



NATIONAL UNIVERSITY OF LESOTHO
Policy Analysis and Economic Management
Course Outline 2023/2024

Course Title: International Trade	
Course Code: EC4305	No. of credits: 11
Department: Economics	Faculty: Social Sciences
Pre-requisite Course Code: N/A	Co-requisite Course Code: N/A
Course Coordinator/Instructor: Makhetha Leseko (Ph.D.)	
Email: ls.makhetha.nul.ls	Telephone: Ext. 3596
Course Notes: Download Course Notes@:	thuto.nul.ls/portal/EC4305
Learning hours: 48 hours per semester	
Student Quota: N/A	
Course Type: Elective	
Offer in academic year: 1 st Semester	
(1) Course Description & Objectives	
<p>International trade patterns are evolving rapidly, affecting both how countries interact and how we try to comprehend the nature of international transactions in an academic setting. Economics 4671 will attempt to cover a broad array of relevant topics over the duration of a (all-too-short) semester. In doing so, it will emphasize theoretical models and their policy implications, as well as empirical studies of how well those models fit “real world” data. Furthermore, the course will frequently compare and contrast alternative theories/conceptions of the nature of international trade and the gains or losses thereof. Understanding the economic intuition behind the technically demanding models as well as thinking critically about the assumptions behind the theories and how well they fit actual trading economies will be a major focus. We will use a standard textbook to identify and broadly comprehend the core set of theories that the final year graduate students of international trade would be exposed to during a typical course. We will then use different books, papers, articles, commentaries, empirical sources, etc. to explore the relevance of various trade theories/models to the world that we inhabit, both in terms of their logic-deductive structure and empirical performance, as well as their policy implications for growth, income distribution, and development.</p> <p>This course is being offered at a very interesting time. Income distribution and poverty have, in light of the occupy protests, become a major issue in the developing countries like Lesotho. Many blame trade treaties and liberalization at least partly for the rising income inequality witnessed in the developing countries and other rich economies over the last few decades. A number of low and middle income economies, on the other hand, are pursuing growth through trade pacts and liberalization. China ‘s emergence as a global exporting powerhouse continues even as critics blame its allegedly “unfair” trading practices for the soaring US trade deficits and for declining labor incomes and jobs. This course will provide an excellent opportunity to discuss some of these issues and to use formal theoretical tools to make sense of the arguments involved. Since it is not possible to cover all aspects of international trade in class, the lectures will focus on a “core” of major theoretical models and policy analyses. Student participation will be sought and encouraged.</p> <p>Topics covered include models of trade with constant returns and perfect competition, models of trade with variable returns and imperfect competition, positive and normative analyses of commercial policy, the political economy of trade policy, and topics related to offshoring/outsourcing. Lectures, class discussions, and assignments are geared toward developing competency in understanding and creating models of open economic systems.</p>	

(2) Course Format

This course has been designed for Independent Study. It includes all of the materials you will need to understand the concepts covered in this subject. The materials in this course include:

- **Reading Assignments** in your choice of two textbooks – one of which is a free online edition - as preparation for the lectures.
- **Problem Sets** with solution keys to test your ability to apply to concepts covered in lecture.
- A collection of links **For Further Study** to provide supplemental online content.
- A full set of **Exams**, including review material and practice exams to help you prepare

(3) DP Assessment

Your **DP** assessment shall be based on two tests which will be written September (1st Test) and October (2nd test). In addition you will be given classroom presentations that will have to be presented in the class. **You should all familiarize yourselves with the University Plagiarism Policy. I take zero tolerance against plagiarism and copying. I also do not accept photocopying of the books except some chapters agreed upon by the University and the Authors of those books.**

Content

SECTION I: Introduction (THE PATTERNS OF TRADE)

Topic 1: Trade and Technology: The Ricardian Model

- Reasons for Trade
- Ricardian Model
- Determining the Patterns of International Trade
- Solving International Prices

Readings:

Chapter 2: Robert C. Feenstra, Alan M. Tatlor – International Economics – Worth Publishers (2014)

Alternative Readings

- Leamer, E., "A Flat World, a Level Playing Field, a Small World After All, or None of the Above?"
- A Review of Thomas L. Friedman's The World is Flat," Journal of Economic Literature, Mar 2007, Vol. 45 Issue 1, p83-126.
- Driskill, Robert (2007) "Deconstructing the argument for free trade"
- Arvind Panagariya (2005) "Agricultural Liberalisation and the Least Developed Countries: Six Fallacies," World Economy, Volume 28 Issue 9, Pages 1277 – 1299.
- Baldwin, R., P. Martin. 1999. "Two Waves of Globalization: Superficial Similarities, Fundamental Differences." NBER Working Paper No. 6904.

Topic 2: Trade and Resources: The Heckscher-Ohlin Model

- Heckscher-Ohlin Model
- Testing Heckscher-Ohlin Model
- Effects of Trade on Factor Prices

Readings:

Chapter 2: Robert C. Feenstra, Alan M. Tatlor – International Economics – Worth Publishers (2014)

SECTION II: New Explanation of International Trade

Topic 3: New Explanation of International Trade

- Increasing Returns to Scale and Monopolistic Competition
- Ultra-industry trade
- Gravity Equation

Reading:

Chapter 6: Robert C. Feenstra, Alan M. Tatlor – International Economics – Worth Publishers (2014)

Topic 4: Offshoring of Goods and Services

- A Model of Offshoring
- The Gains from Offshoring
- Politics and Future of Offshoring

Readings:

Chapter 7: Robert C. Feenstra, Alan M. Tatlor – International Economics – Worth Publishers (2014)

SECTION IV: INTERNATIONAL TRADE POLICY:**Topic 5: Import Tariffs and Quotas Under Perfect Competition**

- The Brief History of the World Trade Organization
- The Gains from Trade
- Import Tariffs for a Small Country
- Import Tariffs for a large Country
- Import Quotas

Reading:

Chapter 8: Robert C. Feenstra, Alan M. Tatlor – International Economics – Worth Publishers (2014)

Alternative Readings

- (a) J. Bhagwati, "The generalized theory of distortions and welfare" in Bhagwati et al. eds., Trade, Balance of Payments and Growth, North Holland, 1971.
- (b) C. Broda, N. Limao, and D. Weinstein, "Optimal tariffs: The evidence," AER, 2009.
- (c) C. Magee and S. Magee, "The United States is a small country in world trade," Review of Intl. Economics, 2008, 990-6, 1004.
- (d) J. Brander, "Strategic trade policy," in Grossman and Rogoff (eds.), Handbook of International Economics, vol.3, 1995.
- (e) A. Dixit, "International trade policy for oligopolistic industries," EJ, 1984, pp.1-16.
- (f) A. Venables, "Trade and trade policy with imperfect competition: The case of identical products and free entry," JIE, 1985, pp.1-20.

Topic 6: Export Subsidies in Agriculture and High-Technology Industries

- WTO Goals on Agricultural Exports Subsidies
- Exports Subsidies in a Small Home Country
- Export Subsidies in a Large Home Country
- Production Subsidies
- Export Tariffs
- Export Quotas
- High-Technology Export Subsidies

Reading:

Chapter 10: Robert C. Feenstra, Alan M. Tatlor – International Economics – Worth Publishers (2014)

SECTION IV: INTERNATIONAL AGREEMENTS: TRADE, LABOR, AND THE ENVIRONMENT

- International Trade Agreements
- International Trade Agreements on Labour Issues
- International Trade Agreements on Environment

Reading:

Chapter 11: Robert C. Feenstra, Alan M. Tatlor – International Economics – Worth Publishers (2014)

Alternative Readings:

- (a) Finger, J. Michael; K. Hall and D. Nelson (1982), "The Political Economy of Administered Protection"; American Economic Review 72, 452-466.
- (b) Hansen, Wendy, and T. Prusa (1997), "The Economics and Politics of Trade Policy: An Empirical Analysis of ITC Decision Making"; Review of International Economics 5, 230-245.

- (c) Blonigen, Bruce and Jee-Hyeong Park (2004), "Dynamic Pricing in the Presence of Antidumping Policy: Theory and Evidence"; *American Economic Review* 94, 134-154.
- (d) Cadot, Olivier, J. de Melo and B. Tumurchudur (2007), "Anti Dumping Sunset Reviews: The Uneven Reach of WTO Disciplines"; mimeo, Lausanne.
- (e) Balassa Bela (1967), "Trade creation and trade diversion in the European Common Market" *The Economic Journal*, pp.1-21, JSTOR
- (f) Brander, James and P. Krugman (1983), "A reciprocal dumping model of international trade," *JIE* 15, 313-321; reprinted in Gene Grossman, ed., *Imperfect Competition and International Trade*; MIT press 1992.
- (g) Eaton, Jonathan and G. Grossman (1986), "Optimal Trade and Industrial Policy under Oligopoly"; *QJE* 101, 383-406; reprinted in Gene Grossman, ed., *Imperfect Competition and International Trade*; MIT press 1992.
- (h) Krugman, Paul (1980), "Scale Economies, Product Differentiation, and the Pattern of Trade"; *AER* 70, 950-959, reprinted in Gene Grossman, ed., *Imperfect Competition and International Trade*; MIT press 1992.
- (i) Hummels, David, and J. Levinsohn (1995), "Monopolistic competition and international trade: Reconsidering the evidence," *QJE* 110, 799-836.
- (j) Debaere, Peter (2006), "Monopolistic Competition and trade, revisited: testing the model without testing for gravity"; *JIE*, forthcoming.
- (k) Bernard, Andrew; S. Redding and P. Schott (2004), "Comparative advantage and heterogeneous firms," NBER wp 10668.
- (l) Schott, Peter (2004), "Across-product versus Within-product Specialization in International Trade"; *QJE* 119, 647-678
- (m) Blonigen, Bruce and Jee-Hyeong Park (2004), "Dynamic Pricing in the Presence of Antidumping Policy: Theory and Evidence"; *American Economic Review* 94, 134-154.
- (n) Cadot, Olivier, J. de Melo and B. Tumurchudur (2007), "Anti Dumping Sunset Reviews: The Uneven Reach of WTO Disciplines"; mimeo, Lausanne.

SECTION VII: POLITICAL ECONOMY OF TRADE

- The Median-Voter Model
- Public Choice Problems with Median Voter Decisions
- International Trade Institutions (GATT, WTO, UNCTAD, LOME CONVENTION, SAPS)
- Trade Agreements and Trade Blocks (APA, MERCOSUR, SADC, FTAs, SACU, WEMU)
- (a) Cadot, Olivier; J. de Melo and M. Olarreaga (2001), "Can Bilateralism Ease the Pains of Multilateral Trade Liberalization?", *European Economic Review* 45, 27-44.
- (b) --- (2004), "Lobbying, Counterlobbying, and the Structure of Tariff Protection in Rich and Poor Countries"; *World Bank Economic Review* 18, 2004, 345-366.
- (c) Ethier, Wilfred (1998), "Regionalism in a Multilateral World"; *Journal of Political Economy* 106, 1214-1245.
- (d) Karacaovali, Baybars, and N. Limao (2005), "The Clash of Liberalizations: Preferential vs. Multilateral Trade Liberalization in the European Union"; CEPR discussion paper 4973.
- (e) Krueger, Anne O. (1997), "Free Trade Agreements vs. Customs Unions"; *Journal of Development Economics* 54, 169-187.
- (f) Olarreaga, Marcelo, and I. Soloaga (1998), "Endogenous Tariff Formation: The Case of MERCOSUR"; *World Bank Economic Review* 12, 297-320.
- (g) J.A. Frankel, E. Stein, and S.J. Wei, (1995), «Trading Blocs : The Natural, The Unnatural, and The Super-Natural», *JDE*, vol. 47, pp.61-95.
- (h) W. Chan and A. Winters, (1999), "How Regional Blocs Affect Excluded Countries: The Price Effects of MERCOSUR", CEPR DP #2179.
- (i) Bagwell, K. and R. Staiger (1998), «Will Preferential Trading Arrangements Undermine the Multilateral Trading System», *EJ*, vol. 108, pp. 1162-1182
- (j) P. Krugman, (1991a) « Is Bilateralism Bad? » in Helpman and Razin. (eds) *International Trade and Trade Policy*, Cambridge MA, MIT Press.
- (k) Finger, J. Michael; K. Hall and D. Nelson (1982), "The Political Economy of Administered Protection"; *American Economic Review* 72, 452-466.
- (l) Hansen, Wendy, and T. Prusa (1997), "The Economics and Politics of Trade Policy: An Empirical Analysis of ITC Decision Making"; *Review of International Economics* 5, 230-245.
- (m) Bagwell and R. Staiger, "The WTO: Theory and practice," *Annu. Rev. of Econ.*, forthcoming.
- (n) Freund and E. Ornelas, "Regional trade agreements," *Annu. Rev. Econ* forthcoming.
- (o) G. Grossman and E. Helpman, "Trade wars and trade talks," *JPE* 1995, 675-708
- (p) K. Bagwell and R.W. Staiger, "An economic theory of GATT," *AER* 1999, 215-248
- (q) K. Bagwell, "Self-enforcing trade agreements and private information" NBER 14812, 2009.

(r) G. Maggi and A. Rodríguez-Clare, "The value of trade agreements in the presence of political pressures," JPE 1998, 574-601

A. Panagariya, "Preferential trade liberalization: The traditional theory and new developments," JEL 2000, 287-331

Journal acronyms

AER	American Economic Review
BPEA	Brookings Papers on Economic Activity
CEPR	Center for Economic Policy Research
EER	European Economic Review
EJ	Economic Journal
JDE	Journal of Development Economics
JEP	Journal of Economic Perspectives
JEL	Journal of Economic Literature
JIE	Journal of International Economics
JPE	Journal of Political Economy
NBER	National Bureau of Economic Research
OEP	Oxford Economics Papers
QJE	Quarterly Journal of Economics
REStat	Review of Economics & Statistics
REStud	Review of Economic Studies
SP	IMF Staff Papers
WBER	World Bank Economic Review
WBPR	World Bank Policy Research

<p>Course Learning Outcomes (CLO)</p> <p>Student who successfully complete the course will be able to:</p> <ol style="list-style-type: none"> 1. Understand, at the level of formal analysis, the major models of international trade, both traditional and modern, and be able to distinguish between them in terms of their assumptions and economic implications. 2. Understand the principle of comparative advantage and its formal expression and interpretation within different theoretical models. 3. Be able to analyse the linkages between trade and growth and between trade and income distribution, and to identify and critically examine policy implications of these linkages. 4. Be able to apply partial equilibrium and (where required) general equilibrium models in analysing the economic effects of (a) trade policy instruments such as tariffs, quotas, export taxes, export subsidies, tariff rate quotas, etc., (b) retaliatory measures such as anti-dumping duties and countervailing duties and (c) the creation of regional trading arrangements such as free trade areas and customs unions. 	<p>Aligned Learning Programme Outcomes (BA Economics)</p> <ol style="list-style-type: none"> 1. Produce high quality graduates employable by the public and private sectors locally, regionally and internationally; 2. Empower our graduates to contribute to the economic, social and political well-being of their nations. 				
<p style="text-align: center;">Final Course Evaluation</p> <table> <tr> <td>Tests, assignments and participation in class</td><td>33%</td></tr> <tr> <td>Final examination</td><td>67%</td></tr> </table> <p>STUDENTS WILL ONLY BE ALLOWED TO SIT FOR THE FINAL EXAMINATIONS WHEN THEY HAVE A MINIMUM OF 40% OF COURSE WORK.</p>		Tests, assignments and participation in class	33%	Final examination	67%
Tests, assignments and participation in class	33%				
Final examination	67%				
<p>Course Teaching and Learning Activities (CTLA)</p> <p>Approach</p> <p>There will be 3 contact hours of formal lectures each week. The course uses a combination of lectures, presentations and class discussions. Students are expected to participate fully in interactive class discussions. There shall also be 1 hour tutorial session every week. Students must all attend these sessions.</p> <p>Activities to Meet the Objectives</p> <p>Students will need to read widely and critically to enrich their learning experience; complete coursework assignments; participate in interactive classroom discussions and perform successfully in examinations.</p>	<p>Aligned Learning Programme Outcomes (ALPO)</p>				

Main Text Book

- (1) Paul R Krugman, Maurice Obstfeld, 2015, International Economics, Theory and Policy, Pearson Publications.
- (2) Markusen, Melvin, Kaempfer and Maskus, International Trade: Theory and Evidence, McGraw Hill, 1995.
- (3) **Feenstra, Robert C. and Alan M. Taylor, 2011, International Trade, 2nd edition, Worth Publishers, ISBN 9781429206907.**

Supplementary Course Books:

- (4) Economics: The Science of Common Sense; E.V. Bowden, 8th edition, South-Western College Publishing Company: 1995

Some Useful Websites you need to visit:

WTO, <http://www.wto.org>

UNCTAD, <http://www.unctad.org>

OECD, <http://www.oecd.org>

Economics Resources, <http://www.helsinki.fi/WebEc>

Ministry of Foreign Affairs and Trade, NZ, <http://www.mft.govt.nz>

International Center for Trade and Sustainable Development, <http://www.ictsd.org>

The World Bank, <http://www.worldbank.org>

Paul Krugman's (Princeton University) website, <http://www.wss.princeton.edu/~pkrugman/>

A Remark

Other necessary materials, including the lecture notes, that we will make use of at some stages in the course will be provided.

Course Policy

Carefully read the materials indicated in the course schedule before coming to class. International Trade is a sequential subject: new topics build on concepts introduced before, so it is crucial to keep up with the material as we go along and to regularly review concepts. The total workload for a standard 3 credits course is 150-180 hours. This means that I expect you to work about ten hours a week for my courses: three hours of class meetings and seven hours of individual work. Bring an A4 notebook with 5 mm squared paper for graphing on scale to class meetings. Notebooks of the Atoma brand allow you to easily add, remove, and reorganize pages. Attending classes adds value: concepts are reviewed, you can ask questions, you get to practice additional problems with immediate feedback

Assignments Format and Outline

For the assignments you will need to use the Microsoft word perfect and excel. But you all should be familiar with STATA program which is the software for this course. McCloskey (2000), Wyrick (1994), and Neugeboren (2005) may be helpful for the assignments. Written work for my course has to follow APA style. See my rules for written work (posted on the course home page) for details on how to format a paper for my classes. You can find most of what you have to know about APA Style in the textbook for the core Critical Thinking & academic Writing classes: Kirsznier and Mandell (2011, chapter 35, pp. 236–263) and Glenn et al.(2004, pp. 652–679) cover APA Style, including an extended example. Some further material may be distributed during the course (check out the news section from the course website (thuto.nul.is/EC4671), and verify what happened during classes you missed). I expect you to follow economic news in the press/finance pages of general press such as wall street journal, financial times and economist.

Signature.....

Date: August 2017