

ECONOMICS 825
INTERNATIONAL TRADE THEORY

Fall 2008

Instructor

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and by appointment (send me an email message to make an appointment).

Course Website

<http://www.econ.queensu.ca/pub/faculty/lapham/econ825>

Class Times and Location

Tuesdays: 1:00-2:20 and Thursdays: 11:30-12:50

Macintosh-Corry Hall, Room D326

Course Objectives

The primary objectives of this course are to rigorously examine the theory of international trade through the following general areas:

- Classical and Neoclassical Theories of International Trade with Perfect Competition
- Theories of International Trade with Increasing Returns and Imperfect Competition
- Heterogeneous Firms, Productivity, and International Trade
- Empirical Issues in Trade
- International Trade Policy
- The Gravity Model of Trade

Supplementary Materials

The recommended text for the course is:

Advanced International Trade by Robert C. Feenstra, Princeton University Press, Princeton, 2004.

A useful reference text is:

International Trade: Theory and Evidence by James Markusen, James Melvin, William Kaempfer, and Keith Maskus, McGraw Hill, Boston, 1995.

Both texts are on reserve at Stauffer Library. The Feenstra textbook is available for purchase at the campus bookstore. The Markusen et al. textbook can be downloaded from <http://spot.colorado.edu/markusen/textbook.html>.

We will also make use of other reserve material in Stauffer Library and notes will be available from the course website for some sections of the course.

Evaluation

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

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

Notes:

- Late assignments will not be accepted.

- There will be no changes to the weighting scheme.
- The midterm is tentatively scheduled for Thursday, Oct. 30, in class.
- The final exam is scheduled by the Economics Graduate Office and the date will be announced later.

Econ 825 Course Outline – Fall 2008

Course Outline is subject to change.

Reference codes refer to the items on the Related Reading List.

I. Introduction

- A. Empirical Observations
- B. Overview of General Equilibrium Approach

MMKM: 1

II. Classical (Ricardian) Model of Trade

- A. Assumptions of the Model
- B. Closed Economy Equilibria (Autarkic Equilibria)
- C. Absolute and Comparative Advantage
- D. Open Economy Equilibria

F: 1, p.2-4

III. Microfoundations of International Trade Theory: Supply and Demand

- A. Supply: Producer Theory
 - (i). Production Functions
 - (ii). Producer Optimization
 - (iii). Production Equilibrium under Constant Returns to Scale
 - (iv). Two-Good, Two-Factor Model

Some of this material is presented in the tutorial.

Course Website Notes I; F: 1, p. 4-9; MMKM: 2

DN: 2, Appendix; W: 2,3,4

- B. Demand: Consumer Theory
 - (i). Utility Functions
 - (ii). Consumer Optimization
 - (iii). Endogenous Income Approach
 - (iv). Aggregation
 - (v). Community Indifference Curves

Course Website Notes II; MMKM: 3, Appendix 1;

DN: 2, Appendix; W: 2, 6

IV. Equilibria (Supply equals Demand)

- A. Closed Economy Equilibria (Autarkic Equilibria)
- B. Small Country Open Economy Equilibria
- C. Large Country Open Economy Equilibria
- D. Net Export Functions

Course Website Notes III; MMKM: 4
DN: 3; W: 7

V. Gains from Trade

Course Website Notes IV; F: 6, p. 179-183 MMKM: 4,5, Appendix 2
DN: 3; W: 7, 9

VI. Factor Proportions Models of Trade

- A. Heckscher-Ohlin-(Samuelson) Model
 - (i). Assumptions
 - (ii). Pattern of Comparative Advantage
 - (iii). Heckscher-Ohlin-(Samuelson) Theorem
 - (iv). Specialized and Diversified Production
 - (v). Trade and Factor Prices
- B. Heckscher-Ohlin-Vanek Model
 - (i). Assumptions
 - (ii). Factor Content of Trade
 - (iii). Heckscher-Ohlin-Vanek Theorems

F: 1, p. 10-30 and 2, p. 31-35; MMKM 8, Appendix 3
DN: 4; W: 7

VII. Empirical Issues

- A. Leontief Paradox
- B. Leamer Test
- C. Tests of Heckscher-Ohlin-Vanek Theorem
- D. Trade and Factor Prices

F: 2, p. 35-56; 3, p. 93-97; and 4, p. 101-117;

MMKM 13

Trefler (1995); Davis and Weinstein (2001)

Baldwin and Cain (2000)

VIII. Trade Policy under Constant Returns to Scale and Perfect Competition

A. Import Tariffs

B. Quotas

C. Voluntary Export Restraints

F: 7, p. 209-220; and 8, p. 254-285; MMKM 15,16;

DN: 6; W: 10, 11

IX. Imperfect Competition and Increasing Returns

A. Imperfect Competition with Constant Returns to Scale

B. Increasing Returns and Imperfect Competition

C. Monopolistic Competition Model of Trade

D. Gravity Model of Trade

E. Trade Policy under Imperfect Competition

F: 5, p. 137-169; MMKM: 11,12;

DN: 9

Krugman (1980); Krugman (1979)

McCallum (1995); Anderson and van Wincoop (2003)

X. Heterogeneous Firms, Productivity, and Trade

Head and Ries (1999); Trefler (2004); Melitz forthcoming(2008) and (2003);

Bernard, Eaton, Jensen, and Kortum (2003)

XI. Political Economy of Protection

F: 9; MMKM: 19