Introduction: Is trade beneficial to a country? Why a country exports certain goods and imports certain other goods? Why countries sometimes import and export the same goods? What is the relationship between trade and income distribution? If free trade is good, why countries keep using protectionist policies? These are some of the questions that we will explore in this course. For that purpose we will rely heavily on the microeconomic analysis of a series of trade models. Starting with the traditional Ricardian, specific factors, and Heckscher-Ohlin models, we then examine what happens when we relax some assumptions, for example by allowing for scale economies or externalities. After making a more or less strong case for free trade we then turn to the question of why countries use protectionist trade policies. After taking this course the student will gain an appreciation of why the free-trade vs. protectionism debate is so very much alive today, as it was 200 years ago.

Requirements: The final grade will be based on the following assignments. Class participation will be taken into account when computing the final grade.

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Date and time</th>
<th>Weight</th>
</tr>
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<tbody>
<tr>
<td>First exam</td>
<td>3/5 in class</td>
<td>30%</td>
</tr>
<tr>
<td>Project outline</td>
<td>4/2 at the beginning of class</td>
<td>5%</td>
</tr>
<tr>
<td>Project</td>
<td>5/13 at 4:00 pm (econ box)</td>
<td>25%</td>
</tr>
<tr>
<td>Problem sets</td>
<td>TBA</td>
<td>10%</td>
</tr>
<tr>
<td>Second exam</td>
<td>5/7 in class</td>
<td>30%</td>
</tr>
</tbody>
</table>


Honor code: All work handed in must be your own and must be performed for this course only. This does not mean that you must refrain from discussing problems with other students as an aid to understanding the material, but it does preclude copying other students' work. You are expected to discourage such behavior on the part of others. This distinction is generally clear enough to make in practice; when in doubt, please discuss it with me.

Policy on late assignments: All tests must be written and all assignments must be handed in at the dates and times indicated on this syllabus. Please do not request a personal exception from this policy, or an incomplete, except in the event of a grave medical or family emergency.
Topics and Readings

Jan. 24        A road map to the course; David Ricardo

Jan. 29       Tariffs and quotas
               - Krugman and Obstfeld (2000), Ch. 8, pp. 187-203, 210-2, and 214-7

Jan. 31       The Ricardian model
               - Krugman and Obstfeld (2000), Ch. 2, pp. 11-23

Feb. 5       Debate on free-trade; The Ricardian model: extensions and evidence
               - Academic Consortium on International Trade home page: http://www.spp.umich.edu/rsie/acit/
               - Krugman and Obstfeld (2000), Ch. 2, pp. 23-34

Feb. 7       The specific factors model

Feb. 12      The specific factors model (cont’d); Income distribution and gains from trade
               - Krugman and Obstfeld (2000), Ch. 3. pp. 52-9 and 723-8

Feb. 14      The Heckscher-Ohlin model; Stolper-Samuelson effect
               - Krugman and Obstfeld (2000), Ch. 4, pp. 66-70, 88-91, and 729-30

Feb. 19      The Heckscher-Ohlin model (cont’d): Rybczynski effect; pattern of trade and income distribution; factor price equalization
               - Krugman and Obstfeld (2000), Ch. 4, pp. 70-81

Feb. 21      Empirical evidence: HOV model; The “border” effect
               - Krugman and Obstfeld (2000), Ch. 4, pp. 81-85

Feb. 26      Case studies: Trade, income distribution, and political coalitions
Feb. 28 Debate: Are your wages set in Beijing?

Mar. 5 First exam

Mar. 7 Terms of trade and welfare: effects of growth
- Krugman and Obstfeld (2000), Ch. 5, pp. 92-103 and 732-8

Mar. 11/24 Spring break

Mar. 26 Terms of trade and welfare: effects of transfers and tariffs
- Krugman and Obstfeld (2000), Ch. 5, pp. 103-12, 116-8, 212-3 and 738-40

Mar. 28 Monopolistic competition and trade
- Krugman and Obstfeld (2000), Ch. 6, pp. 119-135, 157-8 and 741-2

Apr. 2 Project outline due today at the beginning of class

Apr. 2 Intra-industry trade; Dumping; External economies
- Tussie, Diana (1987), *The less developed countries and the world trading system*, London: Frances Pinter, Ch. 3, pp. 38-46 only
- Krugman and Obstfeld (2000), Ch 6, pp. 135-54

Apr. 4 Migration; International borrowing and lending (intertemporal trade)
- Krugman and Obstfeld (2000), Ch. 7, pp. 159-69 and 181-4

Apr. 9 Foreign direct investment and multinationals
- Krugman and Obstfeld (2000), Ch. 7, pp. 169-77
- Tussie (1987), Ch. 3, pp. 46-63

Apr. 11 Ricardian Explorer game [NOTE: ROOM TO BE ANNOUNCED]

Apr. 16 Political economy of trade policy
- Krugman and Obstfeld (2000), Ch. 9, pp. 218-36

Apr. 18 The General Agreement on Tariffs and Trade (GATT) and regional trading blocks
- Krugman and Obstfeld (2000), Ch. 9, pp. 236-45
- Tussie (1987), Chs. 1 and 2
- Trebilcok, Michael J. and Robert Howse (1995), *The regulation of international trade*, London: Routledge, Ch. 2
Apr. 23  New protectionism
- Krugman and Obstfeld (2000), Ch. 8, pp. 203-7

Apr. 25  The Uruguay Round and beyond

Apr. 30  Trade policy in developing countries: From import substitution to trade liberalization
- Krugman and Obstfeld (2000), Ch. 10

May 2  Strategic trade policies in advanced countries
- Krugman and Obstfeld (2000), Ch. 11

**May 7  Second exam**