

Economics 423, Fall Semester 2023

International Trade

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Pre-requisites: ECON 230D1/D2 or ECON 250D1/D2; not open to students who have taken ECON 423 D1/D2.

Course Description

This course covers the microeconomics foundations of international trade, trade policies in *Developed* and *Developing countries*, the process of globalization, and multinational corporations. To do so, we will cover the origins, ideologies, and empirical analysis of different theories. The emphasis will be on developing analytical tools (mostly through economic models which rely on rigorous mathematical analysis), studying their predictions and test their predictions with data. We begin with a brief introduction and then develop a theoretical framework to help us understand (1) why countries trade with each other and what determines trade patterns (2) whether trade is beneficial for a country and (3) how trade affects the distribution of income within a country. We then analyze the effects of commercial policy on trade and economic welfare. Lastly, we will study the role of individual firms in international trade, the rise of global value chains and multinational corporations, and the recent challenges and potential retrenchment in the globalization phenomenon.

Understanding the foundations behind international trade is of crucial importance: we live in a globalized world in which firms' decisions over importing, exporting, and geographical location of production determine several aspects of our day-to-day economic life, such as our real wages and/or the price and quality of the goods we consume. Additionally, governments (both federal and provincial, and even supra-national ones) continuously make decisions over international trade

policy. Thus, understanding the mechanisms through which these policy decisions affect firms and consumers may provide insights into how to consume and/or invest.

Required course material & readings: There is only one required text, “International Economics: Theory & Policy” 11th edition, by Krugman, Obstfeld and Melitz (KOM). We will cover the first half of the book. There will also be other reading material, articles, etc. Every lecture will follow lecture notes based on the chapters of the books and upon a wide range of sources, which will be duly referenced.

Practical details & Evaluation: Classes will focus on the introduction of different foundational theories of international trade, describing their key assumptions, the validity of their assumptions, logically and mathematically arriving at their conclusions. You will have to submit weekly problem sets that will help you practice and test your knowledge leading up to the midterm and final exams. Each exam will have three different parts: (i) a multiple choice set of questions; (ii) a practical question which will be based on exercises seen in class and in the problem sets; (iii) an essay question which will be based on the theory presented in class and in the additional readings in the syllabus.

- **Problem Sets: 10%**
- **Midterm Exam: 40%**
- **Final Exam: 50%**

Course delivery, and classroom participation and etiquette: Participation is strongly encouraged. Feel free to ask questions over all the topics discussed in class. This is, questions over the topics presented, over the underlying mathematical tools, the logic of the models, but also on the ideology, philosophy and historical context surrounding the different theories. One of the key goals of this class is to have a dialogue on the economics of international trade, to question assumptions, and bring the theory into real life applications. This course is lecture heavy; attendance is recommended.

Class structure:

The following class structure is tentative and might slightly change during the semester:

1. Introduction: Stylized Facts & Class Summary

- KOM, Cap. 1.
- Deardorff, Alan y Robert Stern (2002), “What You Should Know about Globalization and the World Trade Organization”, *Review of International Economics*, 10: 404-423.
- Hoekman, Bernard (2015). “Trade and growth - end of an era?”, in Hoekman, Bernard (ed.), *The Global Trade Slowdown: A New Normal?* London: CEPR Press.
- Irwin, Douglas A. (2015). “World trade and production: a long-run view”, in Hoekman, Bernard (ed.), *The Global Trade Slowdown: A New Normal?* London: CEPR Press.

2. International Trade in General Equilibrium: Technology & Production Factors

2.1 Labor Productivity & Comparative Advantages: The Ricardian Model

- KOM, Cap. 3.
- Eaton, Jonathan y Samuel Kortum (2012). “Putting Ricardo to Work”, *Journal of Economic Perspectives*, Vol. 26, No. 2, pp: 65-90.
- Dornbusch, Rudiger, Stanley Fischer y Paul Samuelson (1977). “Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods”, *The American Economic Review*, Vol. 67, No. 5, pp: 823-839.
- Li, Hongbin, Lei Li, Binzhen Wu y Yanyan Xiong (2012). “The End of Cheap Chinese Labor”, *Journal of Economic Perspectives*, Vol. 26, No. 4: 57-74.

2.2. Factor Endowments & Comparative Advantages: The Ricardo-Viner Model

- KOM, Cap. 4.
- Galiani, Sebastián y Pablo Sanguinetti (2003). “The Impact of Trade Liberalization on Trade Inequality: Evidence from Argentina”, *Journal of Development Economics*, Vol. 72, No. , pp: 497-513.
- Autor, David, David Dorn and Gordon Hanson (2013). “The China Syndrome: Local Labor Market Effects of Import Competition in the United States”, *American Economic Review*, Vol. 103, No. 6, pp: 2121-2168.

2.3. Factor Endowments & Comparative Advantages: The Heckscher-Ohlin Model

- KOM, Cap. 5.
- Deardorff 's Glossary of International Economics: Lerner Diagrams, en: <http://www-personal.umich.edu/%7Ealandear/glossary/figs/Lerner/ld.html>
- Gasparini, Leonardo y Guillermo Cruces (2008). “A Distribution in Motion: The Case of Argentina: A Review of the Empirical Evidence”, CEDLAS, mimeo.

- Bustos, Paula (2011). “Trade Liberalization, Exports and Technology Upgrading: Evidence on the Impact of MERCOSUR on Argentinean Firms”, *American Economic Review*, Vol. 101, No. 1, pp: 304-340.
- Bustos, Paula, B. Caprettini y J. Ponticelli (2016). “Agricultural Productivity and Structural Transformation. Evidence from Brazil”, *American Economic Review*, Vol. 106, No. 6, pp: 1320-1365.

3. New Theories in International Trade

3.1. Economies of Scale & Imperfect Competition

- KOM, Cap. 7-8.
- Krugman, Paul (1980). “Scale Economies, Product Differentiation, and the Pattern of Trade”, *The American Economic Review*, Vol. 70, No. 5, pp: 950-959.
- Redding, Stephen y Daniel Sturm (2008), “The Costs of Remoteness: Evidence from German Division and Reunification”, *The American Economic Review*, 98(5): 1766-1797.

3.2. Firm Heterogeneity

- KOM, Cap. 8.
- Melitz, Marc J., and Stephen J. Redding (2014). “Heterogeneous Firms and Trade”. *Handbook of International Economics* (4ta Edición), 4: 1-54. Elsevier, 4, 1-54.
- Bernard, Andrew, J. Bradford Jensen, Stephen J. Redding y Peter K. Schott (2007). “Firms in International Trade”, *Journal of Economic Perspectives*, 21: 105-130.
- Bernard, Andrew y J. Bradford Jensen (1999). “Exceptional Exporting Performance: Cause, Effect, or Both?”, *Journal of International Economics*, 47: 1-25.
- Albornoz, Facundo y Marco Ercolani (2007). “Learning-by-exporting: do firm characteristics matter? Evidence from Argentinian panel data,” *Department of Economics, University of Birmingham*, Discussion Papers 07-17.
- Artopoulos, Alejandro, Daniel Friel y Juan C. Hallak (2013), “Export Emergence of Differentiated Goods from Developing Countries: Export Pioneers and Business Practices in Argentina”, *Journal of Development Economics*, 105(3): 19-35.

3.3. Outsourcing and Global Value Chains

- KOM, Cap. 8.
- Freeman, Richard B. (1995). “Are Your Wages Set in Beijing?”, *Journal of Economic Perspectives*, Vol. 9, No. 3, pp. 15-32.
- Bhagwati, Jagdish, Arvind Panagariya, y T.N. Srinivasan (2004). “The Muddles over Outsourcing”, *Journal of Economic Perspectives*, Vol. 18, No. 4, pp. 93-114.
- Gereffi, Gary y Karina Fernandez-Stark (2016). *Global Value Chain Analysis: A Primer* (2nd Edition), Duke Center on Globalization, Governance & Competitiveness.

3.4. Gains from Trade

- Melitz, Mark y Daniel Trefler (2012). “Gains from Trade when Firms Matter”, *Journal of Economic Perspectives*, Vol. 26, No. 2, pp. 91-118.
- Donaldson, Dave (2015). “The Gains from Market Integration”, *Annual Review of Economics*, Vol.7, pp. 619-647.

- Costinot, Arnaud y Andrés Rodríguez-Clare (2018). “The U.S. Gains from Trade: Valuation Using the Demand for Foreign Factor Services”, *Journal of Economic Perspectives*, Vol. 32, No. 2, pp.3-24.
- Feenstra, Robert C. (2018). “Alternative Sources of the Gains from International Trade: Variety, Creative Destruction, and Mark Ups”, *Journal of Economic Perspectives*, Vol. 32, No. 2, pp. 25-46.

4. International Movements of Production Factors

- KOM, Cap. 8.
- Barba Navaretti, Giorgio y Anthony Venables (2005). *Multinational Firms in the World Economy*. Princeton: Princeton University Press.
- Markusen, James (1995). “The Boundaries of Multinational Enterprises and the Theory of International Trade”, *Journal of Economic Perspectives*, Vol. 9, pp. 169-189.
- Smarzynska, Beata (2004). “Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages”, *American Economic Review*, Vol. 94, pp. 605-627. Marín, Anabel y Martin Bell (2010). “The local/global integration of MNC subsidiaries and their technological behavior: Argentina in the late 1990s”, *Research Policy*, Vol. 39, pp. 919-931.

5. Trade Policy

5.1. Instruments of Trade Policy: Tariffs, Quotas & Other Measures

- Pavcnik, Nina (2002). “Trade Disputes in the Commercial Aircraft Industry,” *The World Economy*, Mayo, pp. 733-751.
- Brambilla, Irene, Sebastián Galiani, y Guido Porto, “Argentine Trade Policies in the XX Century: 60 Years of Solitude,” in Edward Glaeser, Rafael Di Tella y Lucas Llach (eds.), *Exceptional Argentina*.
- Bown, Chad P. y Jennifer A. Hillman (2017). “Foot-and-Mouth Disease and Argentina’s Beef Exports: The WTO’s *US-Animals* Dispute”, *Peterson Institute for International Economics*, Working Paper 16-14.
- Caliendo, Lorenzo, Robert C. Feenstra, John Romalis y Alan M. Taylor (2017). “Tariff Reductions, Entry, and Welfare: Theory and Evidence for the Last Two Decades”.
- Rodrik, Dani (2018). “What Do Trade Agreements Really Do?”, *Journal of Economic Perspectives*, Vol. 32, No. 2, pp. 73-90.

5.2. Trade & Industrial Policy

- Hausmann, Ricardo, Jason Hwang y Dani Rodrik (2007). “What You Export Matters”, *Journal of Economic Growth*, Vol. 12, Issue 1, pp. 1-25.
- Harrison, Ann y Andrés Rodríguez-Clare (2009). “Trade, Foreign Investment, and Industrial Policy for Developing Countries”, in Rodrik, Dani y Mark Rosenzweig (eds.), *Handbook of Development Economics*, 5. Elsevier.
- Rodrik, Dani (2004). “Industrial Policy for the Twenty-First Century”, CEPR Discussion Papers No. 4767.

Academic Integrity: McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences

under the Code of Student Conduct and Disciplinary Procedures. McGill's policy on Academic Integrity can be found [here](#).

L'université McGill attache une haute importance à l'honnêteté académique. Il incombe par conséquent à tous les étudiants de comprendre ce que l'on entend par tricherie, plagiat et autres infractions académiques, ainsi que les conséquences que peuvent avoir de telles actions, selon le Code de conduite de l'étudiant et des procédures disciplinaires (pour de plus amples renseignements, veuillez consulter [le guide pour l'honnêteté académique de McGill](#)).

Language of submission: In accord with McGill University's Charter of Student Rights, students in this course have the right to submit in English or in French any written work that is to be graded. This does not apply to courses in which acquiring proficiency in a language is one of the objectives.

Conformément à la Charte des droits de l'étudiant de l'Université McGill, chaque étudiant a le droit de soumettre en français ou en anglais tout travail écrit devant être noté, sauf dans le cas des cours dont l'un des objets est la maîtrise d'une langue.

Frequently Asked Questions:

Q: What are the economics requirements for this class?

A: First, the class requirements for this class are ECON 230D1/D2 or ECON 250D1/D2; not open to students who have taken ECON 423 D1/D2. This class uses concepts of consumer and production theory, and particularly of general equilibrium. While I will derive economic models from their primitive foundational assumptions, there won't be time during class to go through the basics of consumer/production theory. Feel free to assist office hours if you have doubts about these concepts.

Q: What are the math tools/knowledge requirements for this class?

A: You will need to be able to do calculus, graphing, exponentials, and algebra. You should feel comfortable with constrained convex optimization. I will do some more complicated math for the purposes of exposition, but I will not ask you to reproduce it on the exams although you should understand the underlying ideas. As a guide, I will preview any mathematical tool in problem sets and/or in class during lectures.

Q: What is the most important thing?

A: Most importantly, please be assured that I want students to learn and to receive the good grades they deserve. So please make an appointment with me should you have difficulty with your work during the course.

Q: What about asking questions in class?

A: PLEASE! Feel free to ask questions if I haven't been clear about a definition, abbreviation, or I have skipped the explanation or step in a mathematical proof or derivation. Additionally, I am

human, so I will make mistakes which you should feel free to correct. If you're puzzled by something, then probably everyone else is as well, so you'd be serving yourself, me, and your classmates' education by getting it cleared up. While I encourage you to question models' assumptions and philosophies, for the sake of time I might defer the question to office hours.

Q: What will the tests be like?

A: The tests will be composed of three distinct parts. A multiple-choice question section, a problem-solving section, and an essay question. The weekly problem sets will give you examples of the sort of problem-solving questions that I am willing to ask in an exam. The tests are designed to take the methodological tools learned in class and apply it to a different scenario. Thus, it is not designed for you to memorize proofs or concepts and regurgitate them. The problem-solving section will be written in a way to guide you to the answer. The essay-section is designed such that you discuss the models and theories discussed during lecture and relate/discuss them with the additional papers/articles discussed in class and/or assigned as additional readings. Exams are closed book and no lecture notes, or any other aid is allowed.

Q: How are problem sets graded?

A: The problem sets have three potential grades: (i) Not Submitted, (ii) Half Points, (iii) Full Points. The grade "Not Submitted" will be assigned if you don't submit the problem set by the specified deadline. There are no possible extensions for problem sets. The grade "Full Points" will be assigned if you have completed the problem set showing a significant effort. This is, you can get "Full Points" even if your answer is not 100% correct. The grade "Half Points" will be assigned if you a significant share of the problem set is left blank and or the student does not show a meaningful effort to complete the problem set. The day after the problem set is due, I will upload the solutions to the problem set.

TENTATIVE! Description of the Topics Covered

Introduction to the Class & Course Description & Introduction to Ricardian Model

Problem Set 1 - DUE

Two Good - Two Country Ricardian Model & Applications

Problem Set 2 - DUE

Specific Factors & Income Distribution Model & Applications

Problem Set 3 - DUE

Resource Endowments & International Trade: The Heckscher-Ohlin Model

No Problem Set DUE

Reading Week

Problem Set 4 - DUE

Extensions on the Heckscher-Ohlin Model

Problem Set 5- DUE

Midterm Exam TENTATIVE!

No Problem Set DUE

Economies of Scale & Imperfect Competition

Problem Set 6- DUE

Economies of Scale & Imperfect Competition

Problem Set 7- DUE

Economies of Scale & Imperfect Competition - Firm Heterogeneity

Problem Set 8- DUE

Multinational Firms and Global Value Chains

Problem Set 9- DUE

Outsourcing and Global Value Chains

Trade Policy: Tariffs, Quotas & Other

Problem Set 10- DUE

Trade & Industrial Policy in Developing Countries

Exams Begin

Exams End
