



BUSINESS SCHOOL
Te Kura Pakihi

ECON 302: International Trade

Semester 2, 2018

COURSE INFORMATION

Welcome to ECON 302!

Description

Thanks to many technological developments over the past half century, today we have instant access to a vast array of information sources and are able to share new knowledge with the rest of the world in seconds. Rapid progress in communication and transportation technologies has facilitated major innovation in many other fields, radically changed how we work, raised productivity, and led to stronger international trade and financial links (see Kose and Ozturk, 2014).¹

We will study international trade in goods and services and learn the economic forces that determine what trade looks like: what products are traded; who trades them; at what quantities and prices they are traded; and what the benefits and costs of trade. We will explore both the opportunities and challenges created by international trade for different groups in society. We will also learn about the policies that governments use to shape trade patterns among countries.

Specifically, ECON 302 is organised in two parts. The first part will focus on the theoretical perspectives and concepts explaining the patterns of international trade, and on the empirical

¹ Kose, M. A., Ozturk, E. O. (2014). A world of change: Taking stock of the past half century. Finance & Development, September 2014, pp. 6-11 (<http://www.imf.org/external/pubs/ft/fandd/2014/09/pdf/kose.pdf>)

evidence available in support of such theories. The second part will focus on trade policies, examining their rationale, impact on trade and consequences for economic welfare.

International trade policy and relationships are integral to understanding both domestic and international product prices, production relationships, factor input decisions, and product marketing opportunities. This paper will help you to advance your ability to integrate international trade opportunities and related policies into business and policy decision analysis.

The major themes of the paper include gains from trade, pattern of trade, general trade models, trade policy instruments, and international policy coordination. You will reach the course objective through careful study of the course textbook, and reading short articles from newspapers, magazines, journals, bulletins and reports that provide research-based policy analysis and commentary from leading economists.

Learning Outcomes

Learning to think beyond national borders is itself a critical thinking exercise. The overarching objective ECON 302 is to promote an **understanding** of key ideas of international trade and trade policy, with emphasis on their real-world **applications**. The material covered is structured around different ‘topics’ detailed in the course outline below.

I will try to equip you with the knowledge and skills to be able to ‘make sense’ of a wide range of interesting and commonplace economic phenomena relating to international trade and trade policy. Also, by the end of the course, you should be able to read and understand non-specialist economics reporting and analysis, such as is found in *The Economist* magazine.

- My goal as a lecturer is to offer you tools, rather than rules.
- My goal is to empower you with a new way of thinking, a new way to view the world, rather than to have you memorize a set of settled conclusions.

Upon completing this paper, you will be able to communicate basic trade policy recommendations to industry and government stakeholders.

After completing the course, you will be able to:

- Determine the different advantages and costs of international trade from the various viewpoints of trade theory;
- Apply theoretical perspectives in analysing related policy questions, including the effects of trade barriers and industry protection;
- Understand the structure and politics of international trade negotiations and associated institutions such as the World Trade Organisation (WTO);
- Communicate relevant economic critiques of trade policy.

These outcomes will be realised through study of the basic trade models and political influences upon modern-day trade policy.

Pre-requisite: ECON 201 or ECON 271

Teaching Staff

Course Convenor and Lecturer

Name: **Murat Üngör**

Office: 5.11; Otago Business School Office Phone: Ext 8134

Email: murat.ungor@otago.ac.nz

Website: <http://www.muratungor.com>

Office Hours: Monday / Tuesday / Wednesday 2:00-3:00

Office hours are an excellent resource to get the extra help you may need. In addition, drop in any time or arrange a time by email. Do not hesitate or put off contacting me. I welcome all feedback from you. You can email me anytime; I usually check my email throughout the day and evening.

Tutor

Stream T1, T2, T3, T4: **Anh Thi Ngoc Nguyen** Email: anh.nguyen@postgrad.otago.ac.nz

Course Delivery

You will attend three 50-minute lectures and one 50-minute tutorial a week.

Lectures

Three 50-minute lectures will be held each week. Lectures present the key conceptual material through discussion and are supported by readings. Lecture times and locations are

Monday: 10:00 – 10:50 (TBA)

Wednesday: 12:00 – 12:50 (TBA)

Thursday: 10:00 – 10:50 (TBA)

Tutorials

Tutorials are an integral part of the course, and you should consider attendance at tutorials to be just as important as attendance at lectures. The tutorial programme complements the material covered in lectures and the textbook. It contains questions that you should do over the course of the semester. Tutorials take place weekly and begin in week 2.

Tutorial questions will be distributed periodically (each week) during the semester. You should attempt the questions prior to each tutorial. Written answers to tutorial questions will be available at the end of each tutorial (Thursday afternoons) and posted on Blackboard. You should be prepared to answer (and ask) questions during the tutorial. Understanding the relevant course material and attempting the tutorial questions prior to attending class is vital to your success in the mid-semester test and final exam.

There are four different tutorial streams, and the times of these are given below. Tutorials start in the second week of the course. You will be allocated a tutorial session and this information will be

available under Student Portal in e-Vision. If you require a tutorial stream change due to clashes or late enrolment after formal Course Approval, you can do this in the first two weeks of the semester. Tutorial times and locations are (starting in week 2)

Stream T1:	Monday:	13:00 – 13:50	(TBA)
Stream T2:	Tuesday:	13:00 – 13:50	(TBA)
Stream T3:	Wednesday:	09:00 – 09:50	(TBA)
Stream T4:	Thursday:	13:00 – 13:50	(TBA)

Expectations and Workload

As ECON 302 is an 18 point course, using the University's 'rule of thumb' you should therefore plan to devote 12 hours per week to this course throughout the semester (including the mid-semester break and the final examination period). Four of these are spent in lectures and a tutorial – leaving 8 hours per week for your own reading and study.

Course Learning Resources

Textbook

The textbook for the course is Feenstra and Taylor (2017) (the 4th edition).

- Feenstra, R. C., Taylor, A. M. (2017). International Trade. New York: Worth Publishers

The course will follow the textbook closely. You should read each chapter carefully a number of times and you should do this steadily over the semester. Do not leave the serious reading of the textbook until it is too late. You can purchase a copy of the textbook from the University bookshop. If you do not wish to buy a copy then you will need to make frequent use of the copy on close reserve in the Central Library. The third edition of the book is also on close reserve.

Short Readings

This course involves quite a bit of reading. Your textbook is the main source reading. In addition to the textbook readings, there are several short pieces to read for each topic (see the reading list for each topic below). These short pieces provide up-to-date summaries of key concepts in international trade and real-world applications and discussions.

I cannot emphasise enough that lectures will only provide an introduction to each of the topics we study. By doing as much of the reading as possible, you will deepen your understanding of the material. If you want to learn as much as possible in this course, you will need to do the reading as well. I consider reading from a wide variety of sources to be an essential part of the training you gain from a university education.

Blackboard

Blackboard <https://blackboard.otago.ac.nz/> provides you with access to course materials, class notices, and resources. Blackboard is used to email the whole class so it is important that you check your student email and *Blackboard* regularly.

All students enrolled in ECON 302 should have access to the ECON 302 Blackboard page. Slides used in lectures, tutorial questions and solutions, and announcements concerning the course will be available on Blackboard.

Study Smart

The library has designed an area, accessible through Blackboard that will help support you with research and referencing. See Study Smart folder in Blackboard.

This Study Smart link contains an interactive study hub of research support resources provided by the Library, Student IT and the Student Learning Centre. It includes:

- Getting Started – what you need to know in your first couple of weeks
- Resources for finding information for your assignments
- Finding information on the web that is appropriate for your studies
- Tools and resources to help you study efficiently
- Where to get help when you need it
- Additional assistance is available from the University Library liaison:
<http://otago.libguides.com/liaison>

Student Webmail

Forward your University email address to an email address that you use regularly as follows:

1. [Log into your StudentMail account](#) using your student username and password
2. Click **Cog button (top right corner) > Options**
3. Under **Account**, select the **Forward your email** shortcut under the **Short Cuts** menu on the right side of the screen.
4. Under the Forwarding heading, type in the email address you want your email to be forwarded to. You can also choose to have a copy of these emails kept on your StudentMail account, so please check the box if you would like this.
5. Click the **Start forwarding** button.

Assessment: Mid-Semester Test & Final Exam

These are worth (with plussage):

Mid-semester test	30%
Final Examination	<u>70%</u>
	Total=100%

Plussage means that your mid-semester test mark will count towards your final mark only if it exceeds your final exam mark. In essence, I look at two sets of (weighted) marks: mid-semester test (30%) + final exam (70%); and final exam (100%) and give you the highest of these two scores. In other words, if your mid-semester test mark is lower than your final exam mark (or you were absent from the mid-semester test) then your final exam becomes your final mark.

The aim of plussage is to enable students who perform poorly on an internal assessment covering a particular content or skill area, but who demonstrate substantial improvement in that area during the final exam, to obtain an overall grade that reflects their capabilities at the end of the paper. It should not be taken as an invitation to avoid doing internal assessment.

There are several reasons for doing the mid-semester test and taking it seriously. These include:

- The test is good preparation for both the final exam and the material in the second half of the semester, and provides feedback on how well you are coping with the course material.
- Many people do better in the mid-semester test than in the final exam, so it's likely that sitting the test will improve your final mark.

You should also be aware that – aside from providing feedback on how you are coping with the paper and some insurance against a poor performance on the final exam – your internal assessment grade is also an important factor in determining eligibility for 'Final Exam Only' (should you fail the paper) and the form of Special Consideration that might be offered (should you be ill or otherwise impaired during the final exam).

Mid-semester test (go minutes, closed book)

The midterm test will be scheduled **for an evening in the week of August 20, 2018**. It is not possible to sit this test at any other time than this. Plussage (explained above) automatically applies if you do not attend or turn in the test. There is no need to let me know if you cannot attend the test.

The exact time and room allocation will be announced well before the test on Blackboard. The test covers all the material covered up to and including the lectures and tutorials of week 6. Hence, the mid-semester test will cover materials from Tutorials 1-5.

The test will be of 90 minutes duration. I will provide you with a sample exam so that you have an idea of the style of questions you will be asked in the mid-semester test. Further details about the mid-semester test location and timing will be announced on *Blackboard* and in class in due course.

Final exam (three hours, closed book)

The final exam will be three hours long. The final exam will cover the whole course. The University will report the exam timetable later in the semester. I will provide you with a sample exam near the end of lectures so that you have an idea of the style of questions you will be asked in the final exam.

Grading System

The grading scheme used at Otago is:

A+	90-100	C+	60-64
A	85-89	C	55-59
A-	80-84	C-	50-54
B+	75-79	D	40-49
B	70-74	E	<40
B-	65-69		

Special consideration

If you consider your performance in the final exam to be seriously impaired, or if you are too ill to sit an examination, you can apply for Special Consideration. To do this you will need to obtain an application form from the University Information Centre or Student Health. Please note that applications for Special Consideration must be made within five calendar days from the date of the last examination for which the application applies and must be accompanied by supporting documentation, such as a medical certificate.

Academic Integrity

Academic integrity means being honest in your studying and assessments. It is the basis for ethical decision-making and behaviour in an academic context. Academic integrity is informed by the values of honesty, trust, responsibility, fairness, respect and courage. You are expected to be aware of, and act in accordance with, the University's Academic Integrity Policy.

Academic Misconduct, such as plagiarism or cheating, is a breach of Academic Integrity and is taken very seriously by the University. Types of misconduct include plagiarism, copying, unauthorised collaboration, taking unauthorised material into a test or exam, impersonation, and assisting someone else's misconduct. A more extensive list of the types of academic misconduct and associated processes and penalties is available in the University's Student Academic Misconduct Procedures.

To access the information in the Academic Integrity Policy and learn more, please visit the University's Academic Integrity website at www.otago.ac.nz/study/academicintegrity or ask at the Student Learning Centre or Library. If you have any questions, ask me.

Student Learning Support and Information

Student Charter

<http://www.otago.ac.nz/about/otago005275.html>

Guidelines for Learning at Otago

<http://www.otago.ac.nz/hedc/index.html>

Student Learning Centre

The Student Learning Centre, which is part of the Higher Education Development Centre, provides learning support, free of charge, to ALL enrolled students. Their services include:

- a workshop programme designed to help students to improve their learning strategies and their generic skills; <http://slc.otago.ac.nz/attend-a-workshop/>
- free and confidential consultations with a learning adviser for assistance with learning strategies; <http://slc.otago.ac.nz/talk-to-a-learning-adviser/>
- on-line study skills advice;
- a student leadership programme
- a student-led peer support programme for students of all ages and backgrounds
- conversational English groups for students from a non-English speaking background.

Library Support

The Library website <http://www.otago.ac.nz/library> provides access to resources and services, including group room bookings, library hours and locations, past exam papers, subject guides, article databases and more.

If you need assistance either check out the self-help guides <http://otago.libguides.com/selfhelp>, or ask Library staff at the ground floor service desks, or email ask.library@otago.ac.nz

Māori Student Support

Rachel Sizemore (Ngāi Tahu)
Kaiārahi Māori

Rachel provides tautoko to Māori students in the Business School. Offering an ear to listen, help with scholarships, extra tutorials, and to liaise with academic departments and Student Services with regards to those students and their intended course of study. Rachel offers support also to those studying away from their whanau, hapū and iwi, to feel safe and supported.

Tel: +64 3 479 5342 Email: rachel.sizemore@otago.ac.nz

Pacific Islands' Student Academic Advisor

Warm Pacific Greetings

Talofa lava, my name is Esmay Eteuati and my role is to liaise with Academic Departments and Student Services relating to Pacific students' and their course of study. I support both staff and students in the Business School and have a network of Pacific contacts in other Divisions around the University.

Tel: +64 3 479 4756 Email: esmay.eteuati@otago.ac.nz

Disability Information and Support

Students are encouraged to seek support if they are having difficulty with their studies due to disability, temporary or permanent impairment, injury or chronic illness. It is important to seek help early, through one of the contacts below:

Contact either:

The Disabilities Liaison person in the Economics Department is Janet Bryant
(Tel: +64 3 479 8656; Email: janet.bryant@otago.ac.nz; Office: Otago Business School 5.06)

Or

Disability Information and Support

Tel: +64 3 479 8235; Email: disabilities@otago.ac.nz; Web: <http://www.otago.ac.nz/disabilities>

International Students

The Otago Business School encourages international students to seek support if they are having difficulties with their studies or meeting other challenges while they are students at the University of Otago. In such instances, international students should feel free to contact International Student Support:

Tel: +64 3 479 8344

Email: international.support@otago.ac.nz

Web: www.otago.ac.nz/international

Location: Archway West Building

Student Feedback

I encourage your feedback. This can be in the form of contacting staff, participating in course evaluation surveys and communicating with class representatives. Continual improvements will be made to this course based in part on student feedback.

Class Representatives

The class (or student) representative system is an avenue for encouraging communication and consultation between staff and students. It provides you with a vehicle for communicating your views on the teaching and delivery of the paper and provides staff with an opportunity to communicate information and gain constructive feedback from students. It contributes to the development of a sense of community within a department and it adds a further dimension to the range of support services offered to students.

Volunteers for the role of class representatives will be called early in the semester. The OUSA invites all class representatives to a training session, conducted by OUSA, about what it means to be a class representative and some of the possible procedures for dealing with issues that arise. They also provide information on the services that OUSA offers and the role OUSA can play in solving problems that may occur. The OUSA provides support to class representatives during the semester. Departmental staff will also meet with class representatives during the semester to discuss general issues or matters they wish to have considered.

Your class representative's name and contact details will be posted on Blackboard early in the semester.

Concerns about the Course

I hope you will feel comfortable coming to talk to me if you have a concern about the course. I will be happy to discuss any concerns you may have. Alternatively, you can report your concerns to the Class Representative who will follow up with departmental staff. If, after making approaches via these channels, you do not feel that your concerns have been addressed, there are University channels that may aid resolution. For further advice or more information on these, contact the departmental administrator or head of department.

Disclaimer

While every effort is made to ensure that the information contained in this document is accurate, it is subject to change. Changes will be notified in class and via Blackboard. You are encouraged to check Blackboard regularly.

SCHEDULE OF CLASSES

WEEK COMMENCING	MONDAY CLASS (10:00–10:50AM)	WEDNESDAY CLASS (12:00–12:50PM)	THURSDAY CLASS (10:00–10:50AM)	TUTORIALS
9 July	Course Introduction & Overview	TOPIC 1: Trade in the Global Economy	TOPIC 1: Trade in the Global Economy	None
16 July	TOPIC 2: The Ricardian Model			Tutorial 1
23 July	TOPIC 2: The Ricardian Model	TOPIC 3: The Specific-Factors Model	TOPIC 3: The Specific-Factors Model	Tutorial 2
30 July	TOPIC 3: The Specific-Factors Model	TOPIC 3: The Specific-Factors Model	TOPIC 4: The Heckscher-Ohlin Model	Tutorial 3
6 August	TOPIC 4: The Heckscher-Ohlin Model			Tutorial 4
13 August	TOPIC 5: Movement of Labour and Capital Between Countries			Tutorial 5
20 August	TOPIC 6: Increasing Returns to Scale and Monopolistic Competition			Tutorial 6
27 August	Mid-Semester Break			
3 September	TOPIC 7: Offshoring of Goods and Services			Tutorial 7
10 September	TOPIC 8: Import Tariffs and Quotas Under Perfect Competition			Tutorial 8
17 September	TOPIC 9: Import Tariffs and Quotas Under Imperfect Competition			Tutorial 9
24 September	TOPIC 10: Export Subsidies in Resource-Based and High-Technology Industries			Tutorial 10
1 October	TOPIC 11: International Agreements: Trade, Labour, and the Environment			Tutorial 11
8 October	Review and final exam preparation			Tutorial 12

Note that this calendar may change as the course proceeds. Any changes will be announced at lectures and be detailed on Blackboard.

TOPIC 1: TRADE IN THE GLOBAL ECONOMY

Learning Topics and Objectives:

It's hard to pick up a newspaper or listen to the news these days without hearing about **globalisation**. These opening lectures set the stage by discussing global flows of goods and services through international trade. These lectures include maps depicting these flows. Historical examples of trade and barriers to trade are also provided. Before entering into a series of theoretical models that explain why countries trade across borders and the benefits of this trade, this week's lectures consider the pattern of world trade that we observe today.

The concept of globalisation involves the flow of goods, services, people, firms, and capital across borders. We will highlight the difference in the flow of goods and services as well as **foreign direct investment (FDI)** across borders versus the movement of people. International trade in goods and services acts as a substitute for **migration** and allows workers to improve their standard of living through working in export industries, even when they cannot migrate to earn higher incomes. This interdependence among the industrial countries is even more pronounced when we examine FDI.

In addition, we will learn that globalisation is not a new phenomenon and that the world experienced tremendous trade growth in the late nineteenth and early twentieth centuries with improvements in transportation and communications technology.

Readings:

1. Lecture Slides
2. Feenstra and Taylor (2017, Chapter 1): "Trade in the Global Economy" (pp. 1-28)
3. Two videos from different time periods that touch on some topics of the course:
 - International trade as perceived in 1951: <http://goo.gl/ZcZ8O>
 - The iPhone Economy: <http://goo.gl/6BQafe>
4. "Global Economic Integration: What's New and What's Not?" by Ben S. Bernanke (August 25, 2006) <https://www.federalreserve.gov/newsevents/speech/bernanke20060825a.htm>
5. "Globalisation and the costs of international trade from 1870 to the present," by D. Novy, C. Meissner, and D. Jacks. VoxEU (August 16, 2008). <http://www.voxeu.org/article/globalisation-and-trade-costs-1870-present>
6. Kose, M. A., Ozturk, E. O. (2014). A world of change: Taking stock of the past half century. Finance & Development, September 2014, pp. 6-11 (read especially pages 6-9). <http://www.imf.org/external/pubs/ft/fandd/2014/09/pdf/kose.pdf>
7. "How a Steel Box Changed the World: A Brief History of Shipping" by T. Di Fonzo and L. Llamas Costas Paris. The Wall Street Journal (January 24, 2018). https://www.wsj.com/video/series/a-brief-history-of/how-a-steel-box-changed-the-world-a-brief-history-of-shipping/CF460889-9984-483E-AF44-324330B89ECA?mod=trending_now_video_1
8. "Does Trump Want a Trade War? What You Need to Know about Smoot-Hawley Tariffs and the 1930s," by C. P. Bown and D. A. Irwin. Peterson Institute for International Economics (March 21, 2018) <https://piie.com/commentary/op-eds/does-trump-want-trade-war>

TOPIC 2: TRADE AND TECHNOLOGY: THE RICARDIAN MODEL

Learning Topics and Objectives:

In 2017, international trade economists celebrated the two hundredth anniversary of the birth of their field, as marked by the publication of David Ricardo's *Principles of Political Economy and Taxation*. This treatise is widely recognised to contain the first lucid exposition of the concept of comparative advantage. Ricardo's theory of comparative advantage is one of the oldest and most distinguished theories in economics. The anecdote is famous. A mathematician, Stan Ulam, once challenged Paul Samuelson to name one proposition in the social sciences that is both true and nontrivial. His reply was: "Ricardo's theory of comparative advantage"^{2,3}

This topic introduces you to international trade theory through the Ricardian model of trade. This model shows how trade arises when there are two countries, each with one factor of production that can be applied toward producing each of two goods. Key concepts are introduced, such as the production possibilities frontier, comparative advantage versus absolute advantage, gains from trade, relative prices, and relative wages across countries. The Ricardian model is a useful starting point for developing intuition about why countries gain from trading with each other. The key concept to understand is that of **comparative advantage**. However, in order to understand comparative advantage we should start with the concept of **absolute advantage**. When a country has the best technology for producing a good, it has an absolute advantage in the production of that good. However, absolute advantage is actually not a good explanation for trade patterns because it would imply that U.S. should not import anything from China since U.S. has better technology than China to produce most goods. Comparative advantage is the primary explanation for trade among countries. A country has a comparative advantage in producing those goods that it produces best compared with how well it produces other goods. Thus, comparative advantage is nothing but a comparison of the opportunity cost of one good in terms of the other good(s) across countries.

Readings:

1. Lecture Slides
2. Feenstra and Taylor (2017, Chapter 2): "Trade and Technology: The Ricardian Model" (pp. 29-60)
3. A nice video on the concept of comparative advantage by John Taylor, which is available at: <https://www.youtube.com/watch?v=IFUG307RI4I>
4. Üngör, M. (2016). China's changing comparative advantage: Trends and implications. *EcoNZ@Otago*, 37, pp. 1-4. www.otago.ac.nz/economics/otago618300.pdf
5. "Outsource your way to success," by C. Rampell. *New York Times Magazine* (November 10, 2013). <http://search.proquest.com/docview/1449837104?accountid=14700>
6. See MIT profile of Arnaud Costinot and some modern views on the theory of comparative advantage: <http://news.mit.edu/2013/faculty-profile-arnaud-costinot-1011>
7. "Ricardo and comparative advantage at 200," by D. Irwin. *VoxEU* (April 19, 2017). <http://voxeu.org/article/ricardo-and-comparative-advantage-200>

² Costinot, A., Donaldson, D. (2012). Ricardo's Theory of Comparative Advantage: Old Idea, New Evidence. *American Economic Review*, 102(3): 453-458.

³ Samuelson, P. A. 1995. The Past and the Future of International Trade Theory. In *New Directions in Trade Theory*, edited by Jim Levinsohn, Alan V. Deardorff, and Robert M. Stern, 17–22. Ann Arbor: The University of Michigan Press.

TOPIC 3: GAINS AND LOSSES FROM TRADE IN THE SPECIFIC-FACTORS MODEL

Learning Topics and Objectives:

We will examine the gains and losses from trade for labour, capital, and landowners. We no longer assume that labour is the only factor production. The model we use to analyse the role of international trade in determining the earning of labour, land, and capital assumes that one sector (agriculture) uses labour and land and the other sector (manufacturing) uses labour and capital. This model is sometimes called the specific-factors model because land is specific to the agriculture sector and capital is specific to the manufacturing sector; labour is used in both sectors, so it is not specific to either one.

The idea that land is specific to agriculture and that capital is specific to manufacturing might be true in the short run but does not really hold in the long run. In later topics, we develop a long-run model, in which capital and other resources can be shifted from use in one sector to use in another. For this topic, we focus on the short-run specific-factors model, which offers many new insights about the gains from trade beyond those obtained from the Ricardian model. We address the following question in the specific-factors model: How does trade affect the earnings of labour, land, and capital?

Readings:

1. Lecture Slides
2. Feenstra and Taylor (2017, Chapter 3): “Gains and Losses from Trade in the Specific-Factors Model” (pp. 61-88)
3. Autor, D. H. (2018). Trade and Labor Markets: Lessons from China’s Rise. IZA World of Labor February 2018, <https://wol.iza.org/articles/trade-and-labor-markets-lessons-from-chinas-rise/long>
4. “Trade in the balance,” The Economist, February 6, 2016 (Volume 418, Issue 8975, pp. 73) <http://search.proquest.com/docview/1762752575?accountid=14700>
5. Dragusanu, R., Nunn, N. “Does Fair Trade Work?” (February 9, 2018) <https://voxddev.org/topic/firms-trade/does-fair-trade-work>
6. Krugman, P. R., Lawrence, R. Z. (1994). Trade, Jobs and Wages. Scientific American 270 (April 1994), pp. 44-49. <http://www.nature.com/scientificamerican/journal/v270/n4/pdf/scientificamerican0494-44.pdf>
7. Goldberg, P., Pavcnik, N. “Integrated and unequal? The effects of trade on inequality in developing countries” (April 30, 2018) <https://voxddev.org/topic/firms-trade/integrated-and-unequal-effects-trade-inequality-developing-countries>
8. “Rich man, poor man; Globalisation and the rise of inequality,” The Economist, January 20, 2007 (Volume 382, Issue 8512, pp. 12-16) <http://search.proquest.com/docview/223993471?accountid=14700>
9. “In the shadow of prosperity –Trade’s victims,” The Economist, January 20, 2007 (Volume 382, Issue 8512, pp. 12-16) <http://search.proquest.com/docview/224000143?accountid=14700>

TOPIC 4: TRADE AND RESOURCES: THE HECKSCHER-OHLIN MODEL

Learning Topics and Objectives:

“The Heckscher–Ohlin (HO) model of the patterns and determinants of international trade was developed by two Swedish economists, Eli Heckscher and Bertil Ohlin. Heckscher laid out the fundamentals of the model in a paper first published in 1919. This paper, however, was written in Swedish and was not translated into English for almost 30 years. Consequently, the model received little attention. Heckscher’s pupil, Ohlin, elaborated on these ideas in his 1924 doctoral dissertation (also in Swedish) and later in a book published in English by Harvard University in 1933. Heckscher and Ohlin built their theory around two basic characteristics of countries and products.”⁴

Whereas the Ricardian model assumes technology differences across countries, the HO model assumes that technologies are the same across countries. In the HO model, it is endowment differences across countries—rather than technology differences—that drive comparative advantage. The source of comparative advantage in the HO model is differences across countries in endowments. Endowments are the aggregate of factors of production available to an economy. These endowments are often referred to as factor endowments. The Heckscher-Ohlin theory says that countries will produce and export goods that are intensive in the country’s abundant factor endowments, and will import goods that are intensive in the country’s scarce factor endowments. Thus, this theory links endowments to the patterns of trade. We shall examine the HO model in its simplest version.

Readings:

1. Lecture Slides
2. Feenstra and Taylor (2017, Chapter 4): “Trade and Resources: The Heckscher-Ohlin Model” (pp. 89-124)
3. “Why Trade?” <http://www.nobelprize.org/educational/economic-sciences/trade/ohlin.html>
4. “Does trade fuel inequality?” by J. Frankel. Project Syndicate (January 2, 2018). <https://www.project-syndicate.org/commentary/globalization-trade-inequality-relationship-by-jeffrey-frankel-2018-01>
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8. “The 1990s trade and wages debate in retrospect” by A. Wood. VoxEU (April 25, 2018). <https://voxeu.org/article/revisiting-1990s-debate-globalisation>
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TOPIC 5: MOVEMENT OF LABOUR AND CAPITAL BETWEEN COUNTRIES

Learning Topics and Objectives:

We will study the impact of immigration and FDI on wages and returns on rental of land and capital to the foreign and host countries. Using the short-run specific-factors model, we examine how the movement of labour between countries leads to a decline in the host country wage following the inflow of labour. By contrast, the long-run model shows that the increase in foreign labour supply does not result in a change in the host country wage. The short- and long-run models also explain the returns to capital due to FDI.

We will examine the impact of labour and capital mobility on the *Home* and *Foreign* country in the short and long run using the specific-factors model. In the short run, the inflow of foreign workers reduces the marginal product of labour, which in turn decreases wage in the host country. In the long run, when labour as well as capital is mobile between the industries, the wage does not necessarily fall in contrast to the short-run case. After studying what happens when labour moves across countries, we will study the effects of FDI, the movement of capital across countries. FDI occurs when a company from one country owns a company in another country. We will conclude this topic by discussing the gains to the source and destination countries, and to the world, from the movement of labour or capital between countries.

Readings:

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4. "Immigration fears and policy uncertainty" by S. R. Baker, N. Bloom, S. Davis. *VoxEU* (December 15, 2015). <https://voxeu.org/article/immigration-fears-and-policy-uncertainty>
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TOPIC 6: INCREASING RETURNS TO SCALE AND MONOPOLISTIC COMPETITION

Learning Topics and Objectives:

We introduce a market structure called monopolistic competition whereby countries trade goods that are similar but not identical to each other. In other words, a firm is able to maintain some monopoly power by differentiating its products from those of its competitor. An empirical application of the amount of trade involving imports and exports of different product varieties, also known as **intra-industry trade**, will be discussed. Models based on cross-country differences can only explain trade in different goods between different countries. However, much of actual trade is in similar goods between similar countries. Such trade is called intra-Industry trade.

Similar goods are sometimes referred to as varieties of the same good. For example, Germany both exports cars to Japan and imports cars from Japan, which is difficult to explain with models of comparative advantage. Intra-industry trade can be rationalised with models featuring increasing returns to scale technology and love-of-variety preferences. Paul Krugman received the 2008 Nobel Prize for pioneering the development of such models. Because of increasing returns to scale technology, different countries specialise in different varieties of the same good. Because of love-of-variety preferences, countries trade different varieties of the same good. This will become clear in this topic.

Another empirical application, the gravity equation, explains the high volume of trade that takes place between large countries. Supported by an intuitive correspondence between Newton's universal law of attraction between two objects in physics and the bilateral trade flows, the early applications of the gravity equation in international trade specified a proportional association between bilateral trade flows and the economic masses of the two countries and negative association between bilateral trade flows and distance.

Readings:

1. Lecture Slides
2. Feenstra and Taylor (2017, Chapter 6): "Increasing Returns to Scale and Monopolistic Competition" (pp. 169-200)
3. Ruffin, R. J. (1999). The Nature and Significance of Intra-Industry Trade. Federal Reserve Bank of Dallas Economic and Financial Review (fourth quarter 1999), pp. 2-9
<https://www.dallasfed.org/assets/documents/research/efr/1999/efr9904a.pdf>
4. "Economic Scene; Variety, the spice of life, has measurable value. But it's not easy to determine," by V. Postrel. The New York Times (June 17, 2004).
<http://www.nytimes.com/2004/06/17/business/economic-scene-variety-spice-life-has-measurable-value-but-it-s-not-easy.html>
5. Elmslie, B. 2018. Retrospectives: Adam Smith's Discovery of Trade Gravity. Journal of Economic Perspectives, 32(2): 209-222. DOI: 10.1257/jep.32.2.209
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<http://voxeu.org/article/paul-krugman-s-nobel-prize>
7. "Gravity," by P. Krugman. NY Times (September 1, 2015).
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TOPIC 7: OFFSHORING OF GOODS AND SERVICES

Learning Topics and Objectives:

We will study a type of trade that is becoming increasingly important: **offshoring**, by which we mean the shifting of some production activities to another country, while other production activities are kept at home. Offshoring is a deeply debated topic. The topic of offshoring will be discussed through a model and various case studies.

Such movement of work, called offshoring or outsourcing, is now possible for many types of services, from computer programming to financial analysis to telemarketing. While offshoring helps businesses lower costs and reduce the shortage of workers in some situations, it has raised concerns about its effects on employment and wages in developed countries. We will examine whether offshoring or the shift toward skill-biased technological equipment explains the increase in the demand for high-skilled labour in the developed countries. There is a discussion of the potential loss of developed countries' comparative advantage to countries such as China and India. Winners and losers of offshoring will be discussed.

Readings:

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https://www.stlouisfed.org/~media/Publications/Regional-Economist/2017/Second_quarter_2017/district_overview.pdf
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5. "International trade, offshoring, and US wages" by A. Harrison, A. Ebenstein, M. McMillan, and S. Phillips. *VoxEU* (August 31, 2009).
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6. "Special report: Outsourcing and offshoring," *The Economist*, January 19, 2013
http://www.economist.com/sites/default/files/20130119_offshoring_davos.pdf
7. Blinder, A. S. (2006). Offshoring: The Next Industrial Revolution? *Foreign Affairs*, 85(2), pp. 113-128. <http://www.jstor.org/stable/20031915>
8. Freeman, R. B. (2015). Who owns the robots rules the world. *IZA World of Labor* May 2015,
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9. Ottaviano, G. (2015). Offshoring and the migration of jobs. *IZA World of Labor* July 2015,
<https://wol.iza.org/articles/offshoring-and-migration-of-jobs/long>
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<https://www.gooddata.com/blog/how-ai-will-end-offshoring>

TOPIC 8: IMPORT TARIFFS AND QUOTAS UNDER PERFECT COMPETITION

Learning Topics and Objectives:

Tariffs are taxes imposed by countries on either imports or exports. This form of commercial policy is probably the most commonly used tool by governments around the world to regulate their trade flows. While tariffs are the most universal form of protection found in the world today, nontariff barriers, such as **quotas**, subsidies, and government policies related to procurement or to health and safety standards, affect a large share of international trade. Quotas are government-imposed limits on the quantity or value of goods traded between countries. Quotas that entirely eliminate trade in a certain product are known as embargoes. Embargoes are sometimes established as a form of economic sanction against the policies or practices of another country.

We will examine the impact of import tariffs on the welfare of the importing country, exporting country, and world. The welfare implications are different depending on whether the importing country is small or large. Reasons for the popularity of tariffs are discussed as well as the role of the **General Agreement on Tariffs and Trade (GATT)/World Trade Organisation (WTO)**. In addition to tariffs, there is also a discussion of the use of an import quota as a barrier to trade.

Readings:

1. Lecture Slides
2. Feenstra and Taylor (2017, Chapter 8): "Import Tariffs and Quotas Under Perfect Competition" (pp. 241-284)
3. Krugman, P. R. (1993). The Narrow and Broad Arguments for Free Trade. *American Economic Review*, Vol. 83, No. 2, pp. 362-366. <http://www.jstor.org/stable/2117691>
4. "All free traders now?," *The Economist*, December 7, 1996 (Volume 341, Issue 7995, pp. 21-23) <http://search.proquest.com/docview/224108459?accountid=14700>
5. Douglas A. Irwin's "A Brief History of International Trade Policy" is a nice overview of two centuries of thought on trade issues. <http://www.econlib.org/library/Columns/Irwintrade.html>
6. Irwin, D. A. (2002). Interpreting the Tariff-Growth Correlation of the Late 19th Century. *American Economic Review*, 92(2): 165-169. DOI: [10.1257/000282802320189186](https://doi.org/10.1257/000282802320189186)
7. "Today's trade policy and trade research" by C. Bown and M. Crowley. *VoxEU* (June 5, 2016). <http://voxeu.org/article/today-s-trade-policy-and-trade-research>
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9. "The toll of tariffs," *The Economist*, April 14, 2016 <http://www.economist.com/news/finance-and-economics/21697023-historians-find-yet-another-way-protectionism-harms-development-toll-tariffs>

TOPIC 9: IMPORT TARIFFS AND QUOTAS UNDER IMPERFECT COMPETITION

Learning Topics and Objectives:

Do the effects of trade policies differ when markets are imperfectly competitive? We will explore the answer to this question. This question received a good deal of attention from trade economists in the 1980s, in a body of research that became known as strategic policy. We will study the impact of import tariffs and quotas under imperfect competition. We will contrast the effects of a tariffs and quota on the economic welfare of the home country when there is a home monopoly. One application of that case is “infant industry” protection, which is discussed in theory and through several country studies.

The last two decades have witnessed rising administrative protection via antidumping measures. When countries negotiate lower tariffs in trade agreements, domestic industries that desire protection against imports can employ several methods to gain temporary protection. The most popular of these methods is to claim that the trade partner is dumping or selling below the “fair value.” Trade policies adopted by the Chinese government receive increased attention, including export subsidies to solar panels and the resulting antidumping tariffs in the United States.

Readings:

1. Lecture Slides
2. Feenstra and Taylor (2017, Chapter 9): “Import Tariffs and Quotas Under Imperfect Competition” (pp. 285-331)
3. “Anti-dumping, subsidies, safeguards: contingencies, etc.” by WTO.
https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm8_e.htm
4. “Detection and impact of industrial subsidies: The case of Chinese shipbuilding” by M. Kalouptsi. VoxEU (September 9, 2017).
<http://voxeu.org/article/chinas-hidden-shipbuilding-subsidies>
5. “Evaluating the burden of a US-China trade war” by M. Guo, L. Liu, L. Sheng, and M. Yu. VoxChina (April 25, 2018). <http://vochina.org/show-3-78.html>
6. “Antidumping in the EU: The time of missed opportunities” by H. Vandebussche, M. Zanardi. VoxEU (February 8, 2008). <http://voxeu.org/article/why-we-need-antidumping-reforms>
7. “From hard to soft industrial policies in developing countries” by A. Harrison and A. Rodríguez-Clare. VoxEU (June 27, 2010).
<http://voxeu.org/article/hard-soft-industrial-policies-developing-countries>
8. “China-EU solar panel trade dispute: Rhetoric versus reality” by S. Evenett. VoxEU (June 5, 2013). <http://voxeu.org/article/china-eu-solar-panel-trade-dispute-rhetoric-versus-reality>
9. “Protectionist clouds darken sunny forecast for solar power” by J. Frankel. VoxEU (August 7, 2013). <http://voxeu.org/article/protectionist-clouds-darken-sunny-forecast-solar-power>
10. “Trump’s Trade Gimmickry,” by D. Rodrik. Project Syndicate (Mar 9, 2018).
<https://www.project-syndicate.org/commentary/trump-tariffs-trade-gimmickry-by-dani-rodrik-2018-03>

TOPIC 10: EXPORT POLICIES IN RESOURCE-BASED AND HIGH-TECHNOLOGY INDUSTRIES

Learning Topics and Objectives:

What are export subsidies? Why do countries use them? The trade policy we will examine in this chapter is one that promotes exports, often at the expense of domestic consumers. Export subsidies are used by many countries, developed and developing, to increase the competitive efforts of domestic producers. In this chapter, we discuss the impact of export subsidies in the agricultural and high-tech industries on domestic and world welfare.

Generally, for a small country, the use of agricultural export subsidies benefits domestic producers through increased production and higher prices but hurts consumers in terms of the rise in price paid. For a large country, in addition to the deadweight loss from the decline in consumer surplus and production inefficiency, the exporting country experiences a terms-of-trade loss resulting from the decrease in world price driven by the additional exports. The effect of export subsidies in high-tech industries depends on whether the government assistance succeeds in preventing entry.

Readings:

1. Lecture Slides
2. Feenstra and Taylor (2017, Chapter 10): "Export Policies in Resource-Based and High-Technology Industries" (pp. 333-373)
3. Crowley, M. A. (2003). An Introduction to the WTO and GATT. Federal Reserve Bank of Chicago Economic Perspectives, Vol. 27, No. 2003-4, November, 4th Quarter
https://www.chicagofed.org/digital_assets/publications/economic_perspectives/2003/4qeppart4.pdf
4. "Boeing versus Airbus: Who won the battle of Dubai," by D. Reid. CNBC (November 17, 2017). <https://www.cnbc.com/2017/11/17/boeing-or-airbus-who-won-the-battle-of-dubai.html>
5. "Rare earths discovery boosts Japan extractors, machinery makers," by H. Lockett. Financial Times (April 11, 2018). <https://www.ft.com/content/68245766-3d20-11e8-b7e0-52972418fec4>
6. "In victory for the West, W.T.O orders China to stop export taxes on minerals," by K. Bradsher. New York Times (January 30, 2012).
http://www.nytimes.com/2012/01/31/business/wto-orders-china-to-stop-export-taxes-on-minerals.html?_r=0
7. "Could you cope with smartphone rationing?" by I. Hardy. BBC (June 13, 2017).
<http://www.bbc.com/news/business-40248405>
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<https://www.ft.com/content/167fbfe0-08c4-11e2-9176-00144feabdc0>
10. "WTO rules against China on 'rare earths' export restrictions," by S. Donnan and J. Politi. Financial Times (March 27, 2014).
<https://www.ft.com/content/962a0ba4-b4e6-11e3-9166-00144feabdc0>

TOPIC 11: INTERNATIONAL AGREEMENTS: TRADE, LABOUR, AND THE ENVIRONMENT

Learning Topics and Objectives:

A trade agreement is a pact between two or more countries to reduce or eliminate trade restrictions. The **WTO** is an example of a multilateral trade agreement. The trade agreements can be at the global or multilateral level, such as the WTO, or at the regional level, such as the **North American Free Trade Agreement (NAFTA)** between the United States, Canada, and Mexico. Countries can also engage in bilateral agreements. There are many **free trade agreements (FTAs)** between countries. Recently, FTAs all over the world have been negotiated or renegotiated. For example, NAFTA is being renegotiated for the first time since its inception in 1994 and the sixth round of NAFTA ended in 29 January 2018 in Montreal. Twelve countries that border the Pacific Ocean signed up to the **Trans-Pacific Partnership (TPP)** in February 2016 to liberalise trade and investment between these Pacific Rim countries: New Zealand, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, Singapore, the US and Vietnam. Signed by the 12 countries on 4 February 2016 in Auckland, the Agreement did not enter into force. On 23 January 2017, President Donald Trump signed a Presidential Memorandum to withdraw the US from TPP. TPP, which had been on life support since Trump's withdrawal of the US, has finally been resuscitated. The TPP is now known as the "**Comprehensive and Progressive Trans-Pacific Partnership**", (CPTPP) after the US pulled out of the agreement in January 2017. The 11 remaining countries signed an amended agreement on 8 March 2018 in Chile. What are the motives and economic effects of trade agreements? How are trade policies negotiated and enforced? What are the economic effects of mega-regional agreements, e.g. the Trans-Pacific Trade Partnership, and their interaction with the WTO? In this part, we will deal with such questions.

Readings:

1. Lecture Slides
2. Feenstra and Taylor (2017, Chapter 11): "International Agreements: Trade, Labour, and the Environment" (pp. 375-422)
3. "How palm oil ban has made the EU a dirty word in Malaysia" by H. Ellis-Petersen (April 25, 2018). <https://www.theguardian.com/world/2018/apr/26/how-palm-oil-ban-has-made-the-eu-a-dirty-word-in-malaysia>
4. Rodrik, D. (2018). What do trade agreements really do? *Journal of Economic Perspectives*, Vol. 32, No. 2, pp. 73-90. DOI: 10.1257/jep.32.2.73
5. "The impact of trade agreements: New approach, new insights" by S. A. Hannan. *VoxEU* (July 1, 2016). <https://voxeu.org/article/impact-trade-agreements-new-approach-new-insights>
6. "The economic effects of goods and factor market integration" by L. Caliendo, L. D. Oromolla, F. Parro, A. Sforza. *VoxEU* (October 10, 2017). <http://voxeu.org/article/economic-effects-goods-and-factor-market-integration>
7. "Can a Trade War be Averted?" by B. Eichengreen (April 10, 2018). <https://www.project-syndicate.org/commentary/averting-trump-trade-war-by-barry-eichengreen-2018-04>
8. About FTAs: <https://www.mfat.govt.nz/en/trade/free-trade-agreements/about-free-trade-agreements/>

Links for intellectual curiosity and for future references

Some online sources

- Lawrence Edwards and Robert Z. Lawrence. 2013. *Rising Tide: Is Growth in Emerging Economies Good for the United States?* Peterson Institute for International Economics. An Accessible book that examines how increased trade with emerging economies (such as China and India) has affected the United States and its workers:
<https://piie.com/bookstore/rising-tide-growth-emerging-economies-good-united-states>
- An excellent (though a bit dated) textbook, *International Trade, Theory and Evidence* by James Markusen et al., is available (in its entirety) online:
<http://spot.colorado.edu/~markusen/textbook.html>

You may want to use it as a source for your future studies, especially, if you are interested in technical sides of international trade.

- Family Tree of Trade Economists (by Prof. Alan Deardorff)
<http://www-personal.umich.edu/~alandear/tree/INDEX.HTM>
- Glossary of International Economics (by Prof. Alan Deardorff)
<http://www-personal.umich.edu/~alandear/glossary/>
- World Trade Organisation (WTO)
<<https://www.wto.org/>>

The WTO is the international organization whose primary purpose is to open trade for the benefit of all. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

- WTO Annual Reports
< https://www.wto.org/english/res_e/reser_e/annual_report_e.htm >

The WTO Annual Report provides a comprehensive overview of WTO activities over the past year and includes information on the WTO's budget and staffing.

- International Monetary Fund (IMF)
< <http://www.imf.org/> >

The IMF was conceived at a UN conference in Bretton Woods, New Hampshire, United States, in July 1944. The IMF is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

- Organisation for Economic Co-operation and Development (OECD)
<<http://www.oecd.org/>>

The mission of the OECD is to promote policies that will improve the economic and social well-being of people around the world. The OECD works with governments to understand what drives economic, social and environmental change. The OECD measures productivity and global flows of trade and investment.

- World Bank (WB)
<<http://www.worldbank.org/>>

The World Bank is a vital source of financial and technical assistance to developing countries around the world. Established in 1944, the World Bank Group is headquartered in Washington, D.C. They have more than 10,000 employees in more than 120 offices worldwide.

- United Nations Conference on Trade and Development (UNCTAD)
< <http://unctad.org/>>

UNCTAD, which is governed by its 194 member States, is the United Nations body responsible for dealing with development issues, particularly international trade – the main driver of development. Every two years, UNCTAD organises the World Investment Forum, which brings together major players from the international investment community to discuss challenges and opportunities and to promote investment policies and partnerships for sustainable development and equitable growth.

- UN Comtrade Database
< <http://comtrade.un.org/>>

UN Comtrade is a repository of official trade statistics and relevant analytical tables. It contains annual trade statistics starting from 1962 and monthly trade statistics since 2010.

Research-based policy analysis and commentary from leading economists

- [VOXEU](http://www.voxeu.org/)
< <http://www.voxeu.org/>>
- [VoxChina](http://voxchina.org/)
< <http://voxchina.org/>>
- [Project Syndicate](https://www.project-syndicate.org/)
<<https://www.project-syndicate.org/>>

Trade Policy of New Zealand: <https://www.mfat.govt.nz/en/trade/nz-trade-policy/>

***I hope that you enjoy this course. I intend to!
Cheers Murat***