

# Syllabus for International Trade (ECON 722)

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Class Time: Tue. 6-8:30 PM  
Ninth Floor Conference Room  
Fall 2005

Class website: <http://courses.umass.edu/econ722>

## Overview

This course will attempt to cover a broad array of relevant topics over the duration of an (all-too-short) semester. In doing so, it will emphasize both theoretical (mathematical/analytical) models as well as empirical studies of how well those models fit “real world” data. Moreover, the course will frequently compare and contrast alternative theories/conceptions of the nature of international trade and the gains or losses thereof. Understanding the economic intuition behind the technically demanding models as well as thinking critically about the assumptions behind the theories and how well they fit actual trading economies will be a major focus. The rather unique nature of what this course attempts to achieve is underlined by the fact that there is no single textbook that would serve our purpose. We will use a standard textbook to identify and broadly comprehend the core set of theories that graduate students of international trade would be exposed to in a typical course. We will then use different books, papers, articles, commentaries, empirical sources, etc. to explore the relevance of various trade theories/models to the world that we live in, both in terms of their logico-deductive structure and empirical performance, as well as their policy implications for growth, income distribution, and development. This will provide us with the perfect segue then to chip away at the (artificial) barriers dividing trade theory from international finance, economic history, growth, and development theory, and even aspects of political sociology. Moreover, apart from providing us with a chance to re-evaluate the case for “free” trade from different perspectives, our approach will also help us come to terms with the ever-widening breach between varying perceptions of somewhat amorphous (and misleading) terms such as “trade liberalization” and “globalization.”

This course is being offered at a very interesting time. Debates surrounding the process of “globalization” have aroused much interest both in academic circles and amongst global citizenry. This course will provide an excellent opportunity to discuss some of these issues and to use theoretical tools to make sense of the fundamental arguments involved. Since it is not possible to cover all aspects of international trade in class, the lectures will focus on a “core” of major theoretical models, policy analyses, and empirical studies. Student participation will be sought and encouraged.

## Class Website

The class website will contain the syllabus (and any updates) plus announcements, assignments, and other useful information (e.g., links to readings and related websites).

## Work Requirements

There will be one **midterm** exam (on **Thursday, November 10**) and a **research paper** (due at the end of the semester). Problem sets will be distributed to provide practice and to help fix ideas. The midterm and paper will count for 30% and 50% of the grade, respectively. Satisfactory problem set completion will count for the other 20%.

## Books and Articles

### Required textbook:

Robert C. Feenstra, *Advanced International Trade: Theory and Evidence*, Princeton University Press, 2004, ISBN 0-691-11410-2

### Supplementary book readings:

In addition, the following books will be placed on reserve at the library:

Stephen D. Cohen, Robert A. Blecker, and Peter D. Whitney, *Fundamentals of U.S. Foreign Trade Policy: Economics, Politics, Laws, and Issues*, 2nd edition (Boulder: Westview, 2003).

Mikic, Mia, *International Trade*, New York: St. Martin's Press, 1998.

Perdikis, N., and Kerr, W., *Trade Theories and Empirical Evidence*, Manchester: Manchester University Press, 1998.

William R. Cline, *Trade and Income Distribution* (Washington, DC: Institute for International Economics, 1997).

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

Edward Leamer, editor, *International Economics*, Worth Series in Outstanding Contributions, Worth Publishers, 2001, ISBN 1-57259-820-4.

Jagdish N. Bhagwati, ed. *International Trade: Selected Readings*, 2nd edition (Cambridge, MA: MIT Press, 1987).

Jagdish N. Bhagwati, Arvind Panagariya, and T. N. Srinivasan, *Lectures on International Trade*, second edition (Cambridge, MA: MIT Press, 1998).

Andrea Maneschi, *Comparative Advantage in International Trade: A Historical Perspective* (Edward Elgar, 1998)

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.

Giovanni Dosi, Keith Pavitt, & Luc Soete, *The Economics of Technical Change and International Trade* (1990).

Ronald Findlay, *Factor Proportions, Trade, and Growth* (Cambridge, MA: MIT Press, 1995).

Gene M. Grossman, ed., *Imperfect Competition and International Trade* (Cambridge, MA: MIT Press, 1992).

Gene M. Grossman and Elhanan Helpman, *Innovation and Growth in the Global Economy* (1991).

Gene M. Grossman and Kenneth Rogoff, eds., *Handbook of International Economics*, vol. 3, (Amsterdam: North-Holland, 1995).

Ronald W. Jones and Peter B. Kenen, eds., *Handbook of International Economics*, vols. 1 and 2, (Amsterdam: North-Holland, 1984).

Feenstra, Robert (ed.), *Empirical Methods for International Trade*, Cambridge: MIT Press, 1988.

Paul R. Krugman, *Rethinking International Trade* (Cambridge, MA: MIT Press, 1990).

Frank, Andre Gunter, G., *Reorient: Global Economy in the Asian Age*, Berkeley, University of California Press, 1999.

Arghiri, Emmanuel, *Unequal Exchange: A Study of the Imperialism of Free Trade*, New York: Monthly Review Press, 1972.

## Reading List

**\* denotes required readings.** *Most of these readings will be placed on reserve or made accessible online. In class, we will only discuss a fraction of the readings on this list. However, the list should help students during their research for the paper. Also, it should be useful for future reference.*

### 1. A Brief Historical Introduction to the Theory and Practice of International Trade

\*Baldwin, R., P. Martin. 1999. "Two Waves of Globalization: Superficial Similarities, Fundamental Differences." NBER Working Paper No. 6904.

Frank, Andre Gunter, G., *Reorient: Global Economy in the Asian Age*, Berkeley, University of California Press, 1999. Introduction.

Dornbusch, Rudiger, "The Case for Trade Liberalization in Developing Countries," *The Journal of Economic Perspectives*, Vol. 6, No. 1. (Winter, 1992), pp. 69-85.

\*Chang, Ha-Joon, "Once Industrialised, Preach Free Trade," *South Bulletin*, July 30 2002, <http://www.southcentre.org/info/southbulletin/bulletin40/bulletin40.pdf>

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

\*Bairoch, P. and Kozul-Wright, R., "Globalization Myths: Some Historical Reflections on Integration, Industrialisation, and Growth in the World Economy," *UNCTAD Discussion Paper Number 113*, 1996.

Cohen, S., Paul, J., and Blecker, R., *Fundamentals of U.S. Foreign Trade Policy: Economics, Politics, Laws, and Issues*, Boulder: Westview Press, 2003. Chapter 1.

Krugman, Paul "The Narrow and Broad Arguments for Free Trade," *American Economic Review*, 83(2), pp. 362-366, may 1993.

Wallerstein, Immanuel, *Mercantilism and the Consolidation of the European World Economy, 1600-1750*, New York: Academic Press, 1980.

Williamson, Jeffrey, "Winners and Losers Over Two Centuries of Globalization," *WIDER Annual Lecture 6*, World Institute for Development Economics Research, 2002.

Peiper, U. and Taylor, "The Revival of the Liberal Creed: the IMF, the World Bank, and Inequality in a Globalized Economy," in *Globalization and Progressive Economic Policy*, Cambridge, Cambridge University Press, 1998.

Feenstra, R.C. 1998. "Integration of Trade and Disintegration of Production in the Global Economy." *Journal of Economic Perspectives* 12: 31-50.

Irwin, D.A. 1996. "The United States in a New Global Economy? A Century's Perspective." *American Economic Review* 86(May): 41-46.

Teichman, J., *The Politics of Freeing Markets in Latin America: Chile, Argentina, and Mexico*. Chapel Hill: University of North Carolina Press, 2001.

## **2 Core Trade Models and Empirical Tests**

### **A. The Classical Theory of Trade**

\*Feenstra, chap. 1 **or** MMKM, chaps. 1-7 & Appendixes 1-2.

\*Cohen, Blecker, and Whitney, *Fundamentals of U.S. Foreign Trade Policy*, chap. 3.

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

\*Golub, S. and Hsieh, C., "Classical Ricardian Theory of Comparative Advantage Revisited," *Review of International Economics*, 8(2), pp. 221-234, 2000.

Bernhofen, D.M. and J.C. Brown. "A Direct Test of the Theory of Comparative Advantage: The Case of Japan." Manuscript, 2000.

\*Samuelson, Paul, "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization, *Journal of Economic Perspectives*, pp. 135-146, 18(3), Summer 2004.

Bhagwati, Jagdish, Panagariya, Arvind, Srivivasan. T.N. - The Muddles over Outsourcing, *Journal of Economic Perspectives*, pp. 93-114, 18(4), Fall 2004

Rudiger Dornbusch, Stanley Fischer, & Paul Samuelson, "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review* 67 (1977): 823-39.

Andrea Maneschi, *Comparative Advantage in International Trade: A Historical Perspective*.

Andrea Maneschi, "Dynamic Aspects of Ricardo's International Trade Theory," *Oxford Economic Papers* 35 (1983): 67-80.

Andrea Maneschi, "Ricardo's International Trade Theory: Beyond the Comparative Cost Example," *Cambridge Journal of Economics* 16 (1992): 421-37.

Edward Leamer, editor, *International Economics*, Preface and readings by Samuelson (pp. 19-33) and Jones (pp. 24-55).

Shaikh, Anwar, *The Economic Mythology of Neoliberalism*, forthcoming in *Neoliberalism: A Critical Reader*, Alfredo Saad-Filho (ed.) Pluto Press, London.

### **B. Neoclassical Theories: Heckscher-Ohlin and Related Models**

\*Feenstra, chaps. 2-3 **or** MMKM, chaps. 8-9, 14, & Appendixes 3-4.

\*Deardorff, A.V. 1994. "Overview of the Stolper-Samuelson Theorem," in Deardorff, A.V. and Stern, R. M. (ed.), *The Stolper Samuelson Theorem: A Golden Jubilee*, The University of Michigan Press, 1997.

Daniel Trefler, "International Factor Price Differences: Leontief Was Right!" *Journal of Political Economy*, 101, no. 6 (December 1993): 961-87.

Henry Thompson, "Free Trade and Income Redistribution in a Three Factor Model of the U.S. Economy," *Southern Economic Journal* 63, no. 4 (April 1997):1074-83.

Deardorff, A.V. "Weak Links in the Chain of Comparative Advantage," *Journal of International Economics* 9: 197209; 1979.

- Deardorff, A.V. "The Possibility of Factor Price Equalization, Revisited," *Journal of International Economics* 36, pp. 167-175, 1994.
- Deardorff, A.V. "Exploring the Limits of Comparative Advantage," *Weltwirtschaftliches Archiv*, 130: 1-19, 1994.
- Deardorff, A.V., "How Robust is Comparative Advantage," *Discussion Paper No. 537*, Research Seminar in International Economics, The University of Michigan, May 2005.
- Brecher, R. and Choudri, E. "The Leontief Paradox, Continued." *Journal of Political Economy* 90: 820-823, 1982.
- Perdikis, N., and Kerr, W., *Trade Theories and Empirical Evidence*, Manchester: Manchester University Press, 1998.
- Debaere, P., "Relative Factor Abundance and Trade," *Journal of Political Economy*, 111(3), pp. 589-610, 2003.
- Debaere, P., and Demiroglu, U., "On the Similarity of Country Endowments," *Journal of International Economics*, pp. 101-136, 59, 2003.
- Wood, Adrian, "Give Heckscher-Ohlin a Chance!" *Weltwirtschaftliches Archiv*, 130(1), pp. 20-49, 1994.
- Samuelson, Paul, "International Factor Price Equalization Once Again," *The Economic Journal*, 59, pp. 181-197, 1949.
- Trefler, Daniel, "The Case of the Missing Trade and Other Mysteries," *The American Economic Review*, 85(5), pp. 1029-1046, 1995.
- Bowen, Harry, Leamer, E., and Sveikauskas Leo, "Multicountry, Multifactor Tests of the Factor Abundance Theory," *The American Economic Review*, 77(5), pp. 791-809, 1987.
- Neary, Peter J., "Short-Run Capital Specificity and the Pure Theory of International Trade," *The Economic Journal*, 88(351), pp. 488-510, Sep. 1978.

### **3. Trade and Wages: Mainstream and Alternative Theoretical Perspectives and Empirical Evidence**

\* Feenstra, chap. 4.

\*Slaughter, M.J. "Globalization and Wages: A Tale of Two Perspectives." *World Economy* 22: 609-630, 1999.

Wood, A., "How Trade Hurt Unskilled Workers," *Journal of Economic Perspectives*, 9 (3), Summer 1995.

Bhagwati, J. and Kusters, M. ed., *Trade and Wages: Leveling Wages Down?* Washington, D.C: American Enterprise Institute.

Freeman, R., A., "Are Your Wages Set in Beijing?" *Journal of Economic Perspectives*, 9 (3), Summer 1995.

Milanovic, B. and Squire, L., "Does Tariff Liberalization Increase Wage Inequality? Some Empirical Evidence," *NBER Working Paper Number 11046*, Washington DC, 2005.

Arbache, J., Dickerson, A., and Green, F., "Trade Liberalisation and Wages in Developing Countries," *Economic Journal*, 114, February 2004.

A. Brewer, "Trade with Fixed Real Wages and Mobile Capital," *Journal of International Economics* 18 (1985): 177-86.

Susan M. Collins, ed., *Imports, Exports, and the American Worker*.

Davis, D.R. 1996. "Trade Liberalization and Income Distribution," NBER Working Paper No. 5693, June.

Robert C. Feenstra, "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives* 12, no. 4 (Fall 1998): 31-50.

Dani Rodrik, *Has Globalization Gone Too Far?* chaps. 1-3.

William R. Cline, *Trade and Income Distribution*.

G. E. Johnson & F. P. Stafford, "International Competition and Real Wages," *American Economic Review, Papers and Proceedings* 83 (May 1993): 127-30.

G. E. Johnson & F. P. Stafford, "The Labor Market Implications of International Trade," in O. Ashenfelter & D. Card, eds., *Handbook of Labor Economics*, North-Holland, 1999.

Paul Krugman, "Technology, Trade, and Factor Prices," *Journal of International Economics* 50 (2000): 51-71.

Feenstra, R., C. and Hanson, G., "Global Production Sharing and Rising Inequality," NBER Working Paper number 8372.

Leamer, E., "Trade, Wages, and Revolving Door ideas," NBER Working Paper number 4716, April 1994.

Robert R., C., ed., Special Issue on Trade and Wages, *Journal of International Economics* 54, no. 1 (2001).

Berman, Eli, Bound, J., and Machin, Stephen, "Implications of Skill-Biased Technical Change: International Evidence," *Quarterly Journal of Economics*, pp. 1245-1279, 113(4), Nov. 1998.

#### **4. Marxist and Dependencia Theories of Trade: Motives, Dynamics, and Consequences for the International Division of Labor and Income Distribution**

\*Milberg, W. 1994. "Is Absolute Advantage Passe? Towards a Keynesian /Marxian Theory of International Trade", in *Competition, Technology and Money, Classical and Post-Keynesian Perspectives*, ed. Mark Glick, Edward Elgar, Great Britain.

\*Bacha, E., "An Interpretation of Unequal Exchange from Prebisch-Singer to Emmanuel," *Journal of Development Economics*, 5, pp. 319-330, 1978.

Sapsford, D. and Chen, John-ren, "The Prebisch-Singer Terms of Trade Hypothesis: Some (Very) New Evidence," in *Development Economics and Policy*, ed. Sapsford and Chen, NY: St. Martin's Press, 1998.

Zanias, George, "Testing for trends in the terms of trade between primary commodities and manufactured goods," *Journal of Development Economics*, 78, pp. 49-59, 2005

Diakosavvas, D and Scandizzo, P., "Trends in the Terms of Trade of Primary Commodities, 1900-1982: The Controversy and its Origins," *Economic Development and Cultural Change*, 39(2), pp. 231-264, Jan. 1991.

Arghiri, Emmanuel, *Unequal Exchange: A Study of the Imperialism of Free Trade*, New York: Monthly Review Press, 1972.

Brewer, A., *Marxist Theories of Imperialism: A Critical Survey*, New York: Routledge.  
Seers, Dudley (ed.), *Dependency Theory: A Critical Reassessment*, London: Pinter, 1981  
Ghosh, B., N., *Dependency Theory Revisited*, Aldershot: Ashgate, 2001.  
Levellen, Ted, *Dependency and Development: An Introduction to the Third World*, Westport: Bergin and Garvey, 1995.  
Chilcote, R. (ed.), *Dependency and Marxism : Toward a Resolution of the Debate*, Westview Press, Boulder: CO, 1982.

## **5. The “New” Trade Theories: Increasing Returns, Intra-Industry Trade, Geography, and the Gravity Model**

\*Feenstra, chap. 5 **or** MMKM, chaps. 12-13.

Paul R. Krugman, *Rethinking International Trade*.

Keith Cowling & Roger Sugden, “Strategic Trade Policy Reconsidered: National Rivalry vs Free Trade vs International Cooperation,” *Kyklos* 51, No. 3 (1998): 339-57.

Bruce Elmslie & Antoine James, “The Renaissance of Adam Smith in Modern Theories of International Trade,” in R.F. Hebert, ed., *Perspectives on the History of Economic Thought*, vol. IX (1993).

Engel, Charles and John H. Rogers. "How Wide Is the Border?" *American Economic Review* 86: 1112-1125, 1996.

Neary, J. Peter. "Of Hype and Hyperbolas: Introducing the New Economic Geography." *Journal of Economic Literature* 39: 536-561, 2001.

Gomory, R., and Baumol, W., *Global Trade and Conflicting National Interests*, Cambridge: MIT Press, 2000.

Irwin, Douglas, “Mercantilism as Strategic Trade Policy: The Anglo-Dutch Rivalry for the East India Trade,” *Journal of Political Economy*, 99(6), 1296-1314, 1991.

Deraniyagala, S., and Fine, Ben, “New Trade Theory Versus Old Trade Policy: A Continuing Enigma,” *Cambridge Journal of Economics*, 25, 809-825, 2001.

## **6. Trade Policies and Multilateral Trade Agreements**

\*Feenstra, chaps. 6-7 **or** MMKM, chs. 15, 16, 18, and 20.

\*Audley et al., *NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere*, Carnegie Endowment for Peace, Washington, DC, 2003.

Bhagwati, Panagariya, and Srinivasan, *Lectures on International Trade*, second edition. Chapters 13 and 14.

*Handbook of International Economics*, vol. 3, chs. 28-31.

Leamer, E., “Wage Effects of a US-Mexican Free Trade Agreement,” NBER working paper # 3991, February 1992.

Teichman, J., *The Politics of Freeing Markets in Latin America: Chile, Argentina, and Mexico*. Chapel Hill: University of North Carolina Press, 2001.

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

Polaski, Sandra, "Mexican Employment, Productivity, and Income a Decade After NAFTA," *Brief submitted to the Canadian Standing Senate Committee on Foreign Affairs*, Feb. 25 2004.

Dean, Judith, "Do Preferential Trade Agreements Promote Growth? An Evaluation of the Caribbean Basin Economic Recovery Act," *US International Trade Commission Working Paper*, July 2002.

Romalis, John, "NAFTA's and CUSFTA's Impact on International Trade," *NBER Working Paper Number 11059*. January 2005.

Hanson, Gordon, "Globalization, Labor Income, and Poverty in Mexico," *NBER Working Paper Number 11027*, Washington, DC, January 2005.

Brown, Deardorff, and Stern, "CGE Modeling and Analysis of Multilateral and Regional Negotiating Options," School of Public Policy, University of Michigan,. Discussion Paper number 468

## **7. Trade, Development, and Growth**

\*Feenstra, chap. 10 **or** MMKM, chap. 23

\* Darity, W. and Davis, L., "Growth, Trade, and Uneven Development," *Cambridge Journal of Economics*, 29(1), pp. 141-170, 2005.

Steedman, Ian, *Trade Amongst Growing Economies* (1979).

Pasinetti, L., *Structural Change and Economic Growth* (1981), chap. 11.

Dutt, Amitava, *Growth, Distribution, and Uneven Development*, Cambridge, 1990.

Blecker, R., "The New Economic Integration: Structuralist Models of North-South Trade and Investment Liberalization," *Structural Change and Economic Dynamics*, 7(3), pp. 321-45.

Razmi, A. and Blecker, R., "Moving Up the Ladder to Escape the Adding Up Constraint? New Evidence on the Fallacy of Composition," UMass Working Paper, 2004.

McIntosh, James, "North-South Trade: Export-Led Growth with Abundant Labour," *Journal of Development Economics*, 24, pp. 141-152, 1986.

Azevedo, R. and Texeira, J., "Structural Economic Dynamics: An Alternative Approach to North-South Models," *Cambridge Journal of Economics*, 28, pp. 705-717, 2004.

McCombie, J.S., & Thirlwall, A. P. eds., *Essays on Balance of Payments Constrained Growth: Theory and Evidence*, Routledge, 2004.

Jayme, Frederico, Notes on Trade and Growth

## **8. The Globalization of Trade, Finance, and Resistance: Linkages between International Labor and Capital Mobility, Multinational Corporations, Investor Rights, Labor Standards, and the Nature of Recent Multilateral Agreements.**

\*Feenstra, chap. 11 **or** MMKM, chs. 21-22.

\*Rodrik, Dani. 1996. "Labor Standards in International Trade: Do They Matter and What Do We Do About Them?" In Robert Lawrence, Dani Rodrik, and John Whalley, *Emerging Agenda for Global Trade: High Stakes for Developing Countries*. Washington, D.C.: Overseas Development Council.

Stiglitz, J. and Charlton, A., "A Development Road of Trade Negotiations?" Paper presented at the Annual Bank Conference on Development Economics-Europe, May 2004.

- Blecker, R., "Financial Globalization, Exchange Rates, and International Trade," PERI Working Paper.
- Harrison, Ann, "Has Globalization Eroded Labor's Share? Some Cross-Country Evidence," October 2002.
- Braunstein, E. and Epstein, G., "How Much Bargaining Power Do 1.3 Billion Consumers Have? FDI in China," PERI Working Paper.
- Braunstein, E., "Engendering Foreign Direct Investment: Family Structure, Labor Markets, and International Capital Mobility," World Development.
- Anderson, S., Cavanagh, J., Lee, T., *Field Guide to the Global Economy*, Institute for Policy Studies, 2000.
- Cavanaugh, J., et al., *Alternatives to Economic Globalization; A Better World is Possible*, San Francisco: Barrett-Kohler Publishers.
- Sapir, André. "Symposium: Does Free Trade Require Fair Trade and Harmonisation? Introduction," *The World Economy* 18:741-44, 1995.
- International Labour Organization (ILO). *Human Rights: A Common Responsibility*. International Labour Conference, 75th Session, 1988. Geneva: ILO, 1988.
- Stern, Robert, Labor Standards and International Trade, Discussion Paper # 40, School of Public Policy, University of Michigan, 1998.
- Barry, C., and Reddy, Sanjay, "Just Linkage," Draft, Jan. 2005
- Williams, John, "The Theory of International Trade Reconsidered," *Economic Journal*, 39 (154), pp. 195-209, 1929.