

# Advanced Studies in International Economic Policy Research, 2001-2002

## International Trade: Theory and Policy

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A series of lectures to be delivered at the Institut für Weltwirtschaft, Kiel, from 3 to 14 December 2001. The objective is to provide a self-contained introduction to modern work on international trade theory and policy. Topics covered in other courses in the programme (including economic integration and political economy) will not be covered in detail. A modest background in mathematics and microeconomic theory will be assumed. References marked with two asterisks are recommended. This reading list as well as unpublished papers by me (in pdf format) are available on my web-site:

<http://www.ucd.ie/~economic/staff/pneary/neary.htm>

### General References

Bhagwati, J.N. (ed.) (1987): *International Trade: Selected Readings*, Second Edition, Cambridge, Mass.: MIT Press.

Dixit, A.K. and V. Norman (1980): *Theory of International Trade: A Dual, General Equilibrium Approach*, London: Cambridge University Press.

Grossman, G. (ed.) (1992): *Imperfect Competition and International Trade*, Cambridge, Mass.: MIT Press.

Grossman, G. and K. Rogoff (eds.) (1995): *Handbook of International Economics: Volume 3*, Amsterdam: North-Holland.

Helpman, E. and P.R. Krugman (1985): *Market Structure and Foreign Trade*, Cambridge, Mass.: M.I.T. Press.

Helpman, E. and P.R. Krugman (1989): *Trade Policy and Market Structure*, Cambridge, Mass.: MIT Press.

Leamer, E. (ed.) (2001): *Worth Series in Outstanding Contributions in Economics: International Trade*, New York: Worth Publishers.

Neary, J.P. (ed.) (1995): *Readings in International Trade: Volume I Welfare and Trade Policy; Volume II Production Structure, Trade and Growth*, International Library of Critical Writings in Economics, Cheltenham: Edward Elgar.

## COURSE OUTLINE

### 1. Introduction

- Introductory overview of the course
- Representation of producer behaviour using duality
- Properties of the trade expenditure function
- Comparative statics of a small open economy

\*\* Dixit and Norman, Chap. 2 (esp. Sections 2.1, 2.4)

\*\* Neary, J.P. (1988): "Determinants of the equilibrium real exchange rate," *American Economic Review*, 78 (March), 210-215; reprinted in Neary (1995).

Falvey, R.E. and N. Gemmell (1991): "Explaining service-price differences in international comparisons," *American Economic Review*, 81 (December), 1295-1309.

### 2. Simple General Equilibrium Models

- The Heckscher-Ohlin Model: Stolper-Samuelson, Rybczynski and Factor-Price Equalization

\*\* Jones, R.W. and J.P. Neary (1984): "The positive theory of international trade," Section 2, in R.W. Jones and P.B. Kenen (eds.): *Handbook of International Economics: Volume 1 International Trade*, Amsterdam: North-Holland, Chapter 1.

Stolper, W.F. and P.A. Samuelson (1941): "Protection and real wages," *Review of Economic Studies*, 9, 58-73.

Mussa, M. (1979): "The two-sector model in terms of its dual: A geometric exposition," *Journal of International Economics*, 9, 513-526; reprinted in Bhagwati (1987).

Jones, R.W. (1965): "The structure of simple general equilibrium models," *Journal of Political Economy*, 73, 557-72; reprinted in Neary (1995) and Leamer (2001).

Ethier, W. (1974) "Some of the theorems of international trade with many goods and factors," *Journal of International Economics*, 4, 199-206; reprinted in Neary (1995).

- The Specific-Factors Model: Comparative statics with more factors than goods

Jones, R.W. (1971): "A three-factor model in theory, trade and history," in J.N. Bhagwati, R.W. Jones, R.A. Mundell and J. Vanek (eds.): *Trade, Balance of Payments and Growth: Essays in Honor of Charles C. Kindleberger*, Amsterdam: North-Holland, 3-21; reprinted in Neary (1995).

\*\* Neary, J.P. (1978): "Short-run capital specificity and the pure theory of international trade," *Economic Journal*, 88, 488-510; reprinted in Bhagwati (1987), Neary (1995) and Leamer (2001).

- The Gruen-Corden Model: General equilibrium complementarity

Gruen, F.H. and W.M. Corden (1970): "A tariff that worsens the terms of trade," in I.A. McDougall and R.H. Snape (eds.): *Studies in International Economics*, Amsterdam: North-Holland, 55-8; reprinted in Neary (1995).

- Application: The trade and wages debate

Neary, J.P. (1978): "Competition, trade and wages", May 2000, mimeo.

Lawrence, R.Z. and M.J. Slaughter (1993): "International trade and American wages: Great sucking sound or small hiccup?," *Brookings Papers on Economic Activity*, 161-210.

Davis, D.R. (1998a): "Does European unemployment prop up American wages? National labor markets and global trade," *American Economic Review*, 88, 478-494; reprinted in Leamer (2001).

### 3. Welfare and Trade Policy

\*\* Anderson, J.A. and J.P. Neary (2001): *Measuring the Restrictiveness of International Trade Policy*, mimeo., Chapters 2-4.

### 4. Strategic Trade Policy

- Export subsidies in oligopolistic markets

\*\* Brander, J.A. (1995): "Strategic trade policy," in G. Grossman and K. Rogoff (1995), 1395-1455.

\*\* Brander, J.A. and B.J. Spencer (1985): "Export subsidies and international market share rivalry," *Journal of International Economics*, 18, 83-100; reprinted in Neary (1995).

Eaton, J. and G.M. Grossman (1986): "Optimal trade and industrial policy under oligopoly," *Quarterly Journal of Economics*, 100, 383-406; reprinted in Grossman (1992) and Neary (1995).

Dixit, A. and G.M. Grossman (1986): "Targeted export promotion with several oligopolistic industries," *Journal of International Economics*, 21, 233-249; reprinted in Neary (1995).

\*\* Neary, J.P. and D. Leahy (2000): "Strategic trade and industrial policy towards dynamic oligopolies," *Economic Journal*, 110, April 2000, 484-508.

- Quotas in imperfectly competitive markets

Bhagwati, J.N. (1965): "On the equivalence of tariffs and quotas," in R.E. Caves, H.G. Johnson and P.B. Kenen (eds.): *Trade, Growth and the Balance of Payments: Essays in Honor of Gottfried Haberler*, Amsterdam: North-Holland, 53-67; reprinted in Neary (1995).

\*\* Harris, R. (1985): "Why voluntary export restraints are 'voluntary'," *Canadian Journal of Economics*, 18, 799-805; reprinted in Neary (1995).

## 5. International Trade under Perfect Competition

- Ricardian comparative advantage with many goods

Dornbusch, R., S. Fischer and P.A. Samuelson (1977): "Comparative advantage, trade and payments in a Ricardian model with a continuum of goods," *American Economic Review*, 67, 823-39; reprinted in Neary (1995).

- General proofs of 4 central theorems: Gains from trade, comparative advantage, Heckscher-Ohlin and vent for surplus

Dixit and Norman (1980), Chaps. 3 and 4 (esp. Sections 3.2, 4.1, 4.2)

\*\* Neary, J.P. and A.G. Schweinberger (1986): "Factor content functions and the theory of international trade," *Review of Economic Studies*, 53, 421-432.

Ethier, W. (1982): "The general role of factor intensity in the theorems of international trade," *Economics Letters*, 10, 337-42.

Helpman and Krugman (1985), chap. 1

Vanek, J. (1968): "The factor proportions theory: The n-factor case," *Kyklos*, 24, 749-756; reprinted in Neary (1995).

Leamer, E.E. (1980): "The Leontief Paradox, reconsidered," *Journal of Political Economy*, 88, 495-503; reprinted in Neary (1995).

Brecher, R.A. and E.U. Choudhri (1982): "The Leontief Paradox, continued," *Journal of Political Economy*, 90, 820-3; reprinted in Neary (1995).

- Empirical tests of Heckscher-Ohlin

Leamer, E.E., P.H. Bowen and L. Sveikauskas (1987): "Multicountry, multifactor tests of the factor abundance theory," *American Economic Review*, 77, 791-809; reprinted in Neary (1995).

Trefler, D. (1993): "International factor price differences: Leontief was right!", *Journal of Political Economy*, 101, 961-987.

Trefler, D. (1995): "The case of the missing trade and other mysteries," *American Economic Review*, 85, 1029-1046.

Davis, D., D. Weinstein, S. Bradford and K. Shimpo (1997): "Using international and Japanese regional data to determine when the factor abundance theory works," *American Economic Review*, 87, 421-446.

## **6. Trade Patterns under Imperfect Competition**

- Cross-hauling of identical products

Brander, J.A. (1981): "Intra-industry trade in identical commodities," *Journal of International Economics*, 11, 1-14; reprinted in Neary (1995).

Brander, J.A. and P.R. Krugman (1983): "A 'reciprocal dumping' model of international trade," *Journal of International Economics*, 15, 313-321; reprinted in Grossman (1992).

- Demand for differentiated products: Taste for diversity and ideal variety approaches

Helpman and Krugman (1985), Chaps. 6-13

Krugman, P.R. (1979): "Increasing returns, monopolistic competition and international trade," *Journal of International Economics*, 9, 469-479; reprinted in Bhagwati (1987).

- Inter- and intraindustry trade

Krugman, P.R. (1980): "Scale economies, product differentiation and the pattern of trade," *American Economic Review*, 70, 950-9; reprinted in Neary (1995).

\*\* Helpman, E. (1987): "Imperfect competition and international trade: Evidence from fourteen industrial countries," *Journal of the Japanese and International Economies*, 1, 62-81; reprinted in Neary (1995).

## **7. Economic Geography and Multinational Corporations**

- Increasing returns and agglomeration: Economic geography
- Factor mobility vs. intermediate goods as explanations of agglomeration.
- Multinational Corporations

\*\* Krugman, P.R. (1991): "Increasing returns and economic geography," *Journal of Political Economy*, 99, 483-99; reprinted in Neary (1995).

Krugman, P.R. and A.J. Venables (1995): "Globalization and the inequality of nations," *Quarterly Journal of Economics*, 110, 857-880.

Fujita, M., P.R. Krugman and A.J. Venables (1999): *The Spatial Economy: Cities, Regions and International Trade*, Cambridge, Mass.: MIT Press.

\*\* Neary, J.P. (2001): "Of hype and hyperbolas: Introducing the new economic geography", *Journal of Economic Literature*, 39:2, June, 536-561.

Neary, J.P. (2001): "Foreign direct investment and the single market", June 2001.