

# INTERNATIONAL TRADE THEORY

300.707.02 and 300.707.03, Fall 2008

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## Course Description:

In this class, we will examine some basic theoretical models of international trade and discuss their empirical relevance in explaining the observed patterns of trade between nations. The second half of the course will discuss a variety of trade policy issues -- the gains from trade, the use of alternative trade policy instruments and the organization of the international trade system.

## Readings:

The required textbook for this class is:

Krugman, P. and Obstfeld, M., International Economics Theory and Policy, Seventh Edition, Addison Wesley (K&O)

There are also additional required readings as listed in the course outline. These readings that will complement the textbook will be posted on the ERes webpage. Some of these readings will not be discussed explicitly in class but you will be tested on them. They are generally non-technical articles on applications of issues we will discuss in lecture.

For supplemental non-required reading, I will put two additional books on reserve:

Appleyard, Field and Cobb, International Economics, 5<sup>th</sup> edition, McGraw Hill, 2006

Feenstra and Taylor, International Economics, 1<sup>st</sup> edition, Worth Publishers, 2008.

Both of these books go over the same models covered in K&O and it might help if you are looking for alternative explanations. Note that 4 chapters from the second book are assigned as required reading.

## Exams:

The midterm will be on **October 15<sup>th</sup> from 8pm to 10pm**. If you have any conflicts you must notify me no later than **September 12<sup>th</sup>**. After this date, I will not arrange any make-up exams except for medical emergencies confirmed by a doctor and the Dean. The final will be on **December 9<sup>th</sup>**.

## Course Requirements

There is an incentive grading scheme for the exams: There will be one mid-term (accounting for 40% of the grade) and a final examination (accounting for 60% of the grade). Alternatively, the final exam may also be used for 100% of the grade, as will be explained in class.

There will be three teaching assistants who will hold weekly tutorials and office hours. Problems that will be solved during tutorials will be posted on my webpage (<http://www.sais-jhu.edu/faculty/senses>). These extra practice questions (posted with answers) each week will not be graded. To succeed in this class, I strongly recommend you solve these questions in a timely manner. To create additional incentive for you to solve the practice problem sets, I will include a question worth 10 points directly from one of the problem sets (possibly with different numbers but same exact wording) to both the midterm and the final. International Trade course is built up cumulatively. Do not skip class or textbook readings. It is literally true that each lecture is the foundation for the next lecture.

**Examination Policy:**

*Make-ups:* No make-ups for the midterm or the final are scheduled. Students who cannot take an exam for any reason should contact me no later than the **September 12<sup>th</sup>**. Only other acceptable reasons for missing a midterm or a final are sickness (you need to provide a note from your doctor documenting that you are unable to take an exam. You should provide me with this note within a week of the exam) and SAIS related travel. If you miss an exam due to any other reason you will receive a zero from that exam. Please check the dates of the exams carefully and do not enroll in this class if you have any conflict.

*Requests for Re-grade:* An appeal for re-grade of an exam should be typed in detail. To be considered, you need to sign the honor code policy that will be outside my door and hand it to me along with your appeal within one week of announcement of your grade.

*Announcements:* I will quite often use e-mail to make important class-related announcements. Please make sure you check your JHU e-mail account or have your e-mails forwarded to an account that you check frequently.

**E-mail Policy:**

I will do my best to respond to e-mails within 24 hours (48 hours during the weekend). I will not respond to inquires about grades and class-related questions that will take more than 2-3 lines to explain. I will expect you to come to either my office hours or the TA office hours with such questions.

## COURSE OUTLINE AND REQUIRED READINGS (Tentative)

1. Ricardian Trade Model (1 lecture)  
K &O Chapter 3  
Krugman, P., 1996. "Ricardo's Difficult Idea". Mimeo, March 1996.  
<http://web.mit.edu/krugman/www/ricardo.htm>; *ERes.*
2. Specific factors Model (1,5 lectures)  
Krugman, P. and Obstfeld, M., 2003. International Economics Theory and Policy, **6<sup>th</sup> edition**. Chapter 3 and Appendix; *ERes.*
3. Neoclassical Trade Theory (1,5 lectures)  
K &O Chapter 4
4. Empirical Evidence; International Trade and Income Inequality (1 lecture)  
Krugman, P., 1993. "What Do Undergrads Need to Know about Trade?" The American Economic Review 83(2), Papers and Proceedings of the Hundred and Fifth Annual Meeting of the American Economics Association. *ERes.*  
Kletzer, L, 2001. "A Prescription to Relieve Worker Anxiety". Institute of International Economics, Policy Brief 1-2 (February, 2001). *ERes.*  
<http://www.iie.com/publications/pb/pb.cfm?researchid=70>
5. Standard Trade Model (1 lecture)
  - Theory
  - Economic Growth
  - International Transfers of IncomeK &O Chapter 5
6. **Midterm (October 15<sup>th</sup>)**
7. Increasing Returns to Scale and Imperfect Competition (1 lecture)  
Feenstra, R. and Taylor, A., 2008. "International Economics". Chapter 6; *ERes.*
8. Foreign Outsourcing of Goods and Services (1 lecture)  
Feenstra, R. and Taylor, A., 2008. "International Economics". Chapter 7; *ERes.*
9. Instruments of Trade Policy (2 lectures)  
K&O, Chapter 8
10. Export Subsidies in Agriculture and High-Technology Industries (1 lecture)  
Feenstra, R. and Taylor, A., 2008. "International Economics". Chapter 10; *ERes.*
11. International Agreements: Trade, Labor and the Environment (1 lecture)  
Feenstra, R. and Taylor, A., 2008. "International Economics". Chapter 11; *ERes.*