ECONOMICS 825
INTERNATIONAL TRADE THEORY
FALL 2003

Instructor
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Office Hours: Mondays: 2:30-3:30, Wednesdays: 1:30-2:30
and by appointment (send me an email message).

Class Times and Location
Mondays: 10:00-11:20 and Wednesdays: 8:30-9:50
Macintosh-Corry Hall, Room D326

Course Objectives
The primary objectives of this course are to rigorously examine the modern theory of
international trade and examine the following general areas:
• Classical and Neoclassical Theories of Trade with Perfect Competition.
• Theories of Trade with Imperfect Competition.
• Empirical Issues in Trade.
• Trade Policy.
• Factor Accumulation and Intertemporal Trade.

Course Requirements
There is no assigned text for the course, but references for the topics covered are given
in the course outline and most references are on reserve in Stauffer library. For some
sections of the course, notes will also be available from the course web-page.

Students performance is evaluated through assignments, a brief presentation in class, a
midterm exam, and a final exam. Grades will be determined according to the following
criteria:

Assignments: 20 %
Presentation: 5 %
Midterm: 30 %
Final: 45 %

No late assignments will be accepted.
Course Outline:
(Reference codes refer to the Related Readings below.)

I. General Introduction
   Some Data
   International Economics as a Separate Field
   Comparative Advantage and a Simple Model of Trade
   \(DN: 2; MMKM: 1\)

II. Supply and Demand (Microfoundations of Trade Theory)
   A. Supply: Producer Theory
      Production Functions
      Production Possibilities
      Cost Functions; Conditional Demand Functions
      National Product Functions
      \(Notes; MMKM: 2; DN: 2, Appendix; W: 2, 3, 4; J: 4-5, 8\)
   B. Demand: Consumer Theory
      Utility Function
      Marshallian Demand Functions
      General Equilibrium and Aggregation
      Community Indifference Curves
      \(Notes; MMKM: 3, Appendix 1; DN: 2, Appendix; W: 2, 6\)

III. Equilibria (Supply equals Demand)
   A. Closed Economy (Autarkic) Equilibria
      \(Notes; MMKM: 4; DN: 3; W: 7\)
   B. Open Economy Equilibria
      Small Country Case
      Large Country Case: Net Export Functions; Offer Curves
      Gains from Trade Theorem
      \(Notes; MMKM: 4, 5, Appendix 2; DN: 3; W: 7, 9; BS: 14-15; B1: 10; JK 2.1-2.3\)

IV. Ricardian Theory (Classical Theory of Trade)
   Comparative Cost Theorem
   \(Notes; MMKM 7; Dornbusch, Fischer, & Samuelson (1977)\)
V. Factor Proportions Theory (Neoclassical Theory of Trade)
   Assumptions
   Heckscher-Ohlin-Samuelson Theorem
   Factor Price Equalization Theorem
   Notes: MMKM 8, Appendix 3; DN: 4; W: 7
   BS: 5-7; B2:1; J:1

VI. Empirical Tests of Classical and Neoclassical Trade Theories
    JK: 10; MMKM: 14; W: 12
    B2: 8; GR: 26

VII. Scale Economies, Imperfect Competition, & Trade
    External Increasing Returns
    Internal Increasing Returns
    Homogeneous Products (Oligopoly)
    Differentiated Products (Monopolistic Competition)
    DN: 9; MMKM: 11, 12; HK1: 2, 6-9; HK2: 7
    B2:9-12; G: 1-4, 11-13; JK: 7

VIII. Trade Policy
   A. Under Perfect Competition
      Tariffs, Quotas, & Other Non-Tariff Barriers
      Terms of Trade Effects
      Welfare Effects
      Notes: MMKM 15, 16; DN: 6; W: 10, 11
      BS:9-10
   B. Under Imperfect Competition
      Strategic Trade Policy
      MMKM: 17; HK2; GR: 27
      G:6-10

IX. Factor Accumulation and Intertemporal Trade
    MMKM: 23
RELATED READINGS:
(An * indicates that the item is on reserve in Stauffer Library.)

Undergraduate Texts:

Graduate Texts:
Bhagwati, J. and T.N. Srinivasan (1983), Lectures on International Trade, Cambridge, MIT Press (BS) *
Woodland, A.D. (1982), International Trade and Resource Allocation, Amsterdam: North Holland (W) *

Collected Works:
Journal Articles:


