

Advanced International Trade

University of Oklahoma

Class information: Course number: Econ 5613-001, Fall 2008
Class meets: Mon and Wed: 3:00 - 4:15 PM
Classroom: Hester Hall, 213B
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Course Description: This course is designed to give rigorous background knowledge at a graduate level, read and discuss the contemporary literature, and investigate issues in the theory of international trade. The course will cover the determinants of trade pattern, the role of multinational corporations, and the relationship between trade and growth and trade policies. A working knowledge of multivariable calculus and linear algebra is required. It will assume that students have taken the graduate course in micro-economic theory or have the equivalent background.

Required Textbook: *Advanced International Trade: Theory and Evidence* by Robert Feenstra. 2004 Princeton Press, ISBN 0-691-11410-2

Recommended Textbook: *Lectures on International Trade*, 2nd edition, by Bhagwati, Panagariya and Srinivasan (BPC), The MIT Press, 1998, ISBN 0-262-02443-8. (BPS)

If you plan to work in the area, you might want to buy some or all of these books since they are used a lot.

Bagwell, K. and R. Staiger, *The Economics of the World Trading System*, MIT Press, 2002.
Bhagwati, J.N. (ed.), *International Trade: Selected Readings*, MIT Press, 1985.
Dixit, A.K. and V. Norman, *Theory of International Trade*, Cambridge University Press, 1980.
Grossman, G. and E. Helpman, *Interest Groups and Trade Policy*, Princeton and Oxford, UK: Princeton University Press, 2002.
Grossman, G. and E. Helpman, *Innovation and Growth in the Global Economy*, MIT Press, 1991.
Helpman, E. and P. Krugman, *Market Structure and Foreign Trade*, MIT Press, 1984.
Helpman, E. and P. Krugman, *Trade Policy and Market Structure*, MIT Press, 1989.
Leamer, E., *Sources of International Comparative Advantage*, MIT Press, 1984.
Vousden, N., *The Economics of Protection*, Cambridge University Press, 1990.

and

Jones, R.W. and P.B. Kenen (eds.), *Handbook of International Economics, Vol. 1 and 2*, North-Holland, 1984.
Grossman, G.M. and K. Rogoff (eds.), *Handbook of International Economics, Vol. 3*, North-Holland, 1995.

Exams: There will be a midterm exam and a comprehensive final exam.

Homework: There will be 4-6 homework assignments. They will be distributed in class and due back in a week.

Presentation: Each student will present 1-2 papers.

Term Paper: Students are required to write a research term paper for this class. The term paper gives students a chance to turn their interests into research works using the knowledge learnt. Students are encouraged to discuss each other about the research; however, the term paper must be written independently. The term paper is due at the end of the semester and no later work is accepted.

Grades: The homework will represent 20%. The midterm will represent 20%. The presentation will represent 10%. The final will represent 30%, and the term paper will represent 20%.

Course Outline: There will be papers suggested to read in addition to the textbook. Very important readings are indicated by an asterisk(*) and recommended readings are without asterisk. The following abbreviations are used for journal titles:

AER--American Economic Review
BPEA--Brookings Papers on Economic Activity
CJE--Canadian Journal of Economics
EMA--Econometrica
EJ--Economic Journal
IER--International Economic Review
EER--European Economic Review
JDE--Journal of Development Economics
JIE--Journal of International Economics
JPE--Journal of Political Economy
QJE--Quarterly Journal of Economics
ReStud--Review of Economic Studies
RIE--Review of International Economics

1. The Ricardian Model

- *1. Feenstra, Ch 1.
- *2. BPS, Ch 1, 2, 3 and 4.
- *3. Dixit and Norman, Ch 1, 2 and Mathematical Appendix.
- *4. Hicks, John (1953), "An Inaugural Lecture," *Oxford Economic Papers* 5(2), 117--135.
- *5. Samuelson, Paul (2004), "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization," *Journal of Economic Perspectives*, 18(3), 135-146.
- *5. Krugman, Paul (1986), "A Technology Gap Model of International Trade," in K. Jungefeldt and D. Hague, eds., *Structural Adjustment in Advanced Economies*, MacMillan, 1986.
- *6. Ju, Jiandong and Xuebing Yang (2008), "Hicks Theorem: Effects of Technological Improvement in the Ricardian Model," Forthcoming, *International Review of Economics and Finance*.
- *7. Dornbusch, Fischer, and Samuelson "Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods." *AER*, (67) 1977.

2. The Heckscher-Ohlin Model

- *1. Feenstra, Ch 2.
- *2. BPS, Ch 5, 6, 9 and 10
- *3. Dixit and Norman, Ch 4, and pp. 1-19, 36-38, 85-86, 93-122, 133-137
- *4. Jones, Ronald A. 1965, "The Structure of Simple General Equilibrium Models," *JPE*, December, 557-572.
- *5. Mussa, Michael, 1979, "The Two-Sector Model in Terms of its Dual," *JIE*, 9(4), 513-526.
- *6. Jones, R. and P. Neary, "The Positive Theory of International Trade," *Handbook V1*, Section 2
- *7. Dornbusch, Fischer, and Samuelson "Heckscher-Ohlin Trade Theory with a Continuum of Goods," *QJE*, (95), 203-224, 1980.
- *8. Harrigan, James (1997), "Technology, Factor Supplies, and International Specialization:

Estimating the Neoclassical Model," *American Economic Review*, 87, 475-94.

- *9. Trefler, "[International factor price differences: Leontief was right!](#)" *JPE* 1993, 961-987,
- *10. Trefler, "[The case of the missing trade and other HOV mysteries](#)," *AER* 1995.
- *11. Davis and D. Weinstein, "[An account of global factor trade](#)," *AER* 2001, 1423-1453.
- 12. Deardorff, "[The general validity of the law of comparative advantage](#)," *JPE* 1980, 941-957,
- 13. Deardorff, "[The general validity of the Heckscher-Ohlin theorem](#)," *AER* 1982, 683-694.
- 14. Helpman, "[The factor content of foreign trade](#)," *EJ* 1984, 84-94.
- 15. Davis, D. "Intraindustry Trade: A Heckscher-Ohlin-Ricardo Approach.," *JIE*, November 1995.
- 16. D. Bernhofen and J. Brown, "An empirical assessment of the comparative advantage gains from trade: Evidence from Japan," *AER* 2005, 208-225.
- 17. Y.-S. Choi and P. Krishna, "The factor content of bilateral trade: An empirical test," *JPE* 2004, 887-914.

3. Finance and International Trade

- *1. Ju, Jiandong and Shang-Jin Wei, "Endowment versus Finance: A Wooden Barrel Theory of International Trade," *CEPR Working Paper 5109*, 2005.
- *2. Ju, Jiandong and Shang-Jin Wei, "When Is Quality of Financial System a Source of Comparative Advantage?" *NBER Working Paper 13984*, 2008.
- *3. Kevin Grier, Jiandong Ju, and Susan Zhu, "Financial Development and Production Structures," Working Paper.
- *4. Rajan : Rajan, Raghuram and Luigi Zingales (1998), "Financial Development and Growth," *American Economic Review*, 88(3), 559-586.
- *5. Rajan, Raghuram and Luigi Zingales (2003), "The Great Reversals: The Politics of Financial Development in the Twentieth Century," *Journal of Financial Economics*, 69, 5-50
- *6. Holmstrom, Bengt and Jean Tirole (1998), "Private and Public Supply of Liquidity," *Journal of Political Economy*, 106(1), 1-40.
- *7. Do, Quy-Toan and Andrei Levchenko (2007), "Comparative Advantage, Demand for External Finance, and Financial Development," *Journal of Financial Economics*, 86:3, 796--834.
- *8. Manova, Kalina (2007), "Credit Constraints, Heterogeneous Firms, and International Trade," Working Paper.
- *9. Antras, Pol and Ricardo J. Caballero (2007), "Trade and Capital Flows: A Financial Frictions Perspective," Working Paper.
- 10. Levchenko, Andrei (2007), "Institutional Quality and International Trade," *Review of Economic Studies*, 74:3, 791-819.
- 11. La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert Vishny (1997), "Legal Determinants of External Finance," *Journal of Finance*, 52(3), 1131-50.
- 12. La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert Vishny (1998), "Law and Finance," *Journal of Political Economy*, 106(6), 1113-55.
- 13. Beck, Thorsten (2002), "Financial Development and International Trade. Is There a Link?" *Journal of International Economics*, 57, 107-31.
- 14. Beck, Thorsten and Ross Levine (2002), "Industry Growth and Capital Allocation: Does Having a Market- or Bank-based System Matter?" *Journal of Financial Economics*, 64, 147-180.
- 15. Berglof, Erik, and E. von Thadden (1994), "Short-Term versus Long-Term Interests: Capital Structure with Multiple Investors," *Quarterly Journal of Economics*, 109, 1055-84.
- 16. Carlin, Wendy and Colin Mayer (2003), "Finance, Investment, and Growth," *Journal of Financial Economics*, 69, 191-226.
- 17. McLaren, John (2000), "Globalization and Vertical Structure," *American Economic Review*, 90(5), 1239-54.
- 18. Matsuyama, Kiminori (2004), "Financial Market Globalization, Symmetry-Breaking, and Endogenous Inequality of Nations," *Econometrica*, 72, 853-884.
- 19. Matsuyama : Matsuyama, Kiminori (2005), "Credit Market Imperfection and Patterns of International Trade and Capital Flows," *Journal of the European Economic Association*, 3, 714-723.

4. Many Goods and Factors

- *1. Feenstra, Ch3.
- *2. BPS, Ch 7 and 8

- *3. Ethier, "Higher dimensional trade theory," Handbook V1.
- *4. Dixit and Norman, pp. 38-41 and Ch 4
- *5. Jones, R.W., "A Three-Factor Model in Theory, Trade and History" in J. N. Bhagwati, et al., (eds.) *Trade, Balance of Payments and Growth: Essays in Honor of Charles P. Kindleberger* (North-Holland, 1971).
- *6. Neary, J.P., "Short-Run Capital Specificity and the Pure Theory of International Trade," *EJ*, 88, September 1978, pp. 488-510.
- 7. Jones. R.W. and J.P. Neary, Chapter 1 in Handbook V1.
- 8. Mussa, M., "Tariffs and the Distribution of Income: The Importance of Factor Specificity, Substitutability and Intensity in the Short- and Long-Run," *JPE*, Vol. 82, No. 6, November-December 1974, pp. 1191-1203.
- 9. Corden, W. and P. Neary, "Booming Sectors and Deindustrialization in a Small Open Economy," *EJ*, 92, 1982.

5. Trade in International Input and Wages

- *1. Feenstra, Ch 4.
- *2. *Globalization and the Theory of Input Trade*, Ronald Jones, MIT Press, 2000.

6. Increasing Returns and the Imperfect Competition

- *1. Feenstra, Ch 5.
- *2. BPS, Ch 11.
- *3. Dixit and Norman, Ch 9.
- *4. Krugman, "Increasing returns, monopolistic competition, and international trade," *JIE* 1979.
- *5. Ju, J., "Oligopolistic Competition, Technology Innovation, and Multiproduct Firms," *Review of International Economics*, V11, 2003.
- 6. Helpman and Krugman, 1985, Chapters 3-11.
- 7. Helpman, "Increasing returns, imperfect markets and trade theory," in Handbook V1, pp. 337-348.
- 8. Ethier, "Internationally decreasing costs and world trade," *JIE* 1979, 1-24.
- 9. Krugman, "Scale economies, product differentiation and the pattern of trade," *AER* 1980.
- 10. Krugman, "Intraindustry specialization and the gains from trade," *JPE* 1981.
- 11. Helpman, "International trade in the presence of product differentiation, economies of scale, and monopolistic competition," *JIE* 1981.
- 12. Ethier, "National and international returns to scale and the modern theory of international trade," *AER* 1982.
- 13. Helpman, "Imperfect competition and international trade: Evidence from fourteen industrial countries," *Journal of Japanese and International Economics*, 1987.
- 14. Krugman and A. Venables, "Globalization and the inequality of nations," *QJE* 1995, 857-880.
- 15. D. Hummels and J. Levinsohn, "Monopolistic competition and international trade: Reconsidering the evidence," *QJE*, 1995, 799-836.
- 16. D. Davis and D. Weinstein, "Economic geography and regional production structure: An empirical investigation," *EER* 1999.
- 17. D. Davis and D. Weinstein, "Does economic geography matter for international specialization," NBER Working paper No. 5706.
- 18. S.J. Evenett and W. Keller, "On theories explaining the success of the gravity equation," *JPE* forthcoming.
- 19. Anderson, J. and E. van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle," *AER*, 93(1), 2003, 170-192.
- 20. J. Romalis, "Factor proportions and the structure of commodity trade," *AER* March 2004, 67-97.

7. Gains from Trade and Regional Agreements

- *1. Feenstra, Ch 6.
- *2. BPS, Ch 17, 18, and 19.
- *3. Dixit and Norman, Ch 3.
- *4. Ju, J. and K. Krishna, "Evaluating Trade Reform with Many Consumers," *CJE*, Vol. 33, No. 3, 2000, pp. 787-798.
- *5. Ju, J. and K. Krishna, "Firm Behavior and Market Access in a Free Trade Area with Rules of Origin," *Canadian Journal of Economics*, Vol. 38, No. 1, 2005, pp. 290-308.
- 6. Ju, J. and K. Krishna, "Necessary Conditions for Welfare Improving Reform," *Economics Letters*, Vol. 67 (2000), pp. 173-178.
- 7. M. Ohyama, "Trade and welfare in general equilibrium," *Keio Economic Studies*, 1972.
- 8. A. Dixit and V. Norman, "Gains from trade without lump-sum compensation," *JIE* 1986, 111-122.
- 9. Levy, P., "A Political-Economic Analysis of Free Trade Agreement," *AER*, September 1997, pp. 506-519.
- 10. Bagwell, K. and R. Staiger, *The Economics of the World Trading System*, MIT Press, 2002.
- 11. Baldwin, R. and A. Venables, "Regional Economic Integration" in Handbook V3, Ch. 31.
- 12. Krishna, K., "Understanding Rules of Origin," *NBER Working Paper 11150*, 2005

8. Heterogeneous Firms and International Trade

- *1. Eaton, Jonathan, and Samuel Kortum, "Technology, Geography, and Trade," *Econometrica*, 70, 1741-1779, 2002.
- *2. Eaton, Jonathan, and Samuel Kortum, "Innovation, Diffusion and Trade," *NBER Working Paper 12385*, 2006
- *3. Alvarez, Fernando, and Robert E. Lucas, Jr., "General Equilibrium Analysis of the Eaton-Kortum Model of International Trade," *NBER Working Paper*, 2005.
- *4. Bernard, Andrew B., Jonathan Eaton, J. Bradford Jensen, and Samuel Kortum (2003), Plants and Productivity in International Trade," *American Economic Review*, 93: 1268-1290.
- *5. Melitz, Marc, "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, Vol. 71, November 2003, pp. 1695-1725.
- *6. Bernard, Andrew, Stephen Redding and Peter Schott, "[Comparative Advantage and Heterogeneous Firms](#)" *Review of Economic Studies*, 2007, Vol 74, January.
- *7. E.Helpman, M.J.Melitz, Y.Rubinstein, "Estimating trade flows: Trading partners and trading volumes," *Quarterly Journal of Economics*, 2008, Vol 123: 441-487.

9. Tariffs and Quotas

- *1. Feenstra, Ch 7 and 8
- *2. BPS, Ch 12, 13,14 and 15
- *3. Dixit and Norman, Ch 6.
- *4. J. Brander and P. Krugman, "A reciprocal dumping model of international trade," *JIE* 1983, 313-321.
- *5. Krishna, K., "Trade Restrictions as Facilitating Practices," *JIE*, Vol. 26, 1989, pp. 251-270.
- *6. Ju, J. and K. Krishna, "Welfare and Market Access Effects of Piecemeal Tariff Reform," *JIE* 51, August 2000, pp. 305-316.
- *7. Anderson, J. and J.P. Neary "[Welfare versus market access: The implications of tariff structure for tariff reform](#)," forthcoming in *JIE*
- 8. D. Bernheim and M. Whinston, "[Multimarket contact and collusive behavior](#)," *Rand Journal of Economics*, 1990, 1-30.
- 9. Lerner, A.P., "The Symmetry Between Import and Export Taxes," *Economic Journal*, Vol. 3, No. 11, pp. 306-313.
- 10. Feenstra, R.C., "Voluntary Export Restraints in U.S. Autos, 1980-81: Quality, Employment and Welfare Effects" in Baldwin and Krueger (eds.), *The Structure and Evolution of Recent U.S. Trade Policy*
- 11. Krishna, K. and M. Itoh, "Content Protection and Oligopolistic Interactions," *ReStud*, LV, 1988, pp. 107-125.

12. Krishna, K., "The Case of the Vanishing Revenues: Auction Quotas with Monopoly," *AER*, Vol. 80, September 1990, pp. 828-836.
13. Prusa, T., "Why are so Many Antidumping Petitions Withdrawn?" *JIE*, Vol. 33, 1992, pp. 339-342.
14. Berry, S., J. Levinsohn and A. Pakes, "Automobile Prices in Market Equilibrium," *EMA*, Vol 63, No. 4, July 1995, pp. 841-890.
15. Goldberg, P., "Product Differentiation and Oligopoly in International Markets: The Case of the U.S. Automobile Industry," *EMA*, Vol. 63, No. 4, July 1995, pp. 891-951.

10. Political Economy of Trade Policy

- *1. BPS, Ch 34.
- *2. Feenstra, Ch 9.
- 3. Krueger, A.O., "The Political Economy of the Rent-Seeking Society", *American Economic Review*, 1974.
- 4. Baldwin, R.E., "The Political Economy of Protectionism", in J.N. Bhagwati (ed.) *Import Competition and Response* (Chicago, University of Chicago Press), 1982.
- 5. Hillman, A.L. and H. Ursprung, "Domestic Politics, Foreign Interests, and International Trade Policy", *American Economic Review*, 1988.
- 6. Grossman, G.M. and E. Helpman, "Trade Wars and Trade Talks," *Journal of Political Economy*, 1995.
- 7. Gawande, K. and U. Bandyopadhyay, "Is Protection for Sale? Evidence on the Grossman-Helpman Theory of Endogenous Protection," *Review of Economics and Statistics*, 2000.
- 8. Levy, P.L., "A Political-Economy Analysis of Free-Trade Agreements," *American Economic Review*, 1997.
- 9. Maggi, G. and A. Rodríguez-Clare, "The Value of Trade Agreements in the Presence of Political Pressure," *Journal of Political Economy*, 1998.

11. Dynamic Trade and Growth

- *1. BPS, Ch 29
- *2. Feenstra, Ch 10
- *3. Findlay, R., "Factor Proportions and Comparative Advantage in the Long Run", *Journal of Political Economy*, 1970.
- *4. J. Ventura, "[Growth and interdependence](#)," *QJE* 1997, 57-84.
- 5. Grossman, G. and E. Helpman, "Product Development and International Trade", *Journal of Political Economy*, 1989.
- 6. Segerstrom, P.C., T.C.A. Anant and E. Dinopolous, "A Schumpeterian Model of the Product Life Cycle", *American Economic Review*, 1990.
- 7. Grossman, G. and E. Helpman, "Comparative Advantage and Long Run Growth", *American Economic Review*, 1990.
- 8. Rivera-Batiz, L. and P. Romer, "Economic Integration and Endogenous Growth", *Quarterly Journal of Economics*, 1991.
- 9. Rivera-Batiz, L. and P. Romer, "International Trade and Endogenous Technological Progress", *European Economic Review*, 1991.
- 10. Taylor, M.S., "Quality Ladders' and Ricardian Trade," *Journal of International Economics*, May 1993, 34(3-4), 225-43.

12. Multinationals and Organization of the Firm

- *1. Feenstra, Ch 11.
- *2. Helpman, E., "A Simple Theory of International Trade with Multinational Corporations", *Journal of Political Economy*, 1984.
- *3. Markusen, J.R., "Multinational, Multiplant Economies, and the Gains from Trade", *Journal of International Economics*, 1984.
- *4. Antràs, Pol, (2003), "Firms, Contracts, and Trade Structure," *Quarterly Journal of Economics*, 118:4, 1375-1418.
- *5. Markusen, J.R. and A.J. Venables, "Multinational Firms and the New Trade Theory," *Journal of International Economics* (1998), 46(2), 183-203.

6. Antràs, Pol and Elhanan Helpman, (2004), "Global Sourcing," *Journal of Political Economy*, 112:3, 552-580.
7. Antràs, Pol, Luis Garicano and Esteban Rossi-Hansberg, (2006), "Offshoring in a Knowledge Economy," *Quarterly Journal of Economics*, 121:1, 31-77.
8. Ethier, W., "The Multinational Firm", *Quarterly Journal of Economics*, 1986.
9. Markusen, J. R., "The Boundaries of Multinational Enterprises and the Theory of International Trade," *Journal of Economic Perspectives*, Spring 1995, 9(2), 169-89.
10. Ethier, J.W. and J.R. Markusen, "Multinational Firms, Technology Diffusion and Trade," *Journal of International Economics*, 1996.
11. Yeaple, S.R., "The Determinants of U.S. Outward Foreign Direct Investment: Market Access versus Comparative Advantage," University of Pennsylvania, April 2001. See <http://www.eco.utexas.edu/faculty/Keller/msj/yeaple.pdf>
12. Yeaple, S.R., "The Complex Integration Strategies of Multinationals and Cross Country Dependencies in the Structure of Foreign Direct Investment," *Journal of International Economics*, August 2003, 60 (2), 293-314.
13. Grossman and Helpman, "[Integration versus Outsourcing in Industry Equilibrium](#)", *Quarterly Journal of Economics*, vol.117, no.1 (Feb. 2002)
14. Grossman and Helpman, "[Outsourcing in a Global Economy](#)" *Review of Economic Studies*, vol.72, no.1 (January, 2005).
15. Grossman, G and Esteban Rossi-Hansberg, "Trading Tasks: A Simple Theory of Offshoring" Working Paper, 2008.