

# Winter 2024

## Economics 361 INTERNATIONAL TRADE

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Time: Tue&Thu 9:30-10:50, Fri 10:00-10:50  
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**COURSE DESCRIPTION:** The course begins with a discussion of the pros and cons of free trade and globalization. It provides a survey of leading theories of international trade to understand the causes and consequences of international trade and implications of globalization. Then it proceeds with an examination of various trade-policy instruments to provide the ability of conducting and evaluating economic analysis related to international trade. A part of the course will be devoted to some other recent-debate issues.

**PREREQUISITES:** Econ 310-1, 310-2 (recommended)

**TEACHING METHODS:** Two 80-minut lectures per week

**EVALUATION METHOD:** Grades based on four problem sets (20%), a short essay (15%), a midterm (25%), and a final exam (40%), extra points from quizzes

**READINGS:** Basic Textbook - "International Economics: Theory and Practice" by Krugman, Obstfeld, and Melitz, Addison-Wesley; editions no earlier than the 9th

## SYLLABUS

### Lecture 1 (January 4): Introduction, Globalization

\*[KO], Chapter 2

Problem Set 1 Distributed

A. Deardorff and R. Stern, "What the Public Should Know about Globalization and the World Trade Organization".

<http://www.fordschool.umich.edu/rsie/workingpapers/Papers451-475/r460.pdf>

(See [https://www.wto.org/english/tratop\\_e/dispu\\_e/dispustats\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/dispustats_e.htm) more recent dispute settlement statistics. And even Wikipedia gives more recent data regarding tariff rates.)

Esteban Ortiz-Ospina, Diana Beltekian and Max Roser (2018) - "Trade and Globalization". Published online at OurWorldInData.org. Retrieved from: 'https://ourworldindata.org/trade-and-globalization' [Online Resource]

<https://ourworldindata.org/trade-and-globalization#citation>

P.Krugman, "What do Undergrads Need to Know about Trade", American Economic Review 83 (1993) Vol. 2, 23-26.

<http://pzacad.pitzer.edu/~lyamane/poptrade.html>

D. Irwin, "The United States in a New Global Economy? A Century's Perspective", American Economic Review 86 (1996) Vol. 2, 41-46.

<http://www.jstor.org/stable/2118093?seq=2>

## **Lectures 2 and 3 (January 9 and 11): Comparative Advantage, Ricardian Model**

\*[KO], Chapter 3

The Economist: A healthy re-examination of free trade's benefits and shocks An interview with John Van Reenen of MIT, May 4, 2018

<https://www.investopedia.com/terms/c/comparativeadvantage.asp>

P. Krugman, "Ricardo's Difficult Idea", Manchester Conference on Free Trade, March 1996.

<http://web.mit.edu/krugman/www/ricardo.htm>

Eaton, Jonathan and Samuel Kortum (2012) "Putting Ricardo to Work." Journal of Economic Perspectives, 26(2): 65-90.

<https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.2.65>

The Economist: "Schools brief: the miracle of trade." January 27th, 1996

## **Lectures 4, 5 and 6 (January 16, 18, 23): Richer Models of Trade**

\*[KO], Chapters 4 (except last section) and 5

Problem Set 2 Distributed (January 16)

Problem Set 1 Due (January 16)

Economist, "Economics brief – Six big ideas: An inconvenient iota of truth." August 6th, 2016.

Economist, "Economic focus: Trade and wages." December 6th, 1996

Economist, "Economic focus: Krugman's conundrum." April 19th, 2008.

Economist, "Free exchange: Trade in the balance." February 6th, 2016.

## **Lecture 7 (January 25): Consequences of Trade for Labor Markets**

[http://www.petersoninstitute.org/publications/chapters\\_preview/57/2iie2415.pdf](http://www.petersoninstitute.org/publications/chapters_preview/57/2iie2415.pdf)

P. Krugman and R. Lawrence, "Trade, Jobs, and Wages"

<http://www.nber.org/papers/w4478.pdf>

R. Freeman, "Are Your Wages Set in Beijing?", Journal of Economic Perspectives, Summer 1995, 15-32.

<https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.9.3.15>

P. Krugman, "In Praise for Cheap Labor", Slate, March 1997.

<https://slate.com/business/1997/03/in-praise-of-cheap-labor.html>

The Economist: "Trade and wages" December 6th, 1996

David Author “Trade and labor markets: Lessons from China’s rise,” IZA World of Labor  
<https://wol.iza.org/uploads/articles/431/pdfs/trade-and-labor-makets-lessons-from-chinas-rise.pdf?v=1>

Bernard Hoekman and L. Alan Winters “Trade and Employment: Stylized Facts and Research Findings,”  
DESA Working Paper 7  
<file:///C:/Users/wol737/Downloads/1597341811.8817-1.pdf>

## **Lecture 8 (January 30): Conducting and Evaluating Economic Analysis within Standard Trade Models**

\*[KO], Chapter 6 (except last section)

Sample Midterm Distributed

## **Lectures 9 (February 1): Environment**

H. Nordstrom and S. Vaughn, “Trade and Environment”, World Trade Organization Special Studies No. 4,  
Geneva 1999, pp. 1-65.  
[http://www.wto.org/english/tratop\\_e/envir\\_e/environment.pdf](http://www.wto.org/english/tratop_e/envir_e/environment.pdf)

“Trade and Environment at the World Trade Organization” – a document prepared by the WTO Secretariat  
in 2004  
[http://www.wto.org/english/res\\_e/booksp\\_e/trade\\_env\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/trade_env_e.pdf)

The Economist, “Making trade greener,” October 6, 2021

Jeffrey A. Frankel & Andrew K. Rose, “Is Trade Good or Bad for the Environment? Sorting Out the  
Causality,” NBER Working Paper 9201  
[https://www.nber.org/system/files/working\\_papers/w9201/w9201.pdf](https://www.nber.org/system/files/working_papers/w9201/w9201.pdf)  
(for a summary, see <https://www.nber.org/papers/w9201>)

## **Lecture 10 (February 6): MIDTERM EXAMINATION**

Problem Set 2 Due

## **Lectures 11 and 12 (February 8 and 13): Trade Protection Policies**

Problem Set 3 Distributed (February 8)

\*[KO], Chapter 9

The Economist: “Outsourcing: Getting the measure of it” July 2nd, 2005  
The Economist: “Rivulets and riptides.” September 13th, 2007

The Economist: Finance and economics “What America’s protectionist turn means for the world” January  
14th, 2023

IMF: “Growing Threats to Global Trade,” Pinelopi K Goldberg and Tristan Reed, June 2023  
<https://www.imf.org/en/Publications/fandd/issues/2023/06/growing-threats-to-global-trade-goldberg-reed>

Douglas A. Irwin, “Trade Restrictiveness and Deadweight Losses from US Tariffs,”  
*American Economic Journal: Economic Policy*, Vol. 2, No. 3 (August 2010), pp. 111-133.

<https://www.jstor.org/stable/25760076?seq=1>

### **Lecture 13 (February 15): Trade Policy and Monopoly, Oligopoly Profits**

### **Lecture 14 (February 20): Cost of Protectionism, Trade Politics**

\*[KO], Chapter 10

R. Feenstra, "How Costly is Protectionism", Journal of Economics Perspectives 6 (1992), 159-178.  
<http://www.jstor.org/view/08953309/di980572/98p0047n/0>

R. Baldwin, "The Political Economy of Trade Policy", Journal of Economic Perspectives 3 (1989), 119-135.  
<http://www.jstor.org/view/08953309/di960528/96p0011g/0>

Douglas A. Irwin, "Trade Restrictiveness and Deadweight Losses from US Tariffs," American Economic Journal: Economic Policy, 2 (2010), 111-133.  
<https://www.jstor.org/stable/25760076>

A. O. Krueger, "Are Preferential Trading Arrangements Trade-liberalizing or Protectionist?" Journal of Economic Perspectives, 13 (1999), 105-124.

The Economist: "Buying off the opposition." November 8th, 2007

S.E. Landsburg, "What to expect when you're free trading" New York Times, January 16th, 2008

Kadee Rus, "The Costs of U.S. Tariffs Imposed Since," Econofact, 2018 Oct. 10, 2019  
<https://econofact.org/the-costs-of-u-s-tariffs-imposed-since-2018>

### **Lecture 15 (February 22): Miscellaneous (including Economies of Scale)**

Problem Set 3 Due

Problem Set 4 Distributed

\*[KO], Chapter 7

The economist: "Is big business really getting too big?" Jul 12th 2023

This article appeared in the Business section of the print edition under the headline "How bad is being big?"

<https://www.economist.com/business/2023/07/12/is-big-business-really-getting-too-big>

The economist: "Bold strokes," Oct 16th 2008

<https://www.economist.com/finance-and-economics/2008/10/16/bold-strokes>

A.B. Bernard, J.B. Jensen, S.J. Redding, and P.K. Schott, "Firms in international trade" Journal of Economic Perspectives 21 (2007), 105-130.

The Economist: "Survey on world trade: Why trade is good for you." October 3rd, 1998

### **Lecture 16 (February 27): A Discussion of Selected Short Essays**

## Lecture 17 (February 29): Capital Movement, Migration

\*[KO], last sections of Chapters 4 and 6, Chapter 8

Bhagwati, Jagdish, Arvind Panagariya, and T.N. Srinivasan (2004). "The Muddles Over Outsourcing." *Journal of Economic Perspectives*, 18(4): 93-104.

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Freedman, Richard (2006). "People Flows in Globalization." *Journal of Economic Perspectives*, 20(2): 145-170.

The Economist: "Migration: of bedsheets and bison grass vodka" January 5th, 2008

The Economist: Why migration is in such a mess once more, Nov 9th 2023

<https://www.economist.com/international/2023/11/09/why-migration-is-in-such-a-mess-once-more>

The Economist, YouTube: How migration could make the world richer

<https://www.youtube.com/watch?v=fjKYtfpe1a0>

The New Yorker: Economists Love Immigration. Why Do So Many Americans Hate It? Jun. 5, 2023

<https://www.newyorker.com/magazine/2023/06/12/immigration-economy-book-reviews>

## Lecture 18 (March 5): Trade Policy in Developing Countries, Controversies in Trade Policy

\*[KO], Chapters 11 & 12

G. Grossman, "Promoting New Industrial Activities: A Survey of Recent Arguments and Evidence", OECD Economic Studies 14 (1990), 87-125.

<http://www.oecd.org/dataoecd/61/49/34306065.pdf>

The Economist: "The challengers" January 10th, 2008

The Economist: "Economic focus: punch-up over handouts" March 26th, 2005

The Economist: "Mangling trade" June 30th, 2007

You may wish to read Introduction in The Economics of Pollution Havens, 2006, **from the Selected**

**Works of Don Fullerton**

[file:///C:/Users/wol737/Downloads/fulltext\\_stamped.pdf](file:///C:/Users/wol737/Downloads/fulltext_stamped.pdf)

The economist: Why is the idea of import substitution being revived?, Nov 6<sup>th</sup>, 2020 This article appeared in the Finance & economics section of the print edition under the headline "Turning inward"

<https://www.economist.com/finance-and-economics/2020/11/06/why-is-the-idea-of-import-substitution-being-revived>

The Economist: Subsidies and protection for manufacturing will harm the world economy, Jul 13<sup>th</sup>, 2023

<https://www.economist.com/leaders/2023/07/13/subsidies-and-protection-for-manufacturing-will-harm-the-world-economy>

You may also wish to read Strategic Trade Theories, in Wikipedia

[https://en.wikipedia.org/wiki/Strategic\\_trade\\_theory](https://en.wikipedia.org/wiki/Strategic_trade_theory)

## Lecture 19 (March 7): NAFTA/USMCA

Sample Final Distributed

Problem Set 4 due

G. Hufbauer and J. Schott, NAFTA: An Assessment, Revised Edition, Institute for International Economics 1993.

<http://bookstore.petersoninstitute.org/book-store//70.html>

G. Hufbauer and J. Schott, NAFTA Revisited: Achievements and Challenges, Institute for International Economics 2005.

<http://bookstore.petersoninstitute.org/book-store/332.html>

[See also “NAFTA Revisited” by G.C. Hufbauer and J.J. Schott published in Policy Options

<http://www.iie.com/publications/papers/paper.cfm?ResearchID=898>

and “What Should the Next President Do on NAFTA?”

<http://www.iie.com/publications/papers/paper.cfm?ResearchID=898>. ]

P. Krugman, “The Uncomfortable Truth about NAFTA” Foreign Affairs 72 (1993), 13-19.

<http://www.foreignaffairs.org/19931201facomment5212/paul-krugman/the-uncomfortable-truth-about-nafta-it-s-foreign-policy-stupid.html>

The Economist: “Special report: ten years of NAFTA. Free Trade on Trial” January 3rd, 2004

CNN, December 17, 2019: “6 key differences between NAFTA and the USMCA deal that replaces it

<https://www.cnn.com/2019/12/10/politics/nafta-us-mexico-canada-trade-deal-differences/index.html>

and

CNN, July 1, 2020: “NAFTA is officially gone. Here’s what has and hasn’t changed”

<https://www.cnn.com/2020/07/01/politics/usmca-nafta-replacement-trump/index.html>