Syllabus

**Course Content:** This course covers both positive and normative aspects of the theory of international trade in competitive markets: determinants of the pattern of trade in goods and services in the classical and the neoclassical model, the relationship between trade and international flows of labor and capital, trade policy issues, political economy of trade policy as well as the interaction of trade with economic growth. The relevant empirical literature will be discussed at the end of each topic. The course covers only the real effects of trade, international financial issues will not be treated. The course content does not include trade under uncertainty or models with imperfect competition.

**Grading:** Your grade will be determined on the basis of a number of homework assignments (30%), a midterm exam (30% each), and a final exam or term paper (40%). *No makeup exams will be given!* You are encouraged to work together in groups of two or three students on all homework problems.
Text Books

1. Main Graduate Text Books:

2. Other Graduate Text Books:

3. Undergraduate Text Books:
Reading List

1. Introduction

2. Classical Trade Theory

(a) Survey Articles


(b) The Ricardian Model of Trade

i. The Basic 2 × 2 × 1 Model

- BPS, Chapter 2 and 3; Feenstra, Chapter 1

ii. Extensions of the Basic Model

- BPS, chapter 4
(c) Empirical Tests of the Ricardian Model


3. Factor Endowment Theory

(a) The Heckscher-Ohlin Model of Trade

i. Survey Articles


ii. The Basic 2 × 2 Model

- BPS, Chapter 5 and 6 plus Appendix B.; Feenstra, Chapter 2

iii. Extensions of the Basic Model

- BPS, Chapter 8.1-8.3; Feenstra, Chapter 3

iv. Empirical Tests


(b) **The Specific Factors Model of Trade**

i. **The Basic Model**

• BPS, Chapter 7.


ii. **Extensions of the Basic Model**

• Mayer, W., "Short-run and long-run equilibrium for a small open economy", JPE 82, 1974: 955-967


• Mussa, M., "Dynamic Adjustment in a H-O-S model", JPE 86, 1978: 775-791

• Mayer, W., "Short-run and long-run equilibrium for a small open economy", JPE 82, 1974: 955-967.

iii. **Empirical Studies**


(c) **Heckscher-Ohlin-Ricardo Models of Trade**

i. **Theory**

ii. Empirical Tests


4. The Gravity Equation

(a) Survey Articles
- Feenstra, Chapter 5

(b) Theoretical Foundation

(c) Empirical Investigations

5. Trade and Factor Movements

(a) Survey Articles

(b) Trade and International Movement of Labor and Capital

(c) Trade and International Movement of Labor
• BPS, Chapter 33.
• Rauch, J.E., "Reconciling the Pattern of Trade with the Pattern of Migration", AER 81(4), 1991: 775-796.

(d) Trade and International Movement of Capital
• BPS, Chapter 32.
6. Trade Policy

(a) Survey Articles

(b) The Effects of Tariffs, Taxes, and Quotas
- BPS, Chapter 12 and 13; Feenstra, Chapter 7 and 8.

(c) Optimal Tariffs

(d) Theory of Customs Unions

(e) Empirical Studies

7. Political Economy of Trade Policy

(a) Survey Articles
• Feenstra, Chapter 9

(b) Theoretical Approaches

(c) Empirical Approaches

8. Dynamic Trade Theory

(a) Survey Articles


(b) Intertemporal Models of Open Economies

- BPS, Chapter 36.

(c) Trade and Endogenous Growth


(d) Tariff Reform and Endogenous Growth


(e) Empirical Studies

• Rose, A., "Do we Really Know that the WTO Increases Trade?", AER, 94(1): 98-114, 2004.


9. Trade, Technology, and Wage Inequality

(a) Survey Articles

(b) Theory

(c) Empirical Studies


10. Trade and the Environment

(a) Survey Articles


(b) Environmental Regulation and International Competitiveness


(c) Empirical Studies