

McGill University
DEPARTMENT OF ECONOMICS
INTERNATIONAL ECONOMICS (ECON-453-001)

Fall 2020 (3rd September to 3rd December)
COURSE OUTLINE

Professor N.V. Long
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CLASS TIMES: Tuesday and Thursday, 2:35 pm to 3:55 pm. (First lecture: Thursday, September 3, 2020, at 2:35 pm; via ZOOM. To attend ZOOM lectures, you must log on to Mycourses2@mcgill.ca.)

(I) COURSE DESCRIPTION

Objectives: This course aims at providing students with (a) an overview of major theoretical and policy issues in international trade, (b) analytical concepts and techniques that are necessary for understanding existing models and for constructing new models that address those issues, (c) a review of selected empirical studies and empirical tests of trade models. The core of this course is theoretical, because it is believed that students who have a critical understanding of good theories will be able to analyze new situations that will inevitably arise in the international economic environment. We cover topics such as determinants of trade patterns, the effects of trade on income inequalities, trade policy instruments, the roles of pressure groups in the determination of trade policies, international oligopolies and strategic trade policies, the roles of the World Trade Organization, the benefits and costs of joining a free trade area (such as NAFTA) or a customs union, the effects of trade on the environment.

Mathematical requirements: Students are assumed to be familiar with standard calculus techniques.

Lectures: Lectures will be presented at (remote) Zoom Meetings, via Mycourses2@mcgill.ca. (Tuesday and Thursday, 2:35 pm- 3:55 pm). To attend these lectures, you must log on to Mycourses2@mcgill.ca.

Each lecture will be automatically recorded and can be accessed one day after the lecture, and can be downloaded anytime afterwards, until the course ends. At the end of each lectures, students can ask questions using Zoom's chat feature.

Lecture notes and lecture slides: These can be downloaded from the website mycourses2@mcgill.ca one day after each lecture.

The recorded lectures, the lecture notes, and the lecture slides **must not be made available** to anyone who is not enrolled in this course.

(II) ASSESSMENT METHOD

Your final grade is a weighted average of your grades in the following three components: Assignments, Midterm Exam, and Essay. There will be no final exam.

Assignments: 20% . There will be 4 assignments, each of which is worth 5%. Assignment due dates are: Monday 28 September for Assignment 1; Monday 12 October for Assignment 2; Monday 26 October for Assignment 3; and Monday 9

November, for Assignment 4. Assignment questions are available on Mycourses2@mcgill.ca TWO WEEKS before the due date.

Midterm exam: 30%. This will be a take-home exam. The questions will be made available on 15 October 2020 on Mycourses2@mcgill.ca. You must upload your answers to mycourses2@mcgill.ca before Monday 19 October 2020.

Essay: 50%. Due date of essay: Monday 30 November 2020. Essay topics will be made available on Monday, 2nd November 2020.

Your essay must be typed (double spaced) and must not exceed 10 pages.

Notes on the essay: You will be asked to write a commentary on a specific research paper (in international trade) written by a team of economists. In your essay, you should address the following questions. What are the research questions that the authors investigate in their paper? Are they important questions? What are the key assumptions of the model and the main results? Are the results novel and significant discoveries? Are you aware of any alternative models that explore the same (or similar) issues? Do you have any suggestions that you think the authors should take up in their future revision of the paper under review? (The research paper that you comment on **must be chosen from set of five research papers that I will upload** to Mycourses2@mcgill.ca on 2nd November 2020.)

(III) READING LIST

This list includes important journal articles, and chapters in the reference books listed below. (There is no prescribed book.)

Reference Books:

(V): Vousden, N., *The Economics of Trade Protection*. Cambridge University Press, 1990.

(BHV): Bowen, H., Hollander, A. and Viaene, J.-M., *Applied International Trade Analysis*. University of Michigan Press, 1998.

(KOM): Krugman, P., Obstfeld, M., and Melitz, M., *International Economics: Theory and Policy*. Pearson, tenth edition (undergraduate level).

(HB): *Handbook of International Economics*, Volume 1 (eds: R. Jones and P. Kenen) and Volume 3 (eds: G. M. Grossman and K. Rogoff), North Holland, Amsterdam.

(F): Feenstra, R., *Advanced International Trade: Theory and Evidence*. Princeton Univ Press, first or second edition.

SECTION A: The Three Basic Trade Models in the Perfect Competition Setting.

Topic 1: The Ricardian Model: Trade Driven by International Differences in Technology,

(BHV): Chapter 3. (W): 51-53.

Costinot, A., Donalson, D., and Komunjer, I. (2012): What Goods do Countries Trade? A Quantitative Exploration of Ricardo's Idea. *Review of Economic Studies*, Vol. 79(2): 581-608.

Kikuchi, T. and Long, N. V. (2012). A Decomposition of Ricardian Trade Gains. *International Review of Economics and Finance*, Vol. 21:173-176.

Costinot, A. (2009), An Elementary Theory of Comparative Advantage. *Econometrica*, Vol. 77(4), 1165-1192.

Costinot, A., and Donalson, D. (2012). Ricardo's Theory of Comparative Advantage: Old Idea, New Evidence. *American Economic Review*, Vol. 103(2): 453-58.

Topic 2: The Heckscher-Ohlin Model: Trade Driven by International Differences in Relative Factor Endowments.

(V): Chapter 1; (BHV): Chapters 4; (W): 23-50; (F): Chapter 2.

Trefler, D. (1993). International Factor Price Differences: Leontief was Right! *Journal of Political Economy*, Vol. 101(6): 961-978, in particular p. 972.

Krugman, P. (1995). Growing World Trade: Causes and Consequences. *Brookings Papers on Economic Activity*, Vol. 1: 327-77

Davis, D. R., (1998). Does European Unemployment Prop-up American Wages? National Labor Markets and Global Trade. *American Economic Review* Vol. 88(3): 478-94.

Borjas, G. J., R. B. Freeman and L. F. Katz, (1997). How much do Immigration and Trade Affect Labor Market Outcomes? *Brookings Papers on Economic Activity*, 1:1-90.

Atkinson, A. B., (2001). A Critique of the Transatlantic Consensus on Rising Income Inequality. *World Economy*, 24(4): 433-52.

Meckl, J. (2006). Does European Unemployment Prop-up American Wages? National Labor Markets and Global Trade: Comment. *American Economic Review* Vol. 96(5), 1924-30.

Oslington, P. (2002). Trade, Wages and Unemployment in the Presence of Hiring and Firing Costs. *Economic Record* Vol. 78(241): 195-206.

Topic 3: The Specific Factor Model: Short-Run Immobility of Capital.

(V): Chapter 1, (W):54-58, (F): Chapter 3.

(BHV): Chapters 6.

Nakanishi, N., and Long, N. V. (2015). The Distributional and Allocative Impacts of Virtual Labor Mobility across Time Zones through Communication Networks. *Review of International Economics*, Vol. 23(3), pp. 638-662.

Corden, W. M. and Neary J. P. (1982). Booming Sector and De-industrialization in a Small Open Economy. *Economic Journal* Vol. 82 (368): 825-48.

SECTION B: Subsidies, Tariffs and Quotas in the Perfect Competition Setting.

Topic 4: Import Quotas, Tariffs and Subsidies.

(V): Chapter 2 (Sections 2.1, 2.2, 2.8), Ch.4, (Sections 4.1-4.3).

(BHV): Chapter 5.

Bagwell, K., and Staiger, R.W., (1999). An Economic Theory of GATT. *American Economic Review*, Vol. 89(1), 215-248.

Kemp, M. C, Long, N. V. and Shimomura, K. (2001). A Differential Game Model of Tariff War. *Japan and the World Economy*, Vol. 13 (3), 2001, pp. 279-298.

Topic 5: Tariffs versus Quotas under Uncertainty.

(V): Chapter 3 (Sections 3.2, .3)

Topic 6: Tariffs and Quotas with Rent Seeking.

(V): Chapter 3 (Section 3.4)

Long, N. V. (2013). The theory of contests: a unified model and review of the literature. *European Journal of Political Economy*, Vol. 131: 161-181.

Long, N. V., and N. Vousden (1987). Risk-averse rent-seeking with shared rents. *Economic Journal*, Vol. 97: 971-985.

Hillman, A., Long, N. V., and Soubeyran, A. (2001). Protection, Lobbying, and Market Structure. *Journal of International Economics*, Vol. 54: 383-409.

SECTION C: Departures from Perfect Competition: Monopoly, Strategic Trade Policies under Cournot and Bertrand Oligopoly, and Monopolistic Competition.

Topic 7: Tariffs versus Quotas under Monopoly.

(V) Chapter 5, Section 5.1.

Topic 8: Oligopoly and Strategic Trade Policies.

(V): Ch. 6.

(BHV): Chapters 9&10.

Brander, J. A. and Spencer, B. (1985). Export Subsidies and International Market Share Rivalry. *Journal of International Economics* Vol.18, 83-101.

Brander, J. A., Strategic Trade Policy. In *Handbook of International Economics*, Volume 3, (eds: G. Grossman and K. Rogoff). North Holland, Amsterdam.

Eaton, J., and Grossman, G. (1986), Optimal Trade and Industrial Policy under Oligopoly. *Quarterly Journal of Economics* Vol. 101: 383-406.

Long, N. V., and Soubeyran, A. (1997). Cost Heterogeneity, Industry Concentration, and Strategic Trade Policies. *Journal of International Economics* Vol. 43: 207-220.

Long, N. V., and Soubeyran, A. (2001). International Cross-Ownership and Strategic Trade Policies. *Review of International Economics* Vol. 9(1):1-15.

Long, N. V., and Stähler, F. (2009). Trade Policy and Mixed Enterprises. *Canadian Journal of Economics*, Vol. 42(2): 590-614.

Long, N. V., Raff, H., and Stähler, F. (2011), Innovation and Trade with Heterogeneous Firms. *Journal of International Economics*, Vol 84(2): 149-159.

Harris, R. (1985). Why Voluntary Export Restraints are Voluntary? *Canadian Journal of Economics*, Vol. 17: 799-809.

Topic 9: Monopolistic Competition, Product Differentiation, and Intra-industry Trade. (And Trade Theory with Heterogeneous Firms.)

(V): Ch. 7.

(BHV): Chapters 9&10.

Krugman, P. (1979). Increasing Returns, Monopolistic Competition, and International Trade. *Journal of International Economics* Vol. 9: 469-479.

Arkolakis, C., Costinot, A., Rodriguez-Clare, A. (2012). New Trade Model, Same Old Gains? *American Economic Review*, Vol. 102(1): 94-130.

Helpman, E. and Krugman, P. (1985) Market Structure and Foreign Trade, MIT Press.

Melitz, Mark. J. (2003). The Impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity. *Econometrica*, Vol 71(6): 1695-1725.

Long, N. V., Riezman, R., and Soubeyran, A. (2005). Fragmentation and Services, *The North American Journal of Economics and Finance*, Vol. 16(1): 655-677.

Long, N. V., Staehler, F., and Raff, H. (2011). Innovation and Trade with Heterogeneous Firms. *Journal of International Economics*, Vol. 84 (4):149-159

Long, N. V. and Miao Z. (2020). Multiple-Quality Cournot Oligopoly and the Role of Market Size. *Journal of Economics and Management Strategy*. Forthcoming (2020).

Kikuchi, T. and Long, N. V. (2010a). A Decomposition of the Home-Market Effect. *Economics Bulletin*, Vol. 30(4): 2759-2768.

Kikuchi, T. and Long, N.V. (2010b). A Simple Model of Service Offshoring with Time Zone Differences. *North American Journal of Economics and Finance*, Vol. 21: 217-227.

Fajgelbaum, P., Grossman, G. and Helpman, E. (2011). Income Distribution, Product Quality, and International Trade. *Journal of Political Economy*, Vol.119(4): 721-765.

For empirical papers:

-Head, K., and Ries, J. (2001). Increasing Returns versus National Product Differentiation as an Explanation for the Pattern of US-Canada Trade. *American Economic Review*, Vol.91: 858-76.

-Broda, C. and Weinstein, D. (2006). Globalization and the Gains from Variety. *Quarterly Journal of Economics*, Vol. 121: 541-585.

-Trefler, D. (2004). The Long and Short of the Canada-U.S. Free Trade Agreement. *American Economic Review*, Vol. 94: 870-895.

-Melitz, M. J. and Trefler, D. (2012). Gains from Trade when Firms Matter. *Journal of Economic Perspectives*, Vol. 26(2): 91-118.

-Edmond, C., Midrigan, V. and Xu, D.Y. (2015). Competition, Mark-ups, and the Gains from International Trade. *American Economic Review*, Vol. 105(10): 3183-3221.

SECTION D: Special Topics (only some of these topics will be covered in class)

Topic 10: Political Markets and Endogenous Protection.

(V), Ch. 8.

(F), Chapter 9.

Long, N. V., and Vousden, N. (1991). Protectionist Responses and Declining Industries. *Journal of International Economics* Vol. 30 (1-2): 87-104.

Grossman, G., and Helpman, E. (1994). Protection for Sale, *American Economic Review* Vol. 84(4): 833-850.

Hillman, A. L., Long, N. V., and Soubeyran, A. (2001). Protection, Lobbying, and Market Structure. *Journal of International Economics* Vol. 54: 388-409.

Goldberg, P. and Maggi, G. (1999). Protection for Sale: An Empirical Investigation, *American Economic Review*, Vol. 89(5):1135-1155.

Dutt, P., and Mitra, D. (2002). Endogenous Trade Policy through Majority Voting: An Empirical Investigation. *Journal of International Economics*, Vol. 58:107-134.

Dutt, P., and Mitra, D. (2005). Political Ideology and Endogenous Trade Policy: an Empirical Investigation. *Review of Economics and Statistics*, Vol. 87(1): 59-72.

Stoyanov, A. (2009), Trade Policy of a Free Trade Agreement in the Presence of Foreign Lobbying. *Journal of International Economics* Vol. 77, 37-49.

Long, N. V. and Soubeyran, A. (2007). A Theory of Favoritism under International Oligopoly. *Review of International Economics*, Vol.15 (3): 481-498.

Topic 11: Economic Integration, Trade Liberalization, Offshoring, and North-South Trade.

(BHV), Chapter 12.

(V): Chapters 9-10.

Long, N. V., and Vousden, N. (1995). The Effects of Trade Liberalization on Cost-Reducing Horizontal Mergers. *Review of International Economics*, Vol. 3(2): 141-155.

Antras, P. (2005). Incomplete Contracts and the Product Cycle. *American Economic Review*, Vol. 95(4): 1054-1073.

Antras, P., Garicano, L. and Rossi-Hansberg, E. (2006). Offshoring in a Knowledge Economy. *Quarterly Journal of Economics*, Vol. 121(1):31-77.

Costinot, A. (2009). Jobs, Jobs, Jobs: A 'New' Perspective on Protectionism. *Journal of the European Economic Association*. Vol. 7(5): 1011-1041.

Do, V. and Long, N. V. (2008). International Outsourcing under Monopolistic Competition: Winners and Losers. Chapter 18 in S. Marjit & E. Yu (eds.) *Contemporary and Emerging Issues in Trade Theory and Policy*, (Frontiers of Economics and Globalization Volume 4), Emerald Press, UK, 345-366.

Nakanishi, N. and Long, N.V. (2015), The Distributional and Allocative Impacts of Virtual Labor Mobility across Time Zones through Communication Networks. *Review of International Economics*, Vol. 23(3): 638-662.

Long, N. V. (2005). Outsourcing and Technology Spillovers. *International Review of Economics and Finance*, Vol. 14 (3): 297-304.

Nakanishi, N. and Ngo Van Long (2020), A New Impetus for Endogenous Growth: R&D Outsourcing via Virtual Labor Mobility. *Review of International Economics*, 2020. <https://doi.org/10.1111/roie.12473>

Topic 12: Trade and Cultural Diversity

Bala, V., and Ngo Van Long (2005), International Trade and Cultural Diversity with Preference Selection, *European Journal of Political Economy*, Volume 21, Number 1, pp. 143-162.

Janeba, Eckhard, International Trade and Cultural Identity, NBER Working Paper No. 10426 (April, 2004).

Mas-Colell, A. (1999), Should Cultural Goods be Treated Differently? *Journal of Cultural Economics*, Vol. 23, pp. 87-93.

Francois, P., and T. van Ypersele (2002), On the Protection of Cultural Goods, *Journal of International Economics* 56, 359-69.

Akerlof, G. A., and R.E. Kranton (2005), Identity and the Economics of Organizations, *Journal of Economic Perspectives*, Vol. 19. pp. 9-32.

Olivier, J. M. Thoenig, and T. Verdier (2008), Globalization and the Dynamics of Cultural Identity. *Journal of International Economics*, 76(2): 365-370.

Topic 13: Dynamics, Growth and Trade.

(BHV), Chapter14.

Costinot, A., Guido Lorenzoni, and Ivan Werning (2014), A Theory of Capital Controls as Dynamic Terms-of-Trade Manipulation. *Journal of Political Economy*, 122(1): 77-128.

Long, Ngo Van, and Kar-yiu Wong (1997), Endogenous Growth and International Trade: A Survey, (with K.-y. Wong), in B. Jensen and K.-y. Wong (eds.), *Dynamics, Trade, and Growth*, University of Michigan Press, Ann Arbor, Michigan, 1997, pp 11-74.

Rodriguez, Francisco, and Dani Rodrik (2001), Trade Policy and Economic Growth: A Sceptic's Guide to the Cross-National Evidence. In *NBER Macroeconomics Annual 2001*, Cambridge, MA: MIT Press.

Frankel, Jeffrey, and David Romer (1999), Does Trade Cause Growth? *American Economic Review*, Volume 89(3), pp. 379-399.

Topic 14: Trade, Natural Resources, and Imperfect Property Rights

Brander, James A and S. Taylor (1998), Open Access Renewable Resources: Trade and Trade Policy in a Two-Country Model. *Journal of International Economics* 44, 181-210.

Chichilnisky, G.(1994), North-South Trade and the Global Environment, *American Economic Review* 84, 851-871.

Long, Ngo Van, (1999), International Trade and Natural Resources, in J. van den Bergh, ed., *Handbook of Environmental and Resource Economics*, Edward Elgard, Cheltenham, UK, pp75-88. (HC79 E5H3284-1999)

Kemp, M. C. and Ngo Van Long, (1984), "The Role of Natural Resources in Trade Models", Chapter 8 in R.W. Jones and P.B. Kenen (eds.), *Handbook of International Economics*, Volume 1, North Holland, Amsterdam.

Topic 15: Trade and Pollution

Copeland, Brian, and M. Scott Taylor (2003). *Trade and the Environment: Theory and Evidence*. Princeton University Press.

Antweiler, W., B. Copeland and S.Taylor (2001), Is Free Trade Good for the Environment? *American Economic Review*, September 2001, pp. 877-890.

Frankel, Jeffrey A., and Andrew K. Rose (2005), Is Trade Good or Bad for the Environment? Sorting out the Causality. *Review of Economics and Statistics*, Vol. 87 (1), pp. 85-91.

Long, Ngo Van (2015), The Green Paradox in Open Economies: Lessons from static and dynamic models. *Review of Environmental Economics and Policies*, Summer 2015, Vol. 9(0), pp. 266-285.

(IV) TWO STATEMENTS REQUIRED BY THE UNIVERSITY IN ALL COURSE OUTLINES

1. Language Statement

In accord with McGill University's Charter of Students' Rights, students in this course have the right to submit in English or in French any written work that is to be graded. This right applies to all written work that is to be graded, from one-word answers to dissertations.

2. Academic Integrity Statement [approved by Senate on 29 January 2003]:

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 (see www.mcgill.ca/students/srr <<http://www.mcgill.ca/integrity/>> for more information).

(V) SOME ADDITIONAL NOTES ON PLAGIARISM TO PLAGIARIZE OR NOT TO PLAGIARIZE?

The dividing line between borrowing and plagiarism is not a sharp one. My advice is that to be on the safe side, you should always cite your sources.

Below is an anecdote about borrowing versus plagiarism.

In the late 1580s, the French essayist Michel de Montaigne wrote, in an essay titled *Of the Cannibals* (*Sur les cannibales*, in *Les Essais*, Livre I, Chapitre 30), about the quality of a society of the noble savages. As Montaigne put it, it is a nation that *"hath no kind of traffic, no knowledge of letters, no intelligence of numbers, no name of magistrate, nor of politic superiority; no use of service, of riches, or of poverty; no contracts, no successions, no dividences, no occupation but idle; no respect of kindred, but common; no apparel, but natural; no manuring of lands, no use of wine, corn, or metal. The very words that import lying, falsehood, treason, dissimulations, covetousness, envy, detraction, and pardon were never heard of among them."*

Montaigne's essays were translated into English in 1603 by John Florio, who, under King James I, worked as a private tutor to the Crown Prince and the Queen Consort. This translation was published in 1603 in London in a handsome folio edition.

Around 1610-1611, Shakespeare wrote a play titled *The Tempest*, in which the good councillor Gonzalo articulated his dream about what he would do if he were in charge of the island on which he was stranded:

"...no kind of traffic
Would I admit, no name of magistrate;
Letters should not be known; riches, poverty,
And use of service, none; contract, succession;
Bourn, bound by land, tilth, vineyard, none;
No use of metal, corn, or wine, or oil;
No occupation, all men idle, all;
And women too -- but innocent and pure;
No sovereignty --
.....
All things in common nature should produce
Without sweat or endeavour. Treason, felony,
Sword, pike, knife, gun, or need of any engine,
Would I not have; but nature should bring forth
Of its own kind of foison, all abundance,
To feed my innocent people. (II.i.148-64)
>>>>>

If you were to rate the similarity between Montaigne's paragraph and Shakespeare's lines, using an anti-plagiarism software, what do you think would be the score?

>>>>>

Note that whereas Montaigne painted an ideal picture of a society of noble savages, Shakespeare, using very similar phrases, had an entirely different intention: he was mocking Montaigne's naïve view (even though he never mentioned Montaigne's name). As Stephen Greenblatt (the editor of *The Florio Translation of the Essays*) put it, "...the 'natural' social order borrowed from Montaigne for Gonzalo's speech is grossly at odds with anything actually represented on Shakespeare's ocean island."

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Notes:

-The italicized paragraph cited above is a modified version of the original paragraph in Florio (to account for modern spelling). This modification was done by Stephen Greenbatt, an editor of the book titled "Shakespeare's Montaigne, The Florio Translation of the Essays. A Selection" (edited by Stephen Greenblatt and Peter G. Platt, published by The New York Review of Books, 2014, NYREV, Inc.). www.nyrb.com.

-The French counterpart of the italicized paragraph cited above can be found in: Guy de Pernon, Montaigne, Les Essais (Google Books). Book I, Chapter 30, section 16. (In Modern French):

"C'est un peuple, dirais-je à Platon, qui ne connaît aucune sorte de commerce; qui n'a aucune connaissance des lettres ni aucune science des nombres; qui ne connaît même pas le terme de magistrat, et qui ignore la hiérarchie; qui ne fait pas usage de serviteurs et ne connaît ni la richesse, ni la pauvreté, qui ignore les contrats, les successions, les partages; qui n'a pas d'autre occupation que l'oisiveté, ne respecte pas la parenté qu'immédiate, qui ne porte pas de vêtements, n'as pas d'agriculture, ne connaît pas le métal, pas plus que l'usage du vin ou du blé. Les mots eux-mêmes de mensonge, de trahison, dissimulation, avarice, envie, médisance, pardon y sont inconnus."