Course Overview

Title: International Trade: Theory and Policy
Hours: 50
Number of Credits: 5
Prerequisites: Introductory Economics (Micro and Macro)
Type of Course: ECON 410 / 510
Term: Winter, Spring, Summer
Language: English
Instructor: Manish Singh
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Course Description

The principal objective of this course is to understand the nature and significance of trade - flows of goods and services - between countries. This task will involve asking why these flows arise in the first place and what effects they have on the countries involved (usually, two in our analyses). Beyond that, we shall also ask whether, and under what conditions, these effects are good, bad or indifferent and what policies might therefore be deployed to improve or alleviate the situation - and in turn, what effects these policies may have on the other country (ies).

Then, following the mainly theoretical analysis, we will look at trade policies in historical perspective, particularly the evolution of the world trading system under the General Agreement on Tariffs and Trade (GAIT) and its successor, the World Trade Organization (WTO). Much of the history of trade relations over this Post-World War II period has been a struggle between national commitments to free trade and more immediate short run (SR) domestic considerations.

Learning Outcomes
The aim of this course is to introduce students to the study of International Economics: trends, theories, policies, and events. The goals of the course include understanding the reasons behind international trade, gains and losses from trade, distributional aspects of trade, major trade flows and instruments and politics of trade policy in the context of globalization.

Assessment Criteria

Midterm examination = 30%
Final examination = 40%
Class presentation and discussion paper = 30%

Sessions

INTRODUCTION

What Is International Economics About?
International Economics: Trade and Money
  • K-O, Chapter 1

After the usual course introduction, we will probably spend the next session(s) talking about the history of world trade, beginning with the Roman Empire, to Marco Polo and Christopher Columbus, to the mercantilist policies of the British and the subsequent creation of the USA, to the 19th and early twentieth centuries. The emphasis will be on the importance of trade in shaping world history, up to the present day and likely beyond.

PART I. INTERNATIONAL TRADE THEORY

1. World Trade: An Overview
   Who Trades with Whom? Map of the World Trade
   The Changing Pattern of World Trade
   The Gravity Model
     • K-O, Chapter 2
     • F-T, Chapter 1

Using the disastrous trade policies of the economic depression of the 1930’s as a starting point, we motivate our theoretical analysis of trade beginning

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2. Labor Productivity and Comparative Advantage: The Ricardian Model
   The Concept of Comparative Advantage
   A One-Factor Economy
   Trade in a One-Factor World
   Misconceptions About Comparative Advantage
   Empirical Evidence on the Ricardian Model
     • K-O, Chapter 3

3. Resources, Comparative Advantage, and Income Distribution
   A Model of a Two-Factor Economy
   Effects of International Trade Between Two-Factor Economies
   The Political Economy of Trade: A Preliminary View
   Empirical Evidence on the Heckscher-Ohlin Model
   A Standard Model of a Trading Economy
   International Transfers of Income: Shifting of the RD Curve
   Tariffs and Export Subsidies: Simultaneous Shifts in RS and RD
     • K-O, Chapter 4
     • K-O, Chapter 5

4. Economies of Scale, Imperfect Competition, and International Trade
   Economies of Scale and Market Structure
   The Theory of Imperfect Competition
   Monopolistic Competition and Trade
Dumping
The Theory of External Economies
External Economies and International Trade
Economic Geography and Interregional Trade
• K-O, Chapter 6

5. **International Factor Movements**
International Labor Mobility
International Borrowing and Lending
Direct Foreign Investment and Multinational Firms
• K-O, Chapter 7
• David Card, “Is the New Immigration Really so Bad?”, The Economic Journal, 115, F300-F323, 2005

Being well-versed at this point in orthodox theory, we examine arguments against - or at least qualifying - the case for free trade. Much of this is SR in nature, some of it is "radical", and some of it is of a more fundamental long-run (LR) nature. Also, some of it is valid, economically speaking, and some is not, which we will try to distinguish.

**PART II. INTERNATIONAL TRADE POLICY**

1. **The Instruments of Trade Policy**
Basic Tariff Analysis
Costs and Benefits of a Tariff
Other Instruments of Trade Policy
The Effects of Trade Policy: A Summary
• K-O, Chapter 8
• F-T, Chapter 8
**Import tariffs and quotas under imperfect competition**

- Tariffs and Quotas with Home Monopoly
- Infant Industry Protection
- Tariffs with Foreign Monopoly

- F-T, Chapter 9

In the remainder of the course, we will talk about real-world events during the so-called "post-war" period (i.e. after 1945 up to the present). We will start with the problem of restoring international trade after the war (WWII that is), leading to the creation of the General Agreement on Tariffs and Trade (GATT). We then follow the GATT's progress - up and down and maybe up again - to the present era in which it has metamorphosed into the World Trade Organization (WTO). As you might expect, the U.S. economy and U.S. policies have had a big effect on this history.

This will probably take up weeks 9 through 10; therefore, in the last week or so we will, hopefully, be able to look at two other important current issues: the creation of trading blocs, particularly the European Union (EU), but also NAFTA; and the role of trade (vs. "aid") in economic development.

**Student Responsibilities and Requirements**

**Responsibilities:** Students are responsible for attending all classes, participating responsibly in class discussions and completing all class assignments. Students are expected to read all chapters before they are presented in class.

**Requirements:** basic concepts of mathematics.
Main Readings


Selected Readings & Texts

- International Economics - Dennis Appleyard, Steven Cobb, Alfred Field
- World Trade and Payments - An Introduction (10th, Tenth Edition) - By Caves, Frankel, & Jones
- International Economics, 11th Edition - Dominick Salvatore

Further Readings

- Baldwin and Richardson (eds), International Trade and Finance: Readings
- Bhagwati, J. N. Protectionism. (ed), International Trade: selected readings
- Dornbusch, Open-Economy Macroeconomics
- Gilpin, The Political Economy of international Relations
- Knox and Agnew, The Geography of the World Economy
- Pearson, United States Trade Policy
- Pomeranz and Topik, The World that Trade Created
- Spero, The Politics of International Economic Relations