Introduction: Is trade beneficial to a country? Why do countries export certain goods and import 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.

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Date and time</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Problem sets, RE game, class participation</td>
<td>TBA</td>
<td>10%</td>
</tr>
<tr>
<td>Short paper #1</td>
<td>2/21 in class</td>
<td>10%</td>
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<tr>
<td>Midterm exam</td>
<td>3/07 in class</td>
<td>25%</td>
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<tr>
<td>Short paper #2</td>
<td>4/11 in class</td>
<td>15%</td>
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<tr>
<td>Short paper #3</td>
<td>5/02 in class</td>
<td>15%</td>
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<tr>
<td>Final exam</td>
<td>5/12</td>
<td>25%</td>
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Short papers: The three short papers assigned should be brought at the beginning of class at the dates indicated. In those dates students will make a short presentation of their work to the class and a general discussion will follow. Each paper must have a maximum length of 1,000 words of text (tables, if any, and bibliographical references must be included in separate pages). Here’s a description of their content:

#1: Choose a country and find data on its pattern of trade in the 1980s and 1990s. Find out who are this country’s main trading partners and which are the main products it exports and imports. Then find complementary information about its geography, economic structure, and level of development (composition of GDP and GDP per capita). What can you tell about this country’s comparative advantage? Does it fit the textbook model? Why or why not? Finally look briefly at macroeconomic
indicators such as real GDP growth, inflation rate, the current account of the balance of payments, the country’s terms of trade, and the real effective exchange rate. Is there anything particularly worth mentioning?

#2: The head of the World Bank's debt relief program has blamed the contradictory policies of the industrialized world for failing poor countries, reports BBC News Online [on January 2003]. Vikram Nehru, the manager of the Highly Indebted Poor Countries (HIPC) arm of the World Bank, said that developed countries were damaging the debt relief program.

"A case can be made that trade policies which seek to protect domestic producers of commodities in the developed world end up hurting poor countries which are receiving debt relief through another program," said Nehru. The debt relief is tied to the level of the countries' exports, which are usually basic commodities whose prices have crashed on the world markets in recent years.

The US and EU are leading backers of the World Bank and its programs, but despite this maintain heavy subsidies for their own agricultural sectors. Such subsidies allow U.S. and European farmers to overproduce and swamp the world markets with their produce, at the expense of poorer farmers from developing countries.

Find current information about some U.S. or European policy of farming subsidies and describe how it works. Find information about the prices of one or more basic commodities affected by the policy you have described. Have they actually crashed in recent years as the author of the above note maintains? Does this situation confirm or refute what we know about comparative advantage and the gains from trade? Use your knowledge of political economy to explain what’s going on. Finally, could you conclude from your analysis that globalization (however it may be defined) is always bad for poor countries?

#3: Write a critical review of Bhagwati’s book.

Writing tips: (a) Every paper should have a clearly defined thesis in the introductory paragraph. The thesis is an assertion the author makes about a particular issue. The thesis guides both the writer and the reader about where the essay is going. (b) Every paragraph must contain a single, self-contained point. (c) Paragraphs are arranged sequentially in a logical order, aimed at providing support to the thesis. While many of your paragraphs are likely to be descriptive (of data, of a policy, or of passages of a book), their connection to the thesis must be clear to the reader. (d) The conclusion should convince the reader that you have supported the thesis compellingly.

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

A] Central Issues in International Trade Theory

Jan. 22  Introduction: Methods of analysis, data, and policy issues

Jan. 24  Introduction to the Ricardian model
- Krugman and Obstfeld (2003), Ch. 2, pp. 10-14

Jan. 29  Ricardian model: International trade equilibrium, gains from trade, and extensions
- Krugman and Obstfeld (2003), Ch. 2, pp. 14-34

Jan. 31  Adam Smith vs. David Ricardo on trade

Feb. 5  Specific factors model: Basic setup
- Krugman and Obstfeld (2003), Ch. 3, pp. 38-50 and 63-6; pp. 708-13

Feb. 7  Specific factors model: International trade equilibrium, gains from trade, and income distribution; Introduction to the Heckscher-Ohlin model
- Krugman and Obstfeld (2003), Ch. 3. pp. 50-60

Feb. 12  Heckscher-Ohlin model: Basic setup
- Krugman and Obstfeld (2003), Ch. 4, pp. 67-75 and 89-92; pp. 714-16

Feb. 14  Heckscher-Ohlin model: International trade equilibrium and model implications
- Krugman and Obstfeld (2003), Ch. 4, pp. 70-81
Feb. 19  Some empirical evidence of the HO model
- Krugman and Obstfeld (2003), Ch. 4, pp. 82-86

Feb. 21  **Paper #1 due today** – Class presentations and discussion

Feb. 26  Free trade and wages

Feb. 28  Introducing demand into the trade model: Basics
- Krugman and Obstfeld (2003), Ch. 5, pp. 93-99 and 117-9; pp. 717-22

Mar. 5  Welfare effects of growth, transfers, tariffs, and export subsidies
- Krugman and Obstfeld (2003), Ch. 5, pp. 99-113; pp. 722-5

Mar. 7  **Midterm exam** (up to session on free trade and wages)

Mar. 10/23  Spring break

B] Trade policy, its causes and consequences

Mar. 26  Basic tariff analysis; effective tariff
- Krugman and Obstfeld (2003), Ch. 8, pp. 186-196 and 210-3

Mar. 28  Quotas and other instruments of trade policy
- Krugman and Obstfeld (2003), Ch. 8, pp. 196-206 and 214-7
Apr. 2  Political economy of trade policy
- Krugman and Obstfeld (2003), Ch. 9, pp. 218-36

Apr. 4  The General Agreement on Tariffs and Trade (GATT)
- Krugman and Obstfeld (2003), Ch. 9, pp. 237-47
- Tussie, Diana (1987), *The less developed countries and the world trading system*, London: Frances Pinter, Chs. 1 and 2

Apr. 9  New protectionism

Apr. 11  **Paper #2 due today** – Class presentations and discussion

C] Further topics

Apr. 16  International factor movements
- Krugman and Obstfeld (2003), Ch. 7, pp. 160-9 and 181-4

Apr. 18  Introduction to the “new” trade theories
- Tussie, Diana (1987), Ch. 3, pp. 38-63
- Vernon, Raymond (1966),"International investment and international trade in the product cycle,” *Quarterly Journal of Economics* 80, No. 2, pp. 190-207
- Krugman and Obstfeld (2003), Ch. 6, pp. 139-42; Ch. 7, pp. 169-77
Apr. 23  Monopolistic competition and trade
   - Krugman and Obstfeld (2003), Ch. 6, pp. 120-138 and 158-9; pp. 726-7

Apr. 25  Dumping, external economies, and global production networks
   - Krugman and Obstfeld (2003), Ch 6, pp. 142-55
   - Saxenian, AnnaLee (2002), “Transnational communities and the evolution of global production networks: The cases of Taiwan, China, and India,” forthcoming in Industry and Innovation

Apr. 30  Multilateralism vs. regionalism
   - Trebilcok and Howse (1995), Ch. 2, pp. 39-55 only

May 2  Paper #3 due today  – Class presentations and discussion

May 12  Final Exam - scheduled by the Registrar