

International Trade: Theory and Policy

Texts:

1. Krugman, P. and M. Obstfeld, *International Economics, Theory and Policy*, New York: Addison-Wesley, Seventh edition, 2005. **Required text.**
2. *Globaphobia*, by Burtless, G., Lawrence, R., Litan, R. and Shapiro, R., Washington: The Brookings Institution, 1996. **Required text.** [Also available on the web.](#)
3. Corden, W. Max, *Trade Policy and Economic Welfare*, (Oxford: Clarendon Press, 1997). [On reserve.](#)
4. Krueger, Anne O., ed. *The Political Economy of Trade Protection*, Chicago: University of Chicago Press, 1996. [Selected chapters, on reserve.](#)

Documents typed in lavender are directly hyperlinked to the web.

Course Outline

I. Basic Trade Theory

A. Introduction to the World Trade System

Reading: [The WTO in Brief](#) (all four sections). [on Blackboard under External Links.](#)
Krugman-Obstfeld, chapters 1-2

B. Comparative Advantage

- The gains from trade.
- The Terms of Trade.
- Some common myths.

Reading: Krugman-Obstfeld, chapter 3

Krugman, P., "What do Undergrads Need to Know about Trade," *American Economic Review*, 83 (May 1993), 23-27. [On Blackboard under Course Documents \(PDF file\).](#)

[Globaphobia](#), Chapters 1-3.

C. Factor mobility and the distribution of income

- The Specific Factors Model

Reading: Krugman-Obstfeld, chapter 3 (from sixth edition) [On Blackboard under Course](#)

[Documents \(PDF file\).](#)

D. Predicting the pattern of trade

- Resources: the Heckscher-Ohlin model
- The Standard Trade Model
- Economies of scale and imperfect competition

Reading: Krugman-Obstfeld, chapters 4, 5, 6 and mathematical postscripts

FIRST EXAM

II. The Global Labor Market

A. Globalization and Immigration: Efficiency, Equity and Measurement

B. The Outsourcing Phenomenon

Reading:

Krugman-Obstfeld, chapter 7.

Globaphobia, chapter 4.

Freeman, Richard B, "People Flows in Globalization," *Journal of Economic Perspectives* 20 (Spring 2006), 145-70. [On Blackboard under External Links.](#)

Schumer, Charles, and Roberts, Paul Craig, "Second Thoughts on Free Trade," *The New York Times*, January 6, 2004. [On Blackboard under External Links.](#)

What on Earth is Chuck Schumer Talking About? *The New Republic Online*, January 6, 2004. [On Blackboard under External Links.](#)

Bhagwati, J., Panagariya, A., and Srinivasan, T.N., "The Muddles over Outsourcing," *Journal of Economic Perspectives* 18 (Fall 2004), 93-114. [On Blackboard in Course Documents \(PDF file\).](#)

Further Reading:

Feenstra, R., "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, 12 (Fall 1998), 31-50. [On reserve.](#)

Cline, W., "Trade and Income Distribution: The Debate and New Evidence," *IIE Policy Briefs*, September 1999.

Policy Brief

III. Commercial Policy

A. Small country case: economic implications of tariffs and quotas.

- welfare effects of commercial policy
- non-economic objectives
- tariff equivalence propositions
- measurement of costs
- effective protection
- role of uncertainty

Reading: Krugman-Obstfeld, chapter 8

De Melo, J, and Tarr, D., “VERs under Perfect Competition and Foreign Direct Investment: A Case Study of the US-Japan Auto VER,” *Japan and the World Economy*, 8 (1996), 11-33. [On Blackboard under External Links.](#)

B. Principles of "optimal" policy

- externalities and the hierarchy of policies
- tariffs to generate government revenue
- Large country case: the optimal tariff
- Infant Industry Protection

Reading: Krugman-Obstfeld, Chapter 9 (pp. 207-217). (Also Chapter 8 again).

Corden, W. Max, *Trade Policy and Economic Welfare*, chapters 2-4 (skip appendices), 9. [On Blackboard under Course Documents.](#)

Krueger, A. and Tuncer, B., “[An Empirical Test of the Infant-Industry Argument](#)”. *American Economic Review*. V.72-#5, pp. 1142-1152. [On Blackboard under Course Documents \(PDF file\).](#)

Harrison, A., (1994). “[An Empirical Test of the Infant Industry Argument: Comment](#)”. *American Economic Review*; V.84-#4, pp. 1090-95. [[reply](#) follows, pp. 1096]

C. Strategic Trade Policy

- Scale economies and "strategic" sectors.
- Duopoly and other game theoretic approaches.
- Problems with strategic trade policy

Reading: Krugman-Obstfeld, chapter 11 (pp. 259-267)

In *Strategic Trade Policy*: chapters 1 and 4. **On reserve.**

"New Thinking About Trade Policy," by Paul Krugman.

"What Should Trade Policy Target?" by Barbara Spencer.

Irwin, D., and N. Pavcnik (2004). "[Airbus versus Boeing revisited: International Competition in the Aircraft Market](#)". *Journal of International Economics*; V.64-#2, pp. 223-245. **On Blackboard under Course Documents (PDF file).**

"The Airbus Showdown," by Robert Samuelson. *Washington Post*, December 8, 2004. **On Blackboard in Course Documents.**

IV. Income Distribution and Trade Policy: Who Gets Protected

- Social Concerns: the notion of a social welfare function
- Rent-Seeking
- Self-interest and the role of interest groups
- Endogenous Policy Theory

Reading: Krugman-Obstfeld, chapter 9 (pp. 217-223)

Daniel Trefler (1993). "[Trade Liberalization and the Theory of Endogenous Protection: An Econometric Study of US Import Policy](#)". *Journal of Political Economy*; V.101-#1, pp. 138-160.

Frey, B. "How do Tariffs Come About," chapter 2 of *International Political Economics* (New York: Basil Blackwell, 1984). **On reserve.**

In *The Political Economy of Trade Protection*, ed. By Anne Krueger, chs. 2-4: **On reserve.**

1. Irwin, Douglas A., "The U.S.-Japan Semiconductor Trade Conflict."
2. Moore, Michael O., "The Rise and Fall of Big Steel's Influence on U.S. Trade Policy."
3. Nelson, Douglas R., "Making Sense of the 1981 Automobile VER: Economics, Politics, and the Political Economy of Protection."
4. Finger, J. Michael, and Ann Harrison, "Import Protection for U.S. Textiles and Apparel: Viewed from the Domestic Perspective."

SECOND EXAM

V. Anti-Dumping and Countervailing Duties: The Use of U.S. Trade Remedy Laws

- Declining industries and US industrial policy
- The legal environment of administered protection

Reading:

Lash, W., *U.S. International Trade Regulation*, Washington. **On reserve.**

Harvard Case Study, "Revving up for Relief: Harley Davidson at the ITC." **On reserve.**

In *The Political Economy of Trade Protection*, chapter 1:

Irwin, Douglas A., *The U.S.-Japan Semiconductor Trade Conflict*.

Further Reading:

W. Hansen and T. Prusa (1997). "The Economics and Politics of Trade Policy: An Empirical Analysis of ITC Decision Making." *Review of International Economics*; V.5-#2, pp. 230-245.

On reserve.

VI. The WTO, Standards, and the Environment

- Cross-border externalities and the global commons
- Competition for Industries: A race to the bottom?
- Process vs. Product

Reading:

Corden, W. Max, *Trade Policy and Economic Welfare*, ch.. 13.

[The Environment -- A New High Profile](#). Also on Blackboard under External Links.

Globaphobia, Chapter 6, "Sovereignty and Standards."

Bagwell, K., and Staiger, R., "The WTO as a Mechanism for Securing Market Access Property Rights: Implications for Global Labor and Environmental Issues," *The Journal of Economic Perspectives* 15 (Summer 2001), 69-88. [On Blackboard under Course Documents PDF file.](#)

Brown, D., Labor Standards: Where Do They Belong on the International Trade Agenda?" *The Journal of Economic Perspectives* 15 (Summer 2001), 89-112. [On Blackboard under Course Documents PDF file.](#)

Krugman, P., What Should Trade Negotiators Negotiate About, *Journal of Economic Literature*, 35 (March 1997), 113-120. [On Blackboard under Course Documents PDF file.](#)

Esty, D., Bridging the Trade-Environmental Debate, *The Journal of Economic Perspectives*, 15 (Summer 2001), 113-30. [On Blackboard under Course Documents PDF file.](#)

Further Reading:

Esty, Daniel C., *Greening the GATT: Trade, Environment and the Future*, (Washington: Institute for International Economics, 1994).

Bhagwati, J., and T.N. Srinivasan, Trade and the Environment: Does Environmental Diversity Detract from the Case for Free Trade? Ch. 4 of Bhagwati and Hudec, eds. *Fair Trade and Harmonization*, Vol 1. (Cambridge: MIT Press, 1996).

Second Policy Brief

Evaluation: We will have four graded evaluations this semester. An exam following section II will be worth 35%. An exam on the material from sections III through V will be worth another 35%. Your two policy briefs together will represent the remaining 30% of your grade.