

Yokohama National University

International Economics and Public Policy

Clinton Watkins

1. Course Description and Aims

This course surveys a number of major issues in trade theory and policy, as well as empirical tests of trade models, in the light of recent developments in international economics. After reviewing classical and neoclassical trade theory (including the Ricardian and Heckscher-Ohlin models), alternative models and extensions are examined to incorporate economies of scale, imperfect competition and international factor movements. Instruments of trade policy and their impacts are analysed theoretically and empirically. Several issues in trade and development are examined, which may include the application to developing country policy, openness, the multilateral trade system and the WTO. Through this course, students should become familiar with the theoretical models of international trade, current issues in trade policy, and application of the theory to less developed country economies.

2. Method of Assessment

Two page summary and analysis of each discussion paper (total 20%); one final examination (80%)

3. Required Text and References

A list of papers will be distributed in the first class, and handouts will be made available. The following texts are useful background references but need not be purchased for the course:

Krugman, P. and M. Obstfeld, International Economics: Theory and Policy, (6th ed.), 2003, Addison Wesley Longman.

Husted, S. and M. Melvin, International Economics, (5th ed.), 2002, Addison Wesley.

Appleyard, D. and A. Field, International Economics: Trade Theory and Policy, (3rd ed.), 1998, McGraw Hill: New York.

4. Related Subjects

Students taking this course are expected to have a solid foundation in micro and macroeconomics.

5. Course Outline

(subject to change; addition or subtraction)

Part A: Introduction

Topic 1: Introduction and Background to International Trade

- Gains from trade
- Geographic patterns of trade
- How much trade and what is traded?

Text: K&O Chapter 1

H&M Chapters 1 & 2

Discussion Paper: 1) Coughlin, C.C., The controversy over free trade: the gap between economists and the general public, *Federal Reserve Bank of St. Louis Review*. Vol. 84 (1), pp. 1-21, 2002.
2) Baier, S. and J. Bergstrand, The growth of world trade: tariffs, transport costs and income similarity, *Journal of International Economics*, 53, 1-27, 2001.

Part B: Why Countries Trade (Theory and Models)

Topic 2: Classical Theories of Trade

- Absolute and comparative advantage
- Adam Smith's view on trade
- Ricardian (Classical) Model of trade

Text: K&O Chapter 2 & 3

H&M Chapter 3

Discussion Paper: 1) Dornbusch, R., S. Fischer and Paul Samuelson Comparative Advantage, Trade and Payments in a Ricardian Model with a continuum of Goods, *American Economic Review*, 67, 823-839, 1977.

Topic 3: The Neoclassical Trade Model

- The Heckscher-Ohlin Model
- Endowment and growth: the Rybczynski Theorem
- Factor and commodity prices: the Stolper-Samuelson Theorem
- Leontief's Paradox

Text: K&O Chapter 4 & 5

H&M Chapter 4

Discussion Paper: 1) Bowen, H.P, E. E. Leamer and L. Sveikaukus, Multi country, multi factor tests of the factor abundance theory, *American Economic Review*, 791-809, 1987.

Topic 4: The Standard Trade Model

- The standard trade model
- Economies of scale
- Imperfect competition
- International factor movements

Text: K&O Chapter 5, 6 & 7

Discussion Paper: 1) Leamer Edward, Factor supply differences as a source of comparative advantage, *American Economic Review*, May, 436-439, 1993.
 2) Helpman. E., The structure of foreign trade, *Journal of Economic Perspectives*, vol 13. No. 2 p121- 144, 1999.

Topic 5 An Alternative View on Comparative Advantage

- Uncertainty in comparative advantage and market failure

Discussion Paper: 1) Finding your niche, *Economist*, 27 Feb 2003.
 2) Hausmann, R. and D. Rodrik, Economic development as self discovery, *NBER Working Paper* 8952, 2003.

Part C: Trade Policy and Welfare

Topic 6: The Economics of Protection

- Tariffs
- Non-tariff barriers
- Dumping and subsidy

Text: K&O Chapter 8
 H&M Chapters 6 & 7

Discussion Paper: 1) Baldwin, R., The case against infant-industry tariff protection, *Journal of Political Economy*. Vol. 77 (May), 295-305, 1969.
 2) Wood, A., How Trade Hurt Unskilled Workers, *Journal of Economic Perspectives*. Vol.9 (3), 57-80, 1995.
 3) Feenstra, Robert. How costly is protectionism? *Journal of Economic Perspectives*, vol 6. No. 2, 1992.

Topic 7: Trade Policy

- The political economy of trade policy
- Developing country trade policy
- Growth and trade

Text: K&O Chapter 9 & 10
 H&M Chapter 8, 9 & 10

Discussion Paper: 1) Dornbusch, R., The case for trade liberalization in developing countries, *Journal of Economic Perspectives*. Vol. 6 (1), 69-85, 1992.
 2) Edwards, S. Openness, trade liberalization, and growth in developing countries, *Journal of Economic Literature*. Vol. 31, 1358-93, 1993.

3) Frankel, J. A. and D. Romer, Trade and growth: an empirical investigation, NBER working paper 5476, 1996.

Topic 8: Further Topics in International Economics

Discussion Paper: 1) Freeman, R., Trade wars: the exaggerated impact of trade in economic debate, World Economy Annual Lecture, 2003.