

INTERNATIONAL TRADE

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Prerequisites: The only prerequisite is a background in economic theory, but those who have not previously studied international economics may find it helpful to supplement the assigned readings with a more elementary account, such as the following undergraduate text: Ethier, **MODERN INTERNATIONAL ECONOMICS**, 3rd edition, 1995 (denoted **ETHIER** below). (There is a German translation of the earlier, 2nd edition: Ethier, **MODERNE AUSSENWIRTSCHAFTSTHEORIE**, 2. Auflage, 1991. I cannot vouch for the quality of the translation).

The Literature

Now-classic treatments include:

B. Ohlin, **INTERREGIONAL AND INTERNATIONAL TRADE**, 1967.

G. Haberler, **THE THEORY OF INTERNATIONAL TRADE**, 1937 (**HABERLER**).

More recent texts are:

A. K. Dixit and V. Norman, **THEORY OF INTERNATIONAL TRADE**, 1980 (**DIXIT-NORMAN**).

Helpman, E. and P. R. Krugman, **MARKET STRUCTURE AND FOREIGN TRADE**. Cambridge: MIT Press (1985) (**HELPMAN AND KRUGMAN, I**).

Helpman, E. and P. R. Krugman, **TRADE POLICY AND MARKET STRUCTURE**. Cambridge: MIT Press (1989) (**HELPMAN AND KRUGMAN, II**).

H. P. Bowen, A. Hollander, and J.-M. Viaene, **APPLIED INTERNATIONAL TRADE ANALYSIS**, Ann Arbor: U. of Michigan Press (1998).

The following volumes contain useful surveys of most parts of trade theory:

P. Kenen and R. Jones, **HANDBOOK OF INTERNATIONAL ECONOMICS, Volume I**, 1984 (**HANDBOOK**).

G. M. Grossman and K. Rogoff, **HANDBOOK OF INTERNATIONAL ECONOMICS, Volume III**, 1995 (*HANDBOOK III*).

THE NEW PALGRAVE contains a large number of survey entries concerning international trade topics.

Many standard articles can be found in the following volumes:

Caves and Johnson (eds), **READINGS IN INTERNATIONAL ECONOMICS**, 1968 (*CJ*).

Kemp, **THREE TOPICS IN THE THEORY OF INTERNATIONAL TRADE**, 1976 (*KEMP*).

Grossman, G. (ed.), **IMPERFECT COMPETITION AND INTERNATIONAL TRADE**, 1992 (*GROSSMAN*).

Neary, J. Peter (ed.), **INTERNATIONAL TRADE**, 1995 [Elgar: Aldershot] (*NEARY*). The most complete collection of useful articles, in two volumes.

Course Guide

Lecture 1. The Principle of Comparative Advantage: The Gains from Trade and The Basic Theory

Lecture 2. The Principle of Comparative Advantage: The General Equilibrium of International Trade

Lecture 3. Economies of Scale as a Basis for Trade

Lecture 4. Oligopoly as a Basis for Trade

Lecture 5. The Heckscher–Ohlin–Samuelson Model

Lecture 6. Extensions and Elaborations of the Basic Theory

Lecture 7. Commercial Policy: Basic Theory

Lecture 8. Commercial Policy: Trade Policy

Lecture 9. International Factor Movements

Lecture 10. Regionalism

Reading List

Items indicated by an asterisk (*) denote the course readings. Other items are listed for reference only.

I. The Principle of Comparative Advantage

A. The Gains from Trade

*Samuelson, "The Gains from International Trade," in *EM*.

DIXIT-NORMAN, pp 71-80.

Ohyama, "Trade and Welfare in General Equilibrium," *KEIO ECONOMIC STUDIES*, 1972.
In *NEARY*.

B. The Basic Theory of Comparative Advantage

*Deardorff, "The General Validity of the Law of Comparative Advantage," *JOURNAL OF POLITICAL ECONOMY*, 88, 1980 (941-57). In *NEARY*.

Ricardo, *THE PRINCIPLES OF POLITICAL ECONOMY AND TAXATION*, Ch 7.

HABERLER, Ch X.

DIXIT-NORMAN, pp 1-8, 29-43, 59-71, 93-96.

ETHIER, ch 1, pp A-3 – A-13.

II. The General Equilibrium of International Trade

**ETHIER*, ch 4, pp A-1–A-13

Mundell, *INTERNATIONAL ECONOMICS*, Ch 1 (or Mundell's *AMERICAN ECONOMIC REVIEW* survey). In *NEARY*.

HABERLER, Ch XI.

III. Economies of Scale as a Basis for Trade

*Ethier, "Internationally Decreasing Costs and World Trade," **JOURNAL OF INTERNATIONAL ECONOMICS**, February 1979, pp 1-24. In *NEARY*.

Ethier, "Decreasing Costs in International Trade and Frank Graham's Argument for Protection," **ECONOMETRICA** 50, 1982, pp 1243-68. In *NEARY*.

HABERLER, pp 198-208.

ETHIER, ch 2.

IV. Oligopoly as a Basis for Trade

*Markusen, J. "Trade and Gains from Trade with Imperfect Competition," ch 3 in *GROSSMAN*.

HELPMAN AND KRUGMAN, I, Chapter 5.

Cox, D. and R. Harris, "Trade Liberalization and Industrial Organization: Some Estimates for Canada," **JOURNAL OF POLITICAL ECONOMY**, 93 (1985), pp 115-45.

ETHIER, ch 3.

V. The Heckscher-Ohlin-Samuelson Model

A. The Basic Theorems

**ETHIER*, ch 5, pp A-18 - A-38.

Ohlin, **INTERREGIONAL AND INTERNATIONAL TRADE**, Ch 1, 2, 3, 4, 9.

B. Empirical Tests

*Davis, D. R. and D. E. Weinstein, "An Account of Global Factor Trade," **AMERICAN ECONOMIC REVIEW** 91 (5), 2001.

Trefler, Daniel, "International Factor Price Differences: Leontief Was Right!" **JOURNAL OF POLITICAL ECONOMY** 101, 1993, pp 961-987.

Leontief, "Domestic Production and Foreign Trade: The American Capital Position Reexamined," in *CJ*.

HANDBOOK III, Ch 3.

Leamer, *SOURCES OF INTERNATIONAL COMPARATIVE ADVANTAGE: THEORY AND EVIDENCE*. Cambridge: MIT, 1984. (*skim*)

VI. Extensions and Elaborations of the Basic Theory

A. Many Goods and Factors

**HANDBOOK*, Ch 3.

Vanek, "The Factor Proportions Theory: The N-Factor Case," *KYKLOS*, October 1968.

DIXIT-NORMAN, Ch 1-4.

B. Intra-industry Trade

*Ethier, "National and International Returns to Scale in the Modern Theory of International Trade," ch 14 in *GROSSMAN*.

HELPMAN AND KRUGMAN, I, 1985, Part III.

DIXIT-NORMAN, Ch 9.

C. Specific Factors

HABERLER, Ch XII.

Samuelson, "Ohlin Was Right," *SWEDISH JOURNAL OF ECONOMICS*, 1977.

Mayer, "Short-Run and Long-Run Equilibrium for a Small Open Economy," *JOURNAL OF POLITICAL ECONOMY*, 1978.

VII. Theory of Commercial Policy

A. Basic Theory

**ETHIER*, pp A-38 - A-42.

Corden, **THE THEORY OF PROTECTION**, Ch 2, 9; 3-6.

Metzler, "Tariffs, the Terms of Trade, and the Distribution of the National Income," in **CJ. HANDBOOK**, Ch 2.

B. Imperfect Competition

*Brander and Spencer, "Tariff Protection and Imperfect Competition," ch 6 in **GROSSMAN**.

Eaton and Grossman, "Optimal Trade and Industrial Policy under Oligopoly," ch 7 in **GROSSMAN**. In **NEARY**.

HELPMAN AND KRUGMAN, I, Ch 4, 5.

HELPMAN AND KRUGMAN, II, ch 3 - 7.

HANDBOOK III, Ch 4.

VIII. Trade Policy

*Ethier, W. J. "Theoretical Problems in Negotiating Trade Liberalization," **EUROPEAN JOURNAL OF POLITICAL ECONOMY** 17, 2001, pp 209–232.

HABERLER, Part II.

Mayer, "Theoretical Considerations on Negotiated Tariff Adjustments," **OXFORD ECONOMIC PAPERS**, 33, 1981, pp 135-53.

*Ethier, W. J. "Unilateralism in A Multilateral World," **THE ECONOMIC JOURNAL** 112 (479), 2002, pp 266–292

Ethier, W. J. "The International Commercial System," **ESSAYS IN INTERNATIONAL FINANCE** No. 210, September 1998 (Princeton: International Finance Section).

Ethier, "The Economics and Political Economy of Managed Trade," in: A. L. Hillman (ed.), **MARKETS AND POLITICIANS** (Boston: Kluwer Academic Publishers), 1991, pp 283-306.

IX. International Factor Movements

A. The General Theory

*Mundell, **INTERNATIONAL ECONOMICS**, pp 17-21.

*Ethier, W. J. “Theories about Trade Liberalization and Migration: Substitutes or Complements?” In: Lloyd, P. J. and L. Williams (eds.), **INTERNATIONAL TRADE AND MIGRATION IN THE ASIA PACIFIC REGION**, 1996 (Oxford: Oxford University Press).

Ethier, W. J. and L. E. O. Svensson, “The Theorems of International Trade with Factor Mobility,” **JOURNAL OF INTERNATIONAL ECONOMICS** 20 (1986), pp 21-42.

HANDBOOK, Ch 5.

B. Direct Investment

*Ethier, “Multinational Firms in the Theory of International Trade”, Chapter 1 in: Bacha, E. (ed.), **ECONOMICS IN A CHANGING WORLD, VOL. 4: DEVELOPMENT, TRADE AND THE ENVIRONMENT, Proceedings of the Tenth World Congress of the International Economic Association**, 1994 (London: Macmillan), pp 3–33.

HELPMAN AND KRUGMAN I, Part IV.

Ethier, W. J. “The Multinational Firm,” ch 16 in **GROSSMAN**.

X. Economic Integration

*Lipsey, “The Theory of Customs Unions: A General Survey,” in **CJ**.

*Ethier, “Regionalism in a Multilateral World,” **JOURNAL OF POLITICAL ECONOMY** 6 (106), December 1998, pp 1214–1245.

Ethier, W. J. “The New Regionalism,” **ECONOMIC JOURNAL** 108 (449), 1998, pp 1149–1161.

K, ch 14.