

University of Waterloo, Department of Economics
Econ 673/488 Topics in International Trade
Winter 2012

Course Outline

(updated: December 11, 2011)

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Contact Information:

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Class time and location: F 9:00am-11:50 am, PAS 1241

All materials will be posted on UW-LEARN.

Course Description:

This graduate/advanced undergraduate course discusses selected international trade theories as well as empirical topics representative of recent research. After establishing a common grounding in the method of the dual general equilibrium approach to classical trade theory, the course moves to discuss recent influential theoretical and empirical contributions to the field. Theory, extensions, applications and empirical tests of models such as: increasing returns to scale and imperfect competition, political economy, heterogeneous agents, trade and environment, economic geography, trade and growth, aid and development will be covered.

Pre-requisites for undergraduate students: ECON 231, ECON 301, ECON 321

Evaluation:

Problem sets (20%), midterm exam (30%), consistent class participation (10%) and final exam (Econ 488) or final paper (Econ 673) (40%) will make up your grade for the course.

The problem sets include several questions based on the material discussed in the lectures or readings. These problem sets are meant to deepen your understanding of the issues and can be explored in small teams. You can work in groups of 2 or 3, but must submit individually drafted versions of the assignment.

Exams will be based on the material covered in class and will consist of several short-answer questions.

READINGS:

There is no required textbook for the course. However, several useful sources are listed below as recommended and have been placed ON RESERVE in UW Library - Porter:

1. Feenstra, Robert (2004), *Advanced International Trade: Theory and Evidence*, Princeton University Press. Also available online via the UW Library.
2. Dixit, Avinash K. Norman, Victor (1980), *Theory of international trade : a dual, general equilibrium approach*, Cambridge University Press.
3. Woodland, Alan (1982), *International Trade and Resource Allocation*, North-Holland.
4. Helpman, Elhanan and Paul Krugman (1987), *Market structure and foreign trade : increasing returns, imperfect competition, and the international economy*, MIT Press.
5. Elhanan Helpman, *Understanding Global Trade*, Harvard University Press (2011) (an entirely non-technical yet rigorous discussion of the evolution of economic thinking about international trade)
6. Paul Krugman and Maurice Obstfeld (2008), *International Economics: Theory and Policy*, 8th edition, Pearson/Addison-Wesley.
7. Robert Feenstra and Alan Taylor (2008), *International Economics*, 1st edition, Pearson/Addison-Wesley.
8. James Markusen, Melvin, Kaempfer and Maskus, *International Trade: Theory and Evidence* download at: <http://spot.colorado.edu/~markusen/textbook.html>.

General LIST OF TOPICS:

Students are required to read the book chapters and additional readings indicated for every section in class and on the UW-LEARN class page. Please complete the readings for the week prior to class. Each lecture will include a discussion component, where your participation is critical.

The list of topics below is general and tentative. Depending on class level and interest, there may be some changes in the content to accommodate these. Moreover, the broad topics do not strictly correspond to the respective week. The course webpage on UW-LEARN will provide a detailed list of weekly readings, including information on which readings are required versus recommended for the week and links to some further resources. Normally a campus (or off-campus proxy) internet connection may be required for free access to electronic journals.

Lecture 1: ‘Stylized facts’ of International Trade

**An Introduction to the Dual Approach to Trade
A Simple Exchange Model**

Lecture 2: International Trade driven by Technological Differences: the Ricardian Model

**Applications and Extensions (Eaton & Kortum model)
The Specific Factors Model**

Lecture 3: International Trade driven by Factor Endowments: the Heckscher-Ohlin Model

**Applications and Empirical Tests
Trade in intermediate inputs**

Lecture 4: International Trade and Imperfect Competition

**Scale Economies
Monopolistic Competition, Intra-industry Trade: Theory and Empirics
Monopoly, Duopoly, Oligopoly**

Lecture 5: Firm Heterogeneity in International Trade: the Melitz Model**Lecture 6: Economic Growth and International Trade**

**Trade and Neoclassical Growth
Trade and Endogenous Growth**

Lecture 7: Trade Policy I

**Tariffs, Quotas and Other Instruments of Trade Protection
Trade Costs and the Gravity Equation**

Lecture 8: Trade Policy II

**Political Economy: Grossman & Helpman’s Protection for Sale Model
Optimal Tariffs, Retaliation and Negotiation**

Lecture 9: Trade and the Environment**Lecture 10: Trade, Aid and Development**

IMPORTANT NOTES: please read carefully!

Missing the Midterm Exam: If you miss the midterm exam for a valid reason, such as medical or family emergency, a make-up oral or written examination may be arranged.

Missing the Final Exam: The Department of Economics' policy regarding missed final exams is as follows: *A student who has been ill (documentation required) and missed the scheduled final exam MUST petition the Department of Economics Graduate Office within five calendar days to write the Departmental Deferred Examination. If the student has failed to write the Departmental Deferred Examination, the student will automatically receive a grade of 0% for the missed deferred final examination.*

Academic Integrity:

In order to maintain a culture of academic integrity, members of the University of Waterloo community are expected to promote honesty, trust, fairness, respect and responsibility.

Discipline:

A student is expected to know what constitutes academic integrity, to avoid committing academic offenses, and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offense, or who needs help in learning how to avoid offenses (e.g., plagiarism, cheating) or about "rules for group work/collaboration should seek guidance from the course professor, academic advisor, or the Undergraduate Associate Dean. When misconduct has been found to have occurred, disciplinary penalties will be imposed under Policy 71 Student Discipline. For information on categories of offenses and types of penalties, students should refer to Policy 71 - Student Discipline, [http : //www.adm.uwaterloo.ca/infosec/Policies/policy71.htm](http://www.adm.uwaterloo.ca/infosec/Policies/policy71.htm).

Grievance:

A student who believes that a decision affecting some aspect of his/her university life has been unfair or unreasonable may have grounds for initiating a grievance. Read Policy 70 - Student Petitions and Grievances, Section 4, <http://www.adm.uwaterloo.ca/infosec/Policies/policy70.htm>.

Appeals:

A student may appeal the finding and/or penalty in a decision made under Policy 70 - Student Petitions and Grievances (other than regarding a petition) or Policy 71 - Student Discipline if a ground for an appeal can be established.

Read Policy 72 - Student Appeals, <http://www.adm.uwaterloo.ca/infosec/Policies/policy72.htm>. Academic Integrity website (Arts): [http : //arts.uwaterloo.ca/arts/ugrad/academic_responsibility.html](http://arts.uwaterloo.ca/arts/ugrad/academic_responsibility.html) Academic Integrity Office (University): [http : //uwaterloo.ca/academicintegrity/](http://uwaterloo.ca/academicintegrity/)

Note for students with disabilities:

The Office for Persons with Disabilities (OPD), located in Needles Hall, Room 1132, collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the OPD at the beginning of each academic term.