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Dynamics of International Trade

Advanced Studies Program in International Economic Policy Research

Kiel Institute for the World Economy, March 5-9, 2018

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Description This short course covers Ricardian models of international trade, with an emphasis on quantitative applications and dynamic implications. We will develop theoretical models, evaluate their ability to capture key stylized facts, show how to estimate their parameters, and demonstrate their use in performing policy experiments. The course involves a mix of theory, data, econometrics, and computation.

Topics The following list summarizes the topics and readings for each of the five days. We may deviate from this schedule if more time is required for a certain topic. The starred (*) readings will be the focus of each lecture.

1. (Monday) **Ricardian Foundations**

- Chipman, “A Survey of the Theory of International Trade: Part 1, The Classical Theory,” *Econometrica*, 1965: 477-519.
- *Eaton and Kortum, “Trade in Capital Goods,” *European Economic Review*, 2001: 1195-1235
- *Dornbusch, Fischer, and Samuelson, “Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods,” *American Economic Review*, 1977: 823-839.
- *Krugman, “A Model of Innovation, Technology Transfer, and the World Distribution of Income,” *Journal of Political Economy*, 1979: 253-266.

2. (Tuesday) **Multi-Country Model**

- *Eaton and Kortum, “Putting Ricardo to Work,” *Journal of Economic Perspectives*, 2012: 65-90.
- *Eaton and Kortum, “Online Appendix: Putting Ricardo to Work”, *Journal of Economic Perspectives*.
- *Eaton and Kortum, “Technology, Geography, and Trade,” *Econometrica*, 2002: 1741-1780.
- Alvarez and Lucas, “General Equilibrium Analysis of the Eaton-Kortum Model of International Trade,” *Journal of Monetary Economics*, 2007: 1726-1768.

3. (Wednesday) **Quantitative Applications**

- Donaldson, “Railroads and the Raj,” forthcoming *American Economic Review*.
- *Dekle, Eaton, and Kortum, “Unbalanced Trade,” *American Economic Review, Papers and Proceedings*, 2007: 351-355 (see appendix to *NBER Working Paper #13035*).
- Costinot and Rodriguez-Clare, “Trade Theory with Numbers: Quantifying the Consequences of Globalization,” chapter 4, *Handbook of International Economics*, 2014.

- Caliendo and Parro, “Estimates of the Trade and Welfare Effects of NAFTA,” *Review of Economic Studies*, 2014: 1-44.
- *Eaton, Kortum, Neiman, and Romalis, “Trade and the Global Recession,” *American Economic Review*, 2016: 3401-3438.
- *Eaton, Kortum, Neiman, and Romalis, “Appendix to Trade and the Global Recession,” Kortum’s web page.
- *Eaton, Kortum, and Neiman, “Illustrating the Methodology in EKNR (2015),” Kortum’s web page.
- Reyes-Heroles, “The Role of Trade Costs in the Surge of Trade Imbalances,” unpublished, 2016.
- Eaton, Kortum, and Neiman, “Obstfeld and Rogoff’s International Macro Puzzles: A Quantitative Assessment,” forthcoming *Journal of Economic Dynamics and Control*, 2016: 5-23.

4. (Thursday) **Dynamics and Profits**

- Grossman and Helpman, “Quality Ladders in the Theory of Growth,” *Review of Economic Studies*, 1991: 43-61.
- Kortum, “Research, Patenting, and Technological Change,” *Econometrica*, 1997: 1389-1419.
- *Bernard, Eaton, Jensen, and Kortum, “Plants and Productivity in International Trade,” *American Economic Review*, 2003: 1268-1290.
- Melitz, “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity,” *Econometrica*, 2003: 1659-1726.
- *Eaton and Kortum, “Technology, Trade, and Growth: A Unified Framework,” *European Economic Review: Papers and Proceedings*, 2001: 742-755

5. (Friday) **Technology Diffusion and Trade in Intangibles**

- Eaton and Kortum, “International Technology Diffusion: Theory and Measurement,” *International Economic Review*, 1999: 537-570.
- Ramondo and Rodríguez-Clare (2013) “Trade, Multinational Production, and the Gains from Openness,” *Journal of Political Economy*, 121: 273-322.
- Arkolakis, Ramondo, Rodríguez-Clare, Yeaple (2014) “Innovation and Production in the Global Economy,” conditionally accepted, *American Economic Review*.
- *Eaton and Kortum (2017) “Trade in Goods and Trade in Services.”