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Winter 2007-08
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Economics 266: International Economics II

This course will cover core theoretical and empirical topics in International Trade. Students who wish to complete the field requirements in international economics must take Economics 265 (International Economics I—Professor Doireann Fitzgerald) and 266 (International Economics II), and are encouraged to take 267 (Topics in International Economics—Professor Kalina Manova) which is offered this Spring and will go into further depth on a number of the trade topics introduced in this course. The course requirements for Economics 266 are two: (i) a full-class presentation of one of the papers on the course reading list, worth 40 points; and (ii) an original research paper on a topic related to the course material and approved by me, worth 60 points.

A course outline and listing of the papers to be covered follows (“bullets” denote papers that will receive significant coverage in class). All bulleted papers can be found on e-reserve. The following texts recommended, but not required:

Bagwell, K. and R.W. Staiger, **The Economics of the World Trading System**, MIT Press, 2002. (Referred to below as **B&S**).

Dixit, A.K. and V. Norman, **Theory of International Trade**, Cambridge University Press, 1980. (Referred to below as **D&N**).

Feenstra, R.C., **Advanced International Trade: Theory and Evidence**, Princeton University Press, 2004. (Referred to below as **F**).

Grossman, G. and K. Rogoff (eds.), **Handbook of International Economics, Volume 3**, North-Holland, 1995. (Referred to below as **G&R**).

Helpman, E. and P. Krugman, **Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition, and the International Economy**, MIT Press, 1985. (Referred to below as **H&K**).

Jones, R.W. and P.B. Kenen, (eds.), **Handbook of International Economics, Volume 1**, North-Holland, 1984. (Referred to below as **J&K**).

Rivera-Batiz, L. A. and M.A. Oliva, **International Trade: Theory, Strategies, and Evidence**, Oxford University Press, 2003. (Referred to below as **R&O**)

These books are available on reserve in the library. However, those intending to do research in this field may want to have these books in their personal libraries.

Course Outline

I. Comparative Advantage, Gains from Trade, International Equilibrium and Ricardo

- **D&N**, Ch. 1, pp. 1-8, Ch. 3, pp. 65-85 and Ch. 4, pp. 93-96. **F**, pp. 1-4.
- Dornbusch, R., S. Fischer, and P.A. Samuelson, "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," **AER** (Dec. 1977).
- Eaton, J. and S. Kortum, "Technology, Geography, and Trade," **Eca** (Sept. 2002).
- Deardorff, A.V., "The General Validity of the Law of Comparative Advantage," **JPE** (Oct. 1980).
- Dixit, A. and V. Norman, "Gains from Trade without Lump-Sum Compensation," **JIE** (Aug. 1986).

II. Factor Endowment Models

A. Heckscher-Ohlin

- **D&N**, Ch. 1, pp. 8-19, Ch. 2, Ch. 4. Pp. 96-102, 106-122. **F**, Ch. 1-4.
- Jones, R., "The Structure of Simple General Equilibrium Models," **JPE** (Dec. 1965).
- Deardorff, A.V. and R.W. Staiger, "An Interpretation of the Factor Content of Trade," **JIE** (Feb. 1988).
- Trefler, D., "The Case of the Missing Trade and other Mysteries," **AER** (Dec. 1995).
- Davis, D. and D. Weinstein, "An Account of Global Factor Trade," **AER** (Dec. 2001).
- Zhu, S.C. and D. Trefler, "Trade and Inequality in Developing Countries: A General Equilibrium Analysis," **JIE** (Jan. 2005).

B. Ricardo-Viner

- **D&N**, Ch. 4, pp. 102-106, 122-125. **F**, pp. 72-75.
- Neary, J.P., "Short-Run Capital Specificity and the Pure Theory of International Trade," **EJ** (Sept. 1978).
- Matsuyama, K. "A Simple Model of Sectoral Adjustment," **REStud** (April 1992).
- Magee, C., C. Davidson and S. Matusz, "Trade, Turnover and Tithing," **JIE** (May 2005).
- Artuc, E., S. Chaudhuri and J. McLaren, "Delay and Dynamics in Labor Market Adjustment: Simulation Results," mimeo, U. of Virginia (Sept. 2003).

C. Variations

- Deardorff, A.V., "An Exposition and Exploration of Krueger's Trade Model," **CJE** (Nov. 1984).
- Grossman, G. M. and G. Maggi, "Diversity and Trade," **AER** (Dec. 2000).
- Ohnsorge, F. and D. Trefler, "Sorting it Out: International Trade and Protection with Heterogeneous Workers," **JPE**, October 2007.

III. Monopolistic Competition and Trade

H&K, Ch. 1-11.

Krugman, P., "Increasing Returns, Imperfect Competition and the Positive Theory of International Trade," in **G&R**, Ch. 24.

- Krugman, P., "Increasing Returns, Monopolistic Competition, and International Trade," **JIE** (Nov. 1979).
- Helpman, E., "International Trade in the Presence of Product Differentiation, Economies of Scale, and Imperfect Competition: A Chamberlin-Heckscher-Ohlin Approach," **JIE** (1981).

IV. Trade and Growth

Grossman, G.M. and E. Helpman, "Technology and Trade," in **G&R**, Ch. 25.

Seegerstrom, P., T. Anant and E. Dinopoulos, "A Schumpeterian Model of the Product Life Cycle," **AER** (Dec. 1990).

Grossman, G.M. and E. Helpman, "Quality Ladders in the Theory of Growth," **REStud** (January 1991).

- Antras, Pol, "Incomplete Contracts and the Product Cycle," **AER** (Sept. 2005).

V. Basic Theory of Trade Policy

Dixit, A., "Tax policy in open economies," in A. Auerbach and M. Feldstein (eds.), **Handbook of Public Economics**, North Holland, 1985.

- Dixit, A., "Strategic aspects of trade policy," in T. Bewley (ed.), **Advances in Economic Theory: Fifth World Congress**, New York: Cambridge University Press.

VI. Strategic Trade Policy

- Brander, J.A., "Strategic Trade Policy," in **G&R**, Ch. 27. **F**, Ch. 7-8.
 - Brander, J.A. and B.J. Spencer, "Export Subsidies and International Market Share Rivalry," **JIE** (Feb. 1985).
- Eaton, J. and G.M. Grossman, "Optimal Trade and Industrial Policy under Oligopoly," **QJE** (May 1986).
- Maggi, G., "Strategic Trade Policies with Endogenous Mode of Competition," **AER** (March 1996).
- Bagwell, K. and R. W. Staiger, "The Sensitivity of Strategic and Corrective R&D Policy in Oligopolistic Industries," **JIE** (Feb. 1994).

VII. The Political Economy of Trade Policy

- Rodrik, D., "Political Economy of Trade Policy," in **G&R**, Ch. 28. **F**, pp. 300-315.
- Mayer, Wolfgang, "Endogenous Tariff Formation," **AER** (Dec. 1984).
- Dutt, P. and D. Mitra, "Endogenous Trade Policy through Majority Voting: An Empirical Investigation," **JIE** (Oct. 2002).
- Grossman, G.M. and E. Helpman, "Protection for Sale," **AER** (Sept. 1994).
- Goldberg, P. K. and G. Maggi, "Protection for Sale: An Empirical Investigation," **AER** (Dec. 1999).

VIII. The Economics of Trade Agreements

A. Overview and Institutional Background

- Staiger, R.W., "International Rules and Institutions for Trade Policy," in **G&R**, Ch. 29.
- **B&S**, Ch. 1-3.

B. The Purpose of Trade Agreements

- Bagwell, K. and R.W. Staiger, "An Economic Theory of GATT," **AER** (March 1999).
- Maggi, G. and A. Rodriguez-Clare, "The Value of Trade Agreements in the Presence of Political Pressures," **JPE** (June 1998).
- Staiger, R.W. and G. Tabellini, "Discretionary Trade Policy and Excessive Protection," **AER** (Dec. 1987).
- Antras, P. and R.W. Staiger, "Offshoring and the Value of Trade Agreements," mimeo, November 2007.
- Ossa, R., "A 'New Trade' Theory of GATT/WTO Negotiations," mimeo, November 2007.
- Broda, C., Limao, N. and D. Weinstein, "Optimal Tariffs: The Evidence," **AER**, forthcoming.
- Bagwell, K. and R.W. Staiger, "What do Trade Negotiators Negotiate About?: Empirical Evidence from the World Trade Organization," NBER WP No. 12727, December 2006.

C. Reciprocity and MFN

- **B&S**, Ch. 4,5. **F**, pp. 315-335.
- Bagwell, K. and R.W. Staiger, "An Economic Theory of GATT," **AER** (March 1999).
- Schwartz, W. F. and A.O. Sykes, "The Economics of the Most Favored Nation Clause," in J.S. Bhandari and A.O. Sykes (eds.), **Economic Dimensions in International Law** (Cambridge University Press) 1997.
- Bagwell, K. and R.W. Staiger, "Multilateral Trade Negotiations, Bilateral Opportunism and the Rules of GATT/WTO," **JIE** (Dec. 2005).

- Bagwell, K. and R.W. Staiger, “Backward Stealing and Forward Manipulation in the WTO,” mimeo, March 2007.
 - Bown, C., “Trade Policy under the GATT/WTO: Empirical Evidence of the Equal Treatment Rule,” **CJE** (August 2004).
 - Limao, N., “Preferential Trade Agreements as Stumbling Blocks for Multilateral Trade Liberalization—Evidence for the U.S.,” **AER** (September 2006).
 - Subramanian, A. and S.J. Wei, “The WTO Promotes Trade, Strongly but Unevenly,” **JIE** (forthcoming).
- D. Preferential Agreements**
- **B&S**, Ch. 7.
 - Bagwell, K. And R.W. Staiger, “Reciprocity, Non-discrimination and Preferential Agreements in the Multilateral Trading System,” **EJPE**, June 2001.
 - Aghion, P., Antras, P. and E. Helpman, “Negotiating Free Trade,” **JIE** (forthcoming).
- E. Enforcement and Dispute Settlement**
- **B&S**, Ch. 6.
 - Lawrence, R.Z., **Crimes & Punishments? Retaliation under the WTO**, Institute for International Economics, Washington, D.C. (2003).
 - Maggi, G., “The Role of Multilateral Institutions in International Trade Cooperation,” **AER** (March 1999).
 - Bagwell, K., P.C. Mavroidis and R.W. Staiger, "The Case for Auctioning Countermeasures in the WTO," **JIE** (November 2007).
 - Bown, C.P., “On the Economic Success of GATT/WTO Dispute Settlement,” **REStat** (August 2004).
- F. Safeguards**
- **B&S**, Ch. 6.2.1.
 - Bagwell, K. and R. W. Staiger, “A Theory of Managed Trade,” **AER** (Sept. 1990).
 - Bagwell, K. and R. W. Staiger, “Enforcement, Private Political Pressure, and the GATT/WTO Escape Clause,” **JLS** (June 2005).
- G. Subsidies**
- **B&S**, Ch. 10.
 - Sykes, A.O., “The Economics of WTO Rules on Subsidies and Countervailing Measures,” John M. Olin Law & Economics WP No 186 (May 2003).
 - Bagwell, K. and R. W. Staiger, “Strategic Trade, Competitive Industries and Agricultural Trade Disputes,” **E&P** (July 2001).
 - Bagwell, K. and R. W. Staiger, “Will International Rules on Subsidies Disrupt the World Trading System?,” **AER** (September 2006).
- H. Dumping**
- **F**, Ch. 7.

Staiger, R.W., and F.A. Wolak, "Measuring Industry Specific Protection: Antidumping in the United States," **BPEA: Microeconomics**, 1994.

- Blonigen, B. and J.H. Park, "Dynamic Pricing in the Presence of Antidumping Policy: Theory and Evidence," **AER** (March 2004).

I. Standards and Sovereignty

- **B&S**, Ch. 8,9.
- Bagwell, K. and R.W. Staiger, "Domestic Policies, National Sovereignty and International Economic Institutions," **QJE** (May 2001).
- Ederington, J., "International Coordination of Trade and Domestic Policies," **AER** (Dec. 2001).
- Battigalli, P. and G. Maggi, "International Agreements on Product Standards: An Incomplete-Contracting Theory," mimeo, Princeton University (Feb. 2003).
- Bagwell, K. and R.W. Staiger, "National Sovereignty in an Interdependent World," NBER WP No. 10249 (January 2004).

J. Trade Agreements as Incomplete Contracts

- Horn, H., Maggi, G., and R.W. Staiger, "Trade Agreements as Endogenously Incomplete Contracts," NBER WP No. 12745, December 2006.
- Maggi, G. And R.W. Staiger, "On the Role and Design of Dispute Settlement Procedures in International Trade Agreements," mimeo, January 2008.