

Econ 322 - International Trade

Fall 2009

TuTh 9:30 - 10:45 pm, Machmer E-35

Instructor: Arslan Razmi

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Office Hours: TuTh, 11 am -12:00 pm (or by appointment).

COURSE OVERVIEW

At a somewhat superficial level, this course has a rather simple objective, namely to introduce students to the economics of international trade. However, as will become apparent over the course of the semester, things are seldom that simple in the real world. For example, and to begin with, there is no single theory that entirely explains the occurrence and consequences of international trade. This means that we will have to work our way through several (sometimes conflicting, sometimes complementary) theories. Secondly, various theories differ not only in the sense that they attempt to capture and explain different aspects of international trade, but also in the sense that they originate from diverging perspectives and competing schools of thought. Finally, unlike (say) quantum mechanics, the empirical performance of various extant trade theories leaves much to be desired, raising concerns about their relevance to the real world. As you may have guessed by now, this makes a one-semester course in international trade somewhat of a balancing act between breadth of coverage and depth of exposure, and between the abstract world of trade theory(ies) and their real world policy applications. We will attempt to perform this balancing act in a way that helps us come to terms with today's world while hopefully stimulating an intellectual interest in extending the frontiers of our knowledge of international trade-related issues.

This course is being offered at a very interesting time. We are in the midst of a global economic crisis and trade between countries has shrunk dramatically over the last two years. As the US trade deficit contracts, other countries find it harder to find buyers abroad. This course will provide an excellent opportunity to discuss some of these issues and to use simple theoretical tools to make sense of the main arguments involved. We will discuss issues such as: What determines the direction and nature of trade flows? What are the consequences of international trade for income distribution? How do countries gain or lose from trade? How does trade impact economic development? What effects are likely to arise from tariffs and other policy measures? Student participation will be sought and encouraged.

Class Website

The course homepage is at [://courses.umass.edu/](http://courses.umass.edu/). The website will display announcements, assignments, handouts, relevant links, and other useful information. It will also be used for sending e-mail messages to class participants. *Students are responsible for accessing the class website regularly.*

Course Materials

Required Text:

Feenstra, Robert, *International Trade*, June 2009, Worth Publishers. A loose leaf edition should be available at Amherst Books and online.

Suggested Supplementary Texts:

Krugman, P., and Obstfeld. M., *International Economics: Theory and Policy*, Ninth Edition, Boston: Addison Wesley, 2006.

Chang, Ha-Joon, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press, 2002.

Anderson, S., Cavanagh, J., Lee, T., *Field Guide to the Global Economy*, Institute for Policy Studies, 2000.

In addition, handouts will be given occasionally. Whenever possible, links will also be provided to supplementary readings.

Work Requirements and Grading

Problem Sets (about 3-4) and pop quizzes	25%
Midterm	35%
Final exam	40%

The problem sets are designed to help you practice for the exams; they will be graded mostly for completeness and effort. The midterm will be held during regular class hours on Thursday, October 22. **It is your responsibility to discuss any schedule conflicts with me individually at least 15 days before the midterm exam.** The final exam date will be announced later.

Course Outline

NOTE: This tentative schedule is subject to adjustment as we proceed through the semester.

Tuesday, Sep. 8

Introduction to the course. Feenstra chapter 1.

Suggested additional reading(s):¹

Coughlin, Cletus, C., "The Controversy Over Free Trade: The Gap between Economists and the General Public," *Federal Reserve Bank of Saint Louis*, 2002. Available at:

[://www.research.stlouisfed.org/publications/review/02/01/1-22Coughlin](http://www.research.stlouisfed.org/publications/review/02/01/1-22Coughlin).

Chang, Ha-Joon, "Once Industrialised, Preach Free Trade", *South Bulletin 40*, July 30, 2002.

Available at:

[://www.southcentre.org/info/southbulletin/bulletin40/bulletin40](http://www.southcentre.org/info/southbulletin/bulletin40/bulletin40).

¹ You can skip the math while reading these texts.

Scott, Bruce, "The Great Global Divide in the Global Village," *Foreign Affairs*, January/February 2001.

Thursday, Sep. 10: Early (pre-classical) trade theories. Handout.

Suggested additional reading(s):

Cohen, S., Paul, J., and Blecker, R., *Fundamentals of U.S. Foreign Trade Policy: Economics, Politics, Laws, and Issues*, Boulder: Westview Press, 1996. Chapter 3.

Tuesday, Sep. 15: The classical theory of international trade. Feenstra chapter 2.

Suggested additional reading(s):

Myint, H., "The 'Classical Theory' of International Trade and the Underdeveloped Countries," *Economic Journal*, 68(270), 317-337, June 1958.

Thursday, Sep. 17: The classical theory of international trade. Feenstra chapter 2 contd.

Tuesday, Sep. 22: The classical theory of international trade. Feenstra chapter 2 contd.

Thursday, Sep. 24: The specific factors model. Feenstra chapter 3.

Tuesday, Sep. 29: The specific factors model. Feenstra chapter 3 contd.

Thursday, Oct. 1: The specific factors model. Feenstra chapter 3 contd.

Tuesday, Oct. 6: The Heckscher-Ohlin model. Feenstra chapter 4.

Thursday, Oct. 8: The Heckscher-Ohlin model. Feenstra chapter 4 contd.

Suggested additional reading(s):

Stolper, W., and Samuelson, P., "Protection and Real Wages," *Review of Economic Studies*, 9(1), 58-73, 1941.

Hanson, G., and Harrison, A., "Trade, Technology, and Wage Inequality," NBER working paper 5110, 1995.

Freeman, Richard, "Trade Wars: The Exaggerated Impact of Trade in Economic Debate," *NBER working paper 10000*, 2003. Available at:

nber.org/papers/

Tuesday, Oct. 13: Monday schedule.

Thursday, Oct. 15: The Heckscher-Ohlin model. Feenstra chapter 4 contd.

Tuesday, Oct. 20: Review for mid-term.

Thursday, Oct. 22: MIDTERM

Tuesday, Oct. 27: Increasing Returns and Imperfect Competition. Feenstra chapter 6 .

Thursday, Oct. 29: Increasing Returns and Imperfect Competition. Feenstra chapter 6 contd.

Suggested additional reading(s):

Krugman, Paul, "What Do Undergrads Need to Know About Trade?" *American Economic Review*, 83(2), 23-26, 1993.

Tuesday, Nov. 3: Increasing Returns and Imperfect Competition. Feenstra chapter 6 contd.

Thursday, Nov. 5: The Instruments of trade policy under perfect competition. Feenstra chapter 8.

Tuesday, Nov. 10: The Instruments of trade policy. Feenstra chapter 8 contd.

Thursday, Nov. 12: The Instruments of trade policy. Feenstra chapter 8 contd.

Suggested additional reading(s):

Wade, Robert Hunter, "What Strategies are Viable for Developing Countries Today? The World Trade Organization and the Shrinking of 'Development Space,'" *Review of International Political Economy*, 10(4), 621-644, 2003.

Tuesday, Nov. 17: Instruments of trade policy under imperfect competition. Feenstra chapter 9.

Shafaeddin, Mehdi, "How Did Developed Countries Industrialize? The History of Trade and Industrial Policy: The Cases of Great Britain and the USA," UNCTAD working paper 139, 1998. Available at:

[.unctad.org/en/docs//dp_139.en](http://unctad.org/en/docs//dp_139.en).

Thursday, Nov. 19: Instruments of trade policy under imperfect competition. Feenstra chapter 9 contd.

Tuesday, Nov. 24: Instruments of trade policy under imperfect competition. Feenstra chapter 9 contd.

Suggested additional readings:

Hallak, J. C., and Levinsohn, J., "Fooling Ourselves: Evaluating the Globalization and Growth Debate," NBER working paper 10244. Available at:

www.nber.org/papers/w10244

Rodrik, Dani, *Has Globalization Gone Too Far?* Washington: Institute for International Economics, 1997.

Thanksgiving break!

Tuesday, Dec. 1: Instruments of trade policy under imperfect competition. Feenstra chapter 9 contd.

Thursday, Dec. 3: International Agreements: Trade, labor, and the Environment. Feenstra chapter 11 (contd.)

Tuesday, Dec. 8: International Agreements, Feenstra chapter 11 contd.

Thursday, Dec. 10: Review for final exam