

36th ASP

TRADE POLICY ANALYSIS WITH GRAVITY MODELS

Dec 7 - 11, 2020

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(Drexel and Ifo)

Course Outline: The goal of the course is to serve as a practical guide for trade policy analysis with the structural gravity model, i.e., the workhorse model in international trade. The course traces the evolution of the gravity model from its initial a-theoretical applications to the most recent structural developments, e.g., dynamic gravity, and it offers a comprehensive and balanced approach between theory and empirics. Rigorous theoretical exposition is combined with a series of applications and empirical exercises, including estimation of the partial and the GE effects of FTAs and MFN tariffs within the same theory-consistent framework.

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| Session 1:
Monday, December 7
Type: | The Gravity Model of International Trade:
Theoretical Foundations.
Lecture. No computers required. |
| Session 2:
Tuesday, December 8
Type: | Estimating Structural Gravity: Challenges,
Solutions, and Applications.
Lecture. No computers required. |
| Session 3:
Wednesday, December 9
Type: | Hands-on Session on Estimating Structural
Gravity. Applications.
Lecture/ Hands-on. Lecture + Computers with Stata required. |
| Session 4:
Thursday, December 10
Type: | General Equilibrium Analysis with the Gravity
Model. Theory and Applications.
Lecture/ Hands-on. Lecture + Computers with Stata required. |
| Session 5:
Thursday, December 11
Type: | Hands-on Session on GE Analysis with the Structural Gravity model.
Applications. Nested Gravity: Dynamic Gravity Models.
Lecture/ Hands-on. Computers with Stata required + Lecture |

Course Readings

Required Readings. The course is developed around the following book and the accompanying two working papers, which are extended versions of the book's two main chapters. The book, along with data and Stata codes can be downloaded for free at <https://vi.unctad.org/tpa/web/vol2/vol2home.html>

[1] "An Advanced Guide to Trade Policy Analysis: The Structural Gravity Model" Yotov, Y. V., R. Piermartini, J. A. Monteiro, and M. Larch. Co-published by UNCTAD and WTO, 2016.

[2] "Estimating Trade Policy Effects with Structural Gravity", Piermartini, R. and Y. V. Yotov, 2016.

[3] "General Equilibrium Trade Policy Analysis with Structural Gravity", Larch, M. and Y. V. Yotov, 2016.

Highly Recommended Readings. The required readings cover a large number of important related studies and I refer the interested reader to the bibliography sections of the above papers. The following are some influential academic papers that are most closely related to the course material.

[1] "Gravity with Gravitas: A Solution to the Border Puzzle" Anderson, J. E., and E. van Wincoop. 2003. *American Economic Review*, 93(1): 170–192.

[2] "Technology, Geography, and Trade" Eaton, J. and S. Kortum, 2002. *Econometrica*, vol. 70(5), pages 1741-1779.

[3] "Estimates of the Trade and Welfare Effects of NAFTA" Caliendo L., and F. Parro *The Review of Economic Studies*, Volume 82, Issue 1, 1 January 2015, Pages 1–44.

[4] "The Changing Incidence of Geography" Anderson, J. E. and Y. V. Yotov, 2010. *American Economic Review*, vol. 100(5), pages 2157-86.

[5] "Distorted Gravity: The Intensive and Extensive Margins of International Trade" Thomas Chaney. *American Economic Review*, 98(4), pp. 1707-21.

[6] "The Log of Gravity" Santos Silva, J.M.C. and S. Tenreyro, 2006. *Review of Economics and Statistics*, 88(4): 641–658.

[7] "Estimating General Equilibrium Trade Policy Effects: GE PPML" Anderson, J. E., M. Larch, and Y. V. Yotov, 2015. CESifo Working Paper Series 5446.

Highly Recommended Survey Readings. The following are excellent surveys that complement the main reading materials for the course.

[1] "The Gravity Model" Anderson, J.E. 2011. *Annual Review of Economics*, 3:133-60.

[2] "Gravity for Dummies and Dummies for Gravity Equations" Baldwin, R. and D. Taglioni, 2006. NBER Working Papers 12516.

[3] "Trade Theory with Numbers: Quantifying the Consequences of Globalization" Costinot, A., and A. Rodríguez-Clare, 2014. in the Handbook of International Economics Vol. 4, eds. G. Gopinath, E. Helpman, and K. Rogoff.

[4] "Gravity Equations: Workhorse, Toolkit, and Cookbook" Head, K. and T. Mayer, 2014. in the Handbook of International Economics Vol. 4, eds. G. Gopinath, E. Helpman, and K. Rogoff.

[5] "Practical Guide to Trade Policy Analysis" World Trade Organization and United Nations Conference on Trade and Development, 2012.

Further details on course can be found at: <http://yotoyotov.com/gravity.html>