

COURSE: INTERNATIONAL TRADE (ECO 410)

SYLLABUS

International Trade:

- I. Labor Productivity and Comparative Advantage: The Ricardian Model
 - The principle of Comparative advantage and the Ricardian model.
 - Empirical evidence on the Ricardian model
- II. Specific Factors and Income Distribution
- III. Resources and Trade: The Heckscher-Ohlin Model
 - The role of factor abundance: pattern of trade and specialization in the Heckscher-Ohlin (H-O) model.
 - Empirical evidence on the H-O model.
 - Specific factors, pattern of trade and local distribution of income in the Specific Factors (SF) model.
 - Comparing the implications of the H-O model and the SF model
- IV. The Standard Trade Model
 - The standard trade model: terms of trade, international transfers and growth.
- V. Economies of Scale, Imperfect Competition, and International Trade
- VI. The Instruments of Trade Policy
- VII. The Political Economy of Trade Policy

Course Introduction

This course introduces undergraduate students to the theory of International Trade and its application to the real world. Students are introduced to the theories with which to understand international trade patterns, examine trade policies, and address topical issues of international economic interdependence between states.

This course is structured into two parts. The first part introduces students to the theoretical models of trade which explain the rationale, pattern and effect of trade on the participant countries. The second part of the course focuses on trade policy. Here the various instruments of trade policy are analyzed, the political economy of trade policy introduced and finally the debates in trade policy are highlighted from the perspective of the developing world.

Course Learning Objectives

The course has been designed to achieve the following objectives:

CLO 1: To develop skills in comprehending the theoretical models of international trade.

CLO 2: Gain an understanding of the current policy issues related to the flow of goods, services, and money across international borders.

CLO 3: Compare alternative theories of international trade

CLO 4: Estimate the impact of preferential trade arrangements

CLO 5: Understand the welfare impact of trade on the countries

CLO 6: Introduce the menu of policy interventions

Program Learning Objectives

The course has been designed to achieve the following objectives:

PLO 1: To equip students with a sound knowledge of economics allowing them to critically think about and respond to problems in a challenging global economy.

PLO 2: To produce graduates who can use economic reasoning to solve difficult problems faced by economic actors including firms, households and policy makers.

PLO 3: To develop and nurture the leadership potential and make them realize the importance of teamwork and collaborative environment in a challenging academic environment.

PLO 4: To develop the skills to effectively communicate ideas, analysis and proposed solutions to real world problems.

PLO 5: To produce graduates with advanced knowledge and in-depth understanding of the theories, principles and analytical techniques to tackle issues in economics and business policy.

PLO 6: To equip students with the abilities and analytical skills to contribute towards financial management of organizations.

| Program Learning Objectives | Course Learning Objectives | Course Assessment Item |
|---|--|---|
| PLO 1: To equip students with a sound knowledge of the economy allowing them to critically think about and respond to economic and financial problems in a challenging global economy. | To develop skills in comprehending the theoretical models of international trade and international finance. (CLO 1) | Seminar discussion, Quizzes, Exam |
| PLO 2: To produce graduates with advanced knowledge and in-depth understanding of the theories, principles and analytical techniques to tackle issues in economics and business policy. | Estimate the impact of preferential trade arrangements (CLO 4) | Seminar discussion, Quizzes, Essays, Term Paper, Exam |
| PLO 3: To develop and nurture the leadership potential and make them realize the importance of teamwork and collaborative environment in a challenging academic environment. | Compare alternative theories of international trade (CLO 3) | Seminar discussion, Quizzes, Essays, Exam |
| PLO 4: To develop the skills to effectively communicate ideas, analysis and proposed solutions to real world problems. | Understand the welfare impact of trade on the countries (CLO 5) | Seminar discussion, Quizzes, Essays, Term Paper, Exam |
| PLO 5: To produce graduates who can use economic reasoning to solve difficult problems faced by economic actors including firms, households and policy makers. | Introduce the menu of policy interventions (CLO 6) | Seminar Discussion, Quizzes, Essays, Exam |
| PLO 6: To equip students with the abilities and analytical skills to contribute towards financial management of organizations. | Gain an understanding of the current policy issues related to the flow of goods, services, and money across international borders. (CLO 2) | Seminar discussion, Quizzes, Essays, Exam |

Pedagogy

The teaching methodology will include classroom lectures, written analysis of cases/articles, problem sets, quizzes and discussion questions, all are geared to sharpen the student's analytical and conceptual skills on the preceding lecture.

All quizzes will be announced. Assignments will be handed out and discussed during class and need to be submitted at class end. Both quizzes and assignments will count towards the final grade.

Attendance is mandatory, and beyond that, necessary for understanding the course content. To this end, students are also encouraged to actively participate in class discussions on the topics being learnt in class. 5 absences are allowed, so please use them in case of any illness/family or other emergency. I will not be accepting any leave applications. Every absence beyond the allowed 5 will result in a 1-percentage point deduction in the aggregate. _

Article/Book Readings:

You are supposed to have read the assigned articles and/or book chapters under discussion in advance. Questions answered, relating to the reading material, will contribute to the class participation marks.

Core Reading List

- *International Economics: Theory and Policy*, 10th edition, Paul Krugman, Maurice Obstfeld, and Marc Melitz

Lahore School of Economics Plagiarism Policy

Lahore School adheres to HEC plagiarism policies, which are available on the HEC website and Lahore School handbook on plagiarism policy.

The policy can be found at

<http://hec.gov.pk/english/services/faculty/documents/plagiarism/plagiarism%20policy.pdf>

The Lahore School Regulations on Student Code of Behavior specifies penalties for plagiarism in reports, research papers and presentations in courses taken and in articles published while studying at the Lahore School

Assessments

All of the activities held during the session will be evaluated. The final grades for the course will be as follows:

| | |
|-------------------|-----|
| Assignments: | 10% |
| Attendance & CP: | 10% |
| Presentations: | 10% |
| Quizzes (3 of 4): | 15% |
| Mid-term: | 20% |
| Final exam: | 35% |

Calendar of Activities

The following journal articles, books, and reports will be reviewed and discussed in the class sessions along with the formal lecture on the respective topics. The instructor may update this list slightly during the course.

| Lecture # | Topic and Readings | Discussion Sessions |
|-----------|--|--------------------------------|
| 1 | World Trade: An Overview | Discussion Questions & Article |
| 2 & 3 | Labor Productivity and Comparative Advantage: The Ricardian Model: Ch 3 | Discussion Questions & Article |
| 4 | Labor Productivity and Comparative Advantage: The Ricardian Model: Ch 3 | Discussion Questions |
| 5 | Specific Factors and Income Distribution: Ch 4 | Discussion Questions |
| 6 | Quiz # 1 | |
| 7 & 8 | Specific Factors and Income Distribution: Ch 4 | Discussion Questions |
| 9 & 10 | Resources and Trade: The Heckscher- Ohlin Model: Ch 5 | Discussion Questions & Article |
| 11&12 | Resources and Trade: The Heckscher- Ohlin Model: Ch 5 | Discussion Questions |
| 13 | Quiz # 2 | Discussion Questions & Article |
| 14 | Revision | |
| 15 | Mid Term Exam | |
| 16 & 17 | The Standard Trade Model: Ch 6 & | |
| 18 | The Standard Trade Model: Ch 6 & | |
| 19 & 20 | Economies of Scale, Imperfect Competition, and International Trade: Ch 7 | Discussion Questions |
| 21 | Economies of Scale, Imperfect Competition, and International Trade: Ch 7 | Discussion Questions |
| 22 | Quiz # 3 | |
| 23 & 24 | The Instruments of Trade Policy: Ch 9 | Discussion Questions |
| 25 | The Political Economy of Trade Policy: Ch 10 | |
| 26 | Quiz # 4 | Discussion Questions |
| 27 & 28 | Presentations | Discussion Questions |
| 29 | Revision | |
| 30 | Final Exam | |

Readings for Presentations:

- Deardorff, A. “**The General Validity of the Law of Comparative Advantage.**” *Journal of Political Economy* 111, no. 57-941 :(1980) 5.
- Dixit, A., and V. Norman. “**Gains from Trade without Lump-Sum Compensation.**” *Journal of International Economics* 11, no. 22-111 :(1986) 2-1.
- Samuelson, P. “**The Gains from International Trade.**” *Cambridge Journal of Economics* :(1939 2.0-190.

- Dornbusch, R., S. Fischer, et al. “Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods.” *American Economic Review* 77, no. 39–423 : (1977) 0.
- Eaton, J., and S. Kortum. “Technology, Geography and Trade.” *Econometrica* 70, no. : (2002) 0 79–1141.
- Costinot, A. “An Elementary Theory of Comparative Advantage.” *Econometrica* 77, no. 4 92–1160 : (2009).
- Costinot, A., and J. Vogel. “Matching and Inequality in the World Economy.” *Journal of Political Economy* 118, no. 86–747 : (2010) 4.
- Frankel, J., and D. Romer. “Does Trade Cause Growth?” *American Economic Review* 89, no. 7 99–379 : (1999).
- Feyrer, J. ”Trade and Income Exploiting Time Series in Geography.” (PDF) NBER Working Paper no. 2009 , 14910.
- Costinot, Arnaud and Dave Donaldson. “What Goods Do Countries Trade? A Quantitative Exploration of Ricardo’s Ideas.” *Review of Economic Studies* 79, no. 708–081 : (2012) 2.
- Nunn, Nathan. “Relationship-Specificity, Incomplete Contracts, and the Pattern of Trade.” *The Quarterly Journal of Economics* 122, no. 700–069 : (2007) 2.
- Bernstein, Jeffrey R, and D. Weinstein. “Do Endowments Predict the Location Of Production?; Evidence from National and International Data.” *Journal of International Economics* 06, no. 1 76–00 : (2002).
- Blum, Bernardo S. “Endowments, Output, and the Bias of Directed Innovation.” *Review of Economic Studies* 77, no. 09–034 : (2010) 2.
- Morrow, Peter M. “Ricardian-Heckscher-Ohlin Comparative Advantage: Theory and Evidence.” *Journal of International Economics* 82, no. 01–137 : (2010) 2.
- Romalis, John. “Factor Proportions and the Structure of Commodity Trade.” *American Economic Review* 94, no. 97–77 : (2004) 1.
- Schott, Peter K. “One Size Fits All? Heckscher-Ohlin Specialization in Global Production.” *American Economic Review* 93, no. 708–786 : (2003) 2.
- ———. “Across-Product Versus Within-Product Specialization in International Trade.” *The Quarterly Journal of Economics* 119, no. 78–747 : (2004) 2.
- Bernard, Jensen, et al. “Firms in International Trade.” *Journal of Economic Perspectives* 21, no. 30–100 : (2007) 3.
- Helpman, Melitz, et al. “Estimating Trade Flows: Trading Partners and Trading Volumes.” *The Quarterly Journal of Economics* 123, no. 87–441 : (2008) 2.
- Pavcnik, Nina. “Trade Liberalization, Exit, and Productivity Improvements: Evidence from Chilean Plants.” *Review of Economic Studies* 79, no. 76–240 : (2002) 1.
- Lillieva, Alla and Daniel Trefler. “Improved Access to Foreign Markets Raises Plant-Level Productivity...For Some Plants.” (PDF) *Quarterly Journal of Economics* (100) : (2010).
- Eaton, Kortum, et al. “An Anatomy of International Trade: Evidence from French Firms.” NBER Working Paper No. 14610, 2008.
- Bernard, Eaton, et. al. “Plants and Productivity in International Trade.” *American Economic Review* 93, no. 4 (2003): 1268–90.
- Roberts, and Tybout. “The Decision to Export in Colombia: An Empirical Model of Entry with Sunk Costs.” *American Economic Review* 87, no. 74–040 : (1997) 4.

- Bernard, Andrew B., and J. Bradford Jensen. “[Exceptional Exporter Performance: Cause, Effect, or Both?](#)” *Journal of International Economics* 47, no. 2–3 : (1999) 1.
- Melitz, M. “[The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity.](#)” *Econometrica* 71, no. 72–7690 : (2003) 7.
- Arkolakis, Costas. “[Market Penetration Costs and the New Consumers Margin in International Trade.](#)” *Journal of Political Economy* 118, no. 99–1101 : (2010) 7.
- Arkolakis, C., and M. Muendler. “[The Extensive Margin of Exporting Products: A Firm-Level Analysis.](#)” Mimeo, 2010.
- Chaney, T. “[Distorted Gravity: Heterogeneous Firms, Market Structure and the Geography of International Trade.](#)” *American Economic Review* (2006).
- Helpman, E., O. Itzhaki, et al. “[Inequality and Unemployment in a Global Economy.](#)” *Econometrica* 78, no. 4 (2010): 1239–83.
- Mayer, T., M. Melitz, et al. ”[Market size, Competition, and the Product Mix of Exporters.](#)” (PDF) Mimeo, 2009.
- Melitz, Marc, and Gianmarco Ottaviano. “[Market Size, Trade and Productivity.](#)” *Review of Economic Studies* 70, no. 316–290 : (2008) 1.