Institut fur Weltwirtschaft

Advanced Studies in International Economic Policy Research, 2008-09

INTERNATIONAL TRADE

23 March - 3 April 2009

Professor Keith E. Maskus
University of Colorado
Department of Economics
UCB 256
Boulder, CO 80303 USA

International trade is a central element of ongoing globalization processes, which arise from technical change and market integration. In recent decades trade in merchandise has grown rapidly relative to growth in real output, while foreign direct investment through multinational enterprises has risen yet faster. Even more recently, international trade in services and technology has become central. Thus, countries have become more open and more interdependent. All of this raises fundamental policy questions and concerns.

In this course we will study the major determinants and effects of international trade, along with the theory of government intervention through trade policies. The course will emphasize both theory and empirical evidence, while paying some attention to institutional factors in the global economy. The organization of the course follows, along with readings. Required readings that will be discussed in class are listed with an asterisk (*), while others are useful for additional inquiry.

Week 1 BASIC ANALYTICS OF INTERNATIONAL TRADE

Monday, 23 March

Topic 1 Trends in Globalization and Its Effects

*World Bank, *Globalization, Growth, and Poverty: Building an Inclusive World Economy*, a World Bank Policy Research Report, 2002, Overview and Chapter 1 (pages 1-51).

*Alan Deardorff and Robert Stern, "What You Should Know about Globalization and the World Trade Organization," *Review of International Economics*, Vol. 10, 2002, 404-423.

World Trade Organization, *International Trade Statistics Database*, available at http://www.wto.int/english/res_e/statis_e/statis_e.htm.

Dani Rodrik, *Has Globalization Gone Too Far?* Washington: Institute for International Economics, 1997.

OXFAM, *Rigged Rules and Double Standards: Trade, Globalization and the Fight against Poverty.*

Topic 2 The International Framework

*Bernard Hoekman and Michel Kostecki, *The Political Economy of the World Trading System: The WTO and Beyond* (Oxford U. Press, 2d edition, 2001), chapters 1 and 2, pages 9-73.

Keith Maskus, "Regulatory Standards in the WTO: Comparing Intellectual Property Rights with Competition Policy, Environmental Protection, and Core Labor Standards," *World Trade Review*, Vol. 1, no. 2, July 2002, 135-152.

World Bank, *Trade Blocs*, a World Bank Policy Research Report, 2000, (Oxford University Press for the World Bank), chapter 1.

Richard Blackhurst, "The WTO and the Global Economy," *The World Economy*, Vol. 20, 1997, 527-544.

Tuesday, 24 March and Wednesday, 25 March

Topic 3 Determinants of Comparative Advantage: Ricardian Technology Differences

*J. Markusen, J. Melvin, W. Kaempfer, and K. Maskus, *International Trade: Theory and Evidence*, McGraw-Hill, 1995, Chapters 6 and 7.

*S. Golub and C. Hsieh, "Classical Ricardian Theory of Comparative Advantage Revisited," *Review of International Economics*, May 2000, 221-234.

R. Dornbusch, S. Fischer, and P. Samuelson, "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods", *American Economic Review*, Dec. 1977.

Topic 4 Determinants of Comparative Advantage: Factor Proportions

*J. Markusen, J. Melvin, W. Kaempfer, and K. Maskus, *International Trade: Theory and Evidence*, McGraw-Hill, 1995, Chapter 8.

*Donald Davis and David Weinstein, "The Factor Content of Trade," Chapter 5 in E. Kwan Choi and James Harrigan, editors, *Handbook of International Trade* (London: Blackwell), 2003, 119-145.

Robert Feenstra, *Advanced International Trade: Theory and Evidence* (Princeton: Princeton University Press), 2004, chapters 1 and 2 (pages 1-62).

M. Mussa, "Tariffs and the Distribution of Income: the Importance of Factor Specificity, Substitutability, and Intensity in the Short and Long Run", *Journal of Political Economy*, 1974.

Daniel Trefler, "The Case of the Missing Trade and Other Mysteries", *American Economic Review*, Dec. 1995, Volume 85, 1029-1046.

Thursday, 26 March and Friday 27 March

Topic 5 Other Determinants of Trade: Imperfect Competition

* J. Markusen, J. Melvin, W. Kaempfer, and K. Maskus, *International Trade: Theory and Evidence*, McGraw-Hill, 1995, Chapters 11 and 12.

J. Harrigan, "Scale Economies and the Volume of Trade," *Rev. of Economics and Statistics*, May 1994, 283-293.

W. Antweiler and D. Trefler, "Increasing Returns and All That: A View from Trade," *American Economic Review* March 2002, 93-119.

Topic 6 Geography and the Gravity Model

*J. Frankel, E. Stein, and S. Wei, "Trading Blocs and the Americas: The Natural, the Unnatural and the Super-Natural," *Journal of Development Economics* 1995, 61-95.

*Henry Overman, Stephen Redding, and Anthony Venables, "The Economic Geography of Trade, Production and Income: A Survey of Empirics," Chapter 12 in E. Kwan Choi and James Harrigan, editors, *Handbook of International Trade* (London: Blackwell), 2003, 353-387.

D. Hummels and J. Levinsohn, "Monopolistic Competition and International Trade: Reconsidering the Evidence," *Quarterly Journal of Economics* 1995, 799-836.

James Anderson and Eric van Wincoop, "Gravity with Gravitas: a Solution to the Border Puzzle," *American Economic Review*, Vol 93, 2003, 170-92.

S. Evenett and W. Keller, "On Theories Explaining the Success of the Gravity Equation," *Journal of Political Economy* 2002, 281-316.

Topic 7 Export Behavior and Heterogeneous Firms

*Andrew Bernard and Bradford Jensen, "Exceptional Exporter Performance: Cause, Effect or Both?" *Journal of International Economics*, 1999, Vol. 47, 1-25.

*Elhanan Helpman, Marc Melitz and Stephen Yeaple, "Export versus FDI with Heterogeneous Firms," *American Economic Review*, 2004, Vol. 94, 300-316.

Marc Melitz, "The Impact of Trade on Aggregate Industry Productivity and Intra-Industry Reallocations," *Econometrica*, 2003, Vol. 61, 1695-1725.

Monday, 30 March

Topic 8 Tariffs and Quotas, Strategic Trade Policy, and Costs of Protection

* J. Markusen, J. Melvin, W. Kaempfer, and K. Maskus, *International Trade: Theory and Evidence*, McGraw-Hill, 1995, Chapters 15, 16, and 17.

*Robert Feenstra, "How Costly is Protectionism?" *Journal of Economic Perspectives*, Summer 1992, Vol. 6, 159-178.

James Brander and Barbara Spencer, "Export Subsidies and International Market Share Rivalry," *Journal of International Economics*, 1985, Vol. 18, 227-242.

Douglas Irwin and Nina Pavcnik, "Airbus versus Boeing Revisited: International Competition in the Aircraft Market," *Journal of International Economics* 2004, Vol. 64, 223-246.

Tuesday, 31 March

Topic 9 Computational Models of Trade Liberalization

* Denise Eby Konan and Keith E. Maskus, "Joint Trade Liberalization and Tax Reform in a Small Open Economy: The Case of Egypt," *Journal of Development Economics*, Vol. 61, no. 2, April 2000, 365-392.

Topic 10 Political Economy of Protection: National and Multilateral

*Bernard Hoekman and Michel Kostecki, *The Political Economy of the World Trading System: The WTO and Beyond* (Oxford U. Press, 2d edition, 2001), chapter 4, 100-142.

*Kishore Gawande and Pravin Krishna, "The Political Economy of Trade Policy: Empirical Approaches," Chapter 8 in E. Kwan Choi and James Harrigan, editors, *Handbook of International Trade* (London: Blackwell), 2003, 213-250.

Gene Grossman and Elhanan Helpman, *Interest Groups and Trade Policy*, (Princeton University Press, 2002).

Wednesday, 1 April

Topic 11 Trade, Development, and Growth

*Neil McCulloch, L. Alan Winters, and Xavier Cirera, *Trade Liberalization and Poverty: a Handbook* (London: Centre for Economic Policy Research, 2001), chapter 2, pages 13-36.

*J. Frankel and D. Romer, "Does Trade Cause Growth?" *American Economic Review* June 1999, 379-399.

F. Rodriguez and Dani Rodrik, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence," Centre for Economic Policy Research discussion paper no. 2143, 1999.

Topic 12 Trade, Learning, and Spillovers

*David Coe, Elhanan Helpman and Alexander Hoffmaister, “North-South R&D Spillovers,” *Economic Journal* 1997, 134-149.

Wolfgang Keller, "Geographic Localization of International Technology Diffusion," *American Economic Review* March 2002, 120-142.

Thursday, 2 April

Topic 13 Foreign Direct Investment and Technology Transfer

*David Carr, James Markusen, and Keith Maskus, “Estimating the Knowledge Capital Model of the Multinational Enterprise,” *American Economic Review* June 2001, 693-708.

*Beata Smarzynska Javorcik, "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages," *American Economic Review* June 2004, 605-627.

James Markusen and Keith Maskus, "General Equilibrium Approaches to the Multinational Enterprise: Theory and Evidence," Chapter 11 in E. Kwan Choi and James Harrigan, editors, *Handbook of International Trade* (London: Blackwell), 2003, 287-319.

Keith Maskus, "Encouraging International Technology Transfer," UNCTAD/ICTSD Project on Intellectual Property Rights and Sustainable Development, Issue Paper No. 7, 2004, available at http://www.iprsonline.org/unctadictsd/docs/Maskus_TOT_December03.pdf.

Topic 14 Trade, Wages, and Fragmentation

*Robert Feenstra, "Integration and Distintegration in the Global Economy," *Journal of Economic Perspectives*, Vol. 12, Fall 1998, 31-50.

David Hummels, Jun Ishii, and Kei-Mu Yi, "The Nature and Growth of Vertical Specialization in World Trade," *Journal of International Economics*, 2001, Vol. 54, 75-96.

Robert Feenstra and Gordon Hanson, "Global Production Sharing and Rising Inequality: A Survey of Trade and Wages," chapter 6 in E. Kwan Choi and James Harrigan, editors, *Handbook of International Trade* (London: Blackwell), 2003, 146-185.

Adrian Wood, "How Trade Hurt Unskilled Workers," *Journal of Economic Perspectives*, Summer 1995, 57-80.

Friday, 3 April

Topic 15 Regionalism in Trade

* World Bank, *Trade Blocs*, a World Bank Policy Research Report, 2000 (Oxford University Press for the World Bank), chapters 2 and 3, pages 11-64.

Arvind Panagariya, "The Regionalism Debate: An Overview," *The World Economy*, Vol. 22, 1999, 477-512.

L. Alan Winters and Won Chang, "Regional Integration and Import Prices: An Empirical Investigation," *Journal of International Economics*, Vol. 51, 2000, 363-377.

Topic 16 Issues for the Doha Development Round

*Thomas Hertel, Bernard Hoekman, and Will Martin, "Developing Countries and a New Round of WTO Negotiations," *The World Bank Research Observer*, Vol. 17, Spring 2002, 113-140.