,3.3,3.4)

The Ricardian model (CFJ, ch. 4)

The Specific factors model (CFJ, ch. 5)

The Heckscher-Ohlin model (CFJ, ch. 6)

The Footlose factors model (CFJ, ch. 8.2)

Economies of Scale, Imperfect Competition and International Trade (class notes)

Protection and National Welfare (CFJ, ch. 10,11,12,13, Krugman, P., 1987, Is free trade passé? in: Journal of Economic Perspectives, 1(2):131-144)

Application: Trade, Unemployment, Income Distribution (class notes)

Application: Trade and Growth (class notes)

Application: Trade and the Environment (class notes)

**Exercise sessions:** Feb 28, March 14, 28, ; April 18; May 2, 16

**Review, Q&A:** 23.5

The sample exam will be handed out on 26.3

**No class: 2.4-4.4 (Easter break)**

**1st exam: 28.5**

**2nd exam: 10.9**