

Year 2014-2015 – International Economics I (21213)

Degree/study: International Business Economics

Course: Third/Fourth

Number of ECTS credits: 5 credits

Language of instruction: English

Professor: Alessandra Bonfiglioli (alessandra.bonfiglioli@upf.edu)

TA (group 2): TBA

Office hour: TBA

Presentation of the course

This course will analyze the causes and consequences of international trade. To this end, we will learn the theoretical tools necessary to understand why countries trade, which goods are traded, which are the gains from trade and who enjoys them, and why multinational corporations may arise. The theoretical results will be then confronted with the data by reviewing the related empirical literature. As a further step, we will address the reasons why countries may have an incentive to restrict or regulate international trade and study the tools of trade.

Pre-requisites

This course requires a good knowledge of math (e.g., mastering the concept of derivative and integral and being able to compute derivatives of simple functions) and of microeconomics (theory of consumption and production, general equilibrium, consumer's and producer's surplus, perfect and monopolistic competition)

Contents

Introduction:

Data and trends on globalization, international trade and FDI

Comparative advantage and the gains from trade

Models of Comparative Advantage (CA):

The Ricardian model (technological CA)

The Heckscher-Ohlin model (endowment CA)

Beyond CA: Economies of Scale and Monopolistic Competition:

Krugman's model

Heterogeneous firms: exporters and multinational corporations (MNCs)

Trade Policy:

The tools

The political economy of trade policy

References

Theory classes will be based mainly on the mandatory textbook, which will be occasionally replaced or complemented by the original articles, reduced and simplified in the lecture notes, which will be regularly posted on the Campus Global.

Basic mandatory text

[KOM*] Krugman P., M. Obstfeld, and M.J. Melitz, *International Economics: Theory and Policy*. 9th Edition, 2012.

Recommended readings

1. [WTO] WTO (2008) "World Trade Report 2008 – Trade in a Globalizing World"
http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report08_e.pdf
2. [DFS*] Dornbusch R., S. Fischer and P. Samuelson (1977) "Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review* 67(5), pp. 823-839.
3. Eaton, J and S. Kortum (2012) "Putting Ricardo to Work," *Journal of Economic Perspectives* 26(2), pp. 65–90.
4. Samuelson, P. (2004) "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization," *Journal of Economic Perspectives* 18(3), pp. 135–146.
5. Romalis, J. (2004) "Factor Proportions and the Structure of Commodity Trade," *American Economic Review* 94(1), 67-97.
6. Trefler, D. (1995) "The Case of the Missing Trade and Other Mysteries," *American Economic Review* 85, 1029-1046.
7. [K*] Krugman, P. (1980) "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review* 70, 950-59.
8. Melitz, M. (2003) "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica* 71(6), 1695-1725.
9. Helpman E., M. Melitz and S. Yeaple (2004) "Export versus FDI with

- Heterogeneous Firms” *American Economic Review* 94, 300-316. (empirical part)
10. Trefler, D. (2004) “The Long and Short of the Canada-U.S. Free Trade Agreement,” *American Economic Review* 94(4), 870-895.
 11. Eaton, J., S. Kortum and F. Kramarz (2011) “An Anatomy of International Trade: Evidence from French Firms,” *Econometrica* 79(5), 1453-1498.

Schedule and Topics

- 29-09 Class 1: intro (KOM c. 2, WTO c.II-B)
- 30-09 Class 2: gains from trade and redistributive effects of trade in the neoclassical model with specific factors (KOM c. 4)
- 06-10 Class 3: gains from trade and redistributive effects of trade in the neoclassical model with specific factors (KOM c. 4)
- 07-10 Class 4: Ricardian model (DFS+lecture notes/ KOM c. 3)
- 13-10 Class 5: Ricardian model (DFS+lecture notes/ KOM c. 3)
- 14-10 Class 6: the Ricardian model (DFS+lecture notes/ KOM c. 3)
- 15-10 Seminar 1
- 20-10 Class 7: Heckscher-Ohlin model (lecture notes/ KOM c. 5)
- 21-10 Class 8: Heckscher-Ohlin model (lecture notes/ KOM c. 5)
- 22-10 Seminar 2
- 27-10 Class 9: Heckscher-Ohlin model (lecture notes/ KOM c. 5)
- 28-10 Class 10: external economies of scale and trade (KOM c. 7)
- 29-10 Seminar 3
- 03-11 Mid-term exam
- 04-11 Class 11: internal economies of scale and trade (K+lecture notes/KOM c. 8)
- 10-11 Class 12: firms in international trade (lecture notes + KOM c. 8)
- 11-11 Class 13: firms in international trade (lecture notes + KOM c. 8)
- 12-11 Seminar 4
- 17-11 Class 14: firms in international trade (lecture notes + KOM c. 8)
- 18-11 Class 15: trade and growth (lecture notes)

19-11 Seminar 5
24-11 Class 16: trade policy (KOM c. 9)
25-11 Class 17: trade policy (KOM c. 9-10)
01-12 Class 18: political economy of trade policy (KOM c. 10)
02-12 Class 19: political economy of trade policy (KOM c. 11-12)
03-13 Seminar 6

Evaluation

The evaluation will consist of three parts:

- 15% Seminars: participation + problem sets
- 40% Mid-term (date, time)
- 45% Final Exam (date, time)

Seminars. There will be 6 seminars, whose aim is to help fix and expand the topics introduced in the theory classes by solving problem sets. Attendance to seminars is compulsory (and verified in class). Problem sets must be handed in during the seminar session and will be evaluated.

Mid-term. The mid-term will be a 90-minute exam on the first part of the program.

Final exam. The final exam will be a 120-minute exam on the second part of the program. Students who miss the mid-term exam or are unsatisfied with their mid-term grade may opt for a final 120-minute exam on the whole program.

Final grade. The final grade will be the weighted average of the grades in the three parts: $0.15 \cdot \text{seminars} + 0.4 \cdot \text{mid-term} + 0.45 \cdot \text{final}$, or $0.15 \cdot \text{seminars} + 0.85 \cdot \text{final}$ in case the final exam is written on the whole program. The requisite to pass is that the final grade is higher or equal to 5.

Retake exam: students whose final grade is lower than 5 will be allowed to write a retake exam, which will be equivalent to a final exam on the entire program. In this case, the final grade will be computed as $0.15 \cdot \text{seminars} + 0.85 \cdot \text{retake}$.