

Economics 166: International Trade

Spring 2008

Instructor

Professor Kalina Manova
Office: Landau 336
Office hours: Thursdays 3:10-5pm
Email: manova@stanford.edu
Note: Please put Econ 166 in the subject line

Teaching Assistant

TBA
Office hours: TBA
Email: TBA

Lecture: Tuesdays and Thursdays 9-10:50am in 420-041

Webpage: <http://coursework.stanford.edu>

Course Description

This course will examine the causes and consequences of international trade and investment. We will investigate why nations trade, what they trade, and who gains from international trade. We will explore the effects of trade on economic growth and wage inequality, and discuss the role of multinational corporations, foreign direct investment and international migration. Finally, we will analyze countries' motives for regulating international trade and the effects of such policies on economic welfare. The aim of the class is to give students the tools necessary to read critically and understand discussions of past and current events in the world economy found in popular media such as *The Economist* magazine, *The Wall Street Journal* and the *Financial Times*. To that end, we will study selected basic models in international trade, discuss their practical relevance, and apply them to questions of current interest to policy makers, business leaders and the general public.

Course Prerequisites

Economics 50 and 51. We will use micro-economics tools and models that you have learned in these courses, and it is important that you are familiar with and feel comfortable using and manipulating them. If you decide to take this class, I will assume this to be the case. I will also assume familiarity with basic algebra and calculus.

Grading Policy

Grades will be based on problem sets (20%), an in-class midterm (30%), and a final exam (50%). Six problem sets will be distributed over the semester, of which only your best 5 scores will contribute to the final grade. Late problem sets will not be accepted. Attendance at both the midterm and final exam is mandatory, and no make-up exams will be offered. In marginal cases, class attendance and participation will be taken into account.

Midterm: Thursday, May 1, 9-10:50am. Please let me know *as soon as possible* if you cannot make this date.

Final: Monday, June 9, 12:15-3:15pm. If you cannot make this time, do NOT take this class.

Required Text

Paul Krugman and Maurice Obstfeld, *International Economics: Theory and Policy*, 7th edition, Addison Wesley (available at the Stanford Bookstore).

Note: Cheaper copies may be available on the internet (for instance, check www.amazon.com or www.amazon.com.uk for used and new copies).

Discussions

Where noted, once a week the last 15 minutes of class will be devoted to general discussion of a set topic of current interest. The discussion will be based on specifically assigned readings, which you should complete before coming to class. I will call on students at random to participate in the discussion (cold calling). What you say in the discussion will not affect your grade. Unexplained absences, however, may count against you.

Frequently asked questions

When will lecture notes be posted? In general, lecture notes will be posted online the night before class. You are welcome to bring print-outs to class and take notes on them. Note that class attendance is mandatory, and reading the lecture notes is no substitute for attending.

Can my friends and I work together on the problem sets? Yes. The problem sets are intended to be learning experiences and you are encouraged to work with your classmates; however, you must submit your own problem set solutions. You may find it useful to attempt the problems on your own before working with others. Doing the problem sets is the best way to prepare for the exams. If you copy another student's answers without understanding the material, your exam performance will suffer.

How are the problem sets graded? The problem sets are graded on a scale of check plus, check, check minus and zero (if no problem set is handed in or it is submitted late). Problem set solutions will be posted on the course web page after they are collected and evaluated.

What material will be covered on the midterm and final exam? The midterm will cover the material from the first half of the quarter. The final will cover material from the entire quarter. Exams will cover all lecture material (including any extensions covered in section) and all required reading. The specific readings that will be required for each exam will be announced well ahead of each exam date.

What do I do if a mistake was made in grading my exam? After the exam is returned, you will have one week to submit a written account of your problem or concern to the TA. Beyond this deadline, no complaints will be entertained. Note that regrades will not be confined to the disputed part of the exam.

Course Outline and Reading List

Readings in the textbook are abbreviated as "K-O". All other required readings will be available online on the class webpage.

If you are particularly interested in a topic, you are invited to explore the recommended readings. Some recommended readings come from *Pop Internationalism* by Paul Krugman, *Free Trade Under Fire* (2nd edition) by Douglas Irwin, *International Trade* by Robert Feenstra and Alan Taylor, and *Intermediate Microeconomics* by Hal Varian. These books are on reserve in the library. Other recommended readings will be made available through links on the class webpage. The textbook by James Markusen et al. *International Trade* is out of print but is available online at <http://spot.colorado.edu/~markusen/textbook.html>.

Tuesday, April 1. Lecture 1: Introduction

Required reading:

- K-O Chapter 1 (p.1-6) and Chapter 2
- Paul Krugman: "What do Undergrads Need to Know about Trade?" *American Economic Review*, May 1993, p.23-26 (also in *Pop Internationalism*) [link](#)

Recommended reading:

- Douglas Irwin: *Free Trade Under Fire*, Chapter 1

Thursday, April 3. Lecture 2: Endowment economies I

Recommended reading:

- James Markusen et al: *International Trade*, Chapter 3 (a review of properties of indifference curves and utility maximization) [link](#)
- Hal Varian: *Intermediate Microeconomics*, 7th edition, Chapters 2-6

Tuesday, April 8. Lecture 3: Endowment economies II

Recommended reading:

- Hal Varian: *Intermediate Microeconomics*, 7th edition, Chapters 31-32
- Douglas Irwin (2005), "The Welfare Cost of Autarky: Evidence from the Jeffersonian Trade Embargo," *Review of International Economics* 13 (4), p.631-645 [link](#)
- Daniel Bernhofen and John Brown (2004), "A Direct Test of the Theory of Comparative Advantage: The Case of Japan," *Journal of Political Economy* 112 (1), p.48-67 [link](#)

Thursday, April 10. Lecture 4: Ricardo I

Discussion 1: How does IT outsourcing affect the U.S.?

- Mary Amity and Shang-Jin Wei: "Demystifying Outsourcing," *Finance and Development*, December 2004, p.36-39 [link](#)
- Diana Farrell: "U.S. Offshoring: Small Steps to Make It Win-Win," in *The Economists' Voice*, 2007, p.43-50 [link](#)

Required reading:

- K-O Chapter 3 (p.24-32)
- Paul Krugman: "Ricardo's Difficult Idea" [link](#)

Recommended reading:

- Paul Samuelson: "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization," *Journal of Economic Perspectives*, Summer 2004, p.135-146 [link](#)
- James Markusen et al: *International Trade*, Chapter 7 [link](#)

Tuesday, April 15. Lecture 5: Ricardo II**Problem Set 1 due****Required reading:**

- K-O Chapter 3 (p.33-47)

Recommended reading:

- James Markusen et al: *International Trade*, Chapter 7 [link](#)
- Bela Belassa: "An Empirical Demonstration of Classical Comparative Cost Theory," *Review of Economics and Statistics* 45 (3), p.231-238 [link](#)

Thursday, April 17. Lecture 6: The specific factors model and the trade and wages debate**Discussion 2: Does China's growth hurt the U.S.?**

- Paul Krugman: "Does Third World Growth Hurt First World Prosperity?" *Harvard Business Review*, July-August 1994 (also in *Pop Internationalism*) [link](#)
- Martin Wolf: "We Must Act to Share the Gains with Globalization's Losers," the *Financial Times*, 2006 [link](#)

Recommended reading:

- Paul Krugman and Robert Lawrence: "Trade, Jobs, and Wages," *Scientific American*, April 1994 (also in *Pop Internationalism*) [link](#)
- Richard Freeman: "Are Your Wages Set in Beijing?" *Journal of Economic Perspectives*, Summer 1995 [link](#)
- Hal Varian: *Intermediate Microeconomics*, 7th edition, Chapter 18
- Douglas Irwin: *Free Trade Under Fire*, Chapter 3
- Dani Rodrik: *Has Globalization Gone Too Far?*, Chapter 2

Tuesday, April 22. Lecture 7: Hecksher-Ohlin Model I**Problem Set 2 due****Required reading:**

- K-O Chapter 4 (p.50-61)

Recommended reading:

- Frédéric Bastiat: "Petition of the Candle Makers," *Economic Sophisms*, 1845 [link](#)
- James Markusen et al: *International Trade*, Chapter 8 [link](#)
- Hal Varian: *Intermediate Microeconomics*, 7th edition, Chapter 20

Thursday, April 24. Lecture 8: Hecksher-Ohlin Model II**Discussion 3: Are sweatshops good for workers in developing countries?**

- Paul Krugman: "In Praise of Cheap Labor," *Slate*, March 1997 [link](#)
- Nicholas Kristof: "In Praise of the Maligned Sweatshop," *The New York Times*, 2006 [link](#)

Required reading:

- K-O Chapter 4 (p.61-66 and p.68-76)

Recommended reading:

- James Markusen et al: *International Trade*, Chapter 8 [link](#)
- Hal Varian: *Intermediate Microeconomics*, 7th edition, Chapter 20

Tuesday, April 29. Lecture 9: The Standard Trade Model

Problem Set 3 due

Required reading:

- K-O Chapter 5

Recommended reading:

- Douglas Irwin: *Free Trade Under Fire*, Chapter 2
- Alan Deardorff: "Benefits and Costs of Following Comparative Advantage," 1998 [link](#)

Thursday, May 1. MIDTERM EXAM

Tuesday, May 6. Lecture 10: Increasing Returns I

Required reading:

- K-O Chapter 6 (p.110-121)

Recommended reading:

- Paul Krugman: "Talking About a Revolution," *Slate*, August 1999 [link](#)

Thursday, May 8. Lecture 11: Increasing Returns II

Discussion 4: Did the U.S., Canada and Mexico gain from NAFTA?

- Robert Feenstra and Alan Taylor: *International Trade*, Chapter 6 p.199-209 [link](#)
- "Intraindustry Trade in Action: The North American Auto Pact of 1964," K-O p.130-131

Required reading:

- K-O Chapter 6 (p.121-131 and 136-143)

Recommended reading:

- K-O Chapter 6 (p.131-136)
- Hal Varian: *Intermediate Microeconomics*, 7th edition, Chapters 18 and 24

Tuesday, May 13. Lecture 12: Migration

Problem Set 4 due

Required reading:

- K-O Chapter 7 (p.148-154)
- Robert Feenstra and Alan Taylor: *International Trade*, Chapter 5 (p.141-161) [link](#)

Recommended reading:

- George Borjas, Richard Freeman and Lawrence Katz: "Searching for the Effect of Immigration on the Labor Market," *American Economic Review*, May 1996, p.246-251 [link](#)

Thursday, May 15. Lecture 13: Multinational Firms and FDI I

Discussion 5: FDI in China: cost advantages and toy recalls

- "Foreign Direct Investment in China - Good Prospects for German companies?" *Deutsche Bank Research Paper*, August 2004, p.1-6 [link](#)
- "Toy Recall Shows Challenge China Poses to Partners," *The Wall Street Journal*, August 2007 [link](#)

Required reading:

- K-O Chapter 7 (p.155-164)

Recommended reading:

- James Markusen: "The Boundaries of Multinational Enterprises and the Theory of International Trade," *Journal of Economic Perspectives*, Spring 1995 [link](#)
- Robert Feenstra: "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, Fall 1998 [link](#)

Tuesday, May 20. Lecture 14: Multinational Firms and FDI II**Required reading:**

- Robert Feenstra and Alan Taylor: *International Trade*, Chapter 5 (p.161-168) [link](#)

Recommended reading:

- Robert Feenstra and Alan Taylor: *International Trade*, Chapter 5 (p.169-179) [link](#)
- Lael Brainard: "An Empirical Assessment of the Proximity-Concentration Trade-Off Between Multinational Sales and Trade," *American Economic Review*, September 1997, p.520-544 [link](#)
- Drusilla Brown, Alan Deardorff and Robert Stern: "The Effects of Multinational Production on Wages and Working Conditions in Developing Countries," *NBER Working Paper* No.9669, 2003 [link](#)

Thursday, May 22. Lecture 15: Trade Policy**Problem Set 5 due****Discussion 6: Should trade policy be used as a tool for domestic redistribution?**

- White House statement on the steel industry [link](#)
- "Just Say No," *The Economist*, March 2002 [link](#)

Required reading:

- K-O Chapter 8

Recommended reading:

- Robert Feenstra: "How Costly is Protectionism?" *Journal of Economic Perspectives*, Summer 1992 [link](#)
- Paul Krugman: "Is Free Trade Passe?" *Journal of Economic Perspectives*, Fall 1987 [link](#)

Tuesday, May 27. Lecture 16: Political Economy of Trade Policy, WTO and International Trade Agreements**Required reading:**

- K-O Chapter 9

Recommended reading:

- Robert Baldwin: "The Political Economy of Trade Policy," *Journal of Economic Perspectives*, Fall 1989 [link](#)
- Douglas Irwin: *Free Trade Under Fire*, Chapters 5 and 6
- Alan Deardorff and Robert Stern: "What the Public Should Know about Globalization and the World Trade Organization," July 2000, Part III [link](#)
- Paul Krugman: "The Uncomfortable Truth About NAFTA," *Foreign Affairs*, November 1993 (also in *Pop Internationalism*) [link](#)

Thursday, May 29. Lecture 17: Trade and Development

Discussion 7: Should developing countries embrace free trade?

- Dani Rodrik: "Globalization for Whom?" *Harvard Magazine*, July-August 2002 [link](#)
- "More or Less equal?" *The Economist*, March 2004 [link](#)

Required reading:

- K-O Chapter 10

Recommended reading:

- Douglas Irwin: "Did Late Nineteenth-Century U.S. Tariffs Promote Infant Industries?" *Journal of Economic History* 60, p.335-360 [link](#)
- Jeffrey Frankel and David Romer: "Does Trade Cause Growth?" *American Economic Review*, June 1999, p.379-399 [link](#)
- Pinelopi Goldberg and Nina Pavcnik: "Distributional Effects of Trade Liberalization in Poor Countries," November 2005 [link](#)

Tuesday, June 3. Review for Final Exam

Problem Set 6 due

Monday, June 9. FINAL EXAM