

International Trade, European Regionalism and Trade as Development Policy.

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Text: International Economics, 7th ed. Appleyard, Cobb and Field; syllabus reading list;
Any good current news source.

Course Objective/Content: In this course we will start with the development of the basis of trade: comparative and absolute advantage, partial and general equilibrium analysis, the Heckscher-Olin model and intra-industry trade. We will explore the determination of the terms of trade, the process of factor price equalization, the implications for winners and losers and government policy. This will lead us into a discussion of protectionism, on the one hand, and integration on the other. Under the topic of regionalism we will discuss the EU in great detail. We will cover the topics of broadening vrs. deepening, the discussion regarding Europe as an optimum currency area (or not), the role of fiscal institutions, the Greek debt crisis, etc. Finally, we will explore the impact of trade on growth and develop and review development policy as it relates to liberalization and European expansion. To fully explore the topics covered in this course the student should have the equivalent of microeconomic and macroeconomic principles.

Grading Policy/ Course Metrics: We will have 3 exams including the final. The first exam will consist of T/F explain statements; the 2nd exam will consist of 3-4 “big think” essays; these exams will count 15% each and will be taken on 2 consecutive days. The final will consist of both forms of examination, will count as 20% of your final grade and will be taken during the scheduled final time. If you miss exam 1 (the easiest), or 2 you will make up the missed percentage by reweighting it to the final. The final is comprehensive and is NOT optional. The remaining 50% of your grade will be based on your performance on 2 written assignments (22% eachx2=44%) and a class presentation worth 6%. On your papers you will be evaluated for both content and writing style/execution. You will earn a grade for writing and a grade for content and your final grade on each assignment will be a simple average of the 2. The prompts and details for each written assignment are outlined below. Each written assignment can be up to 6 pages long of text, min 11pt font, 1.5 spacing.

Class Presentation- each student is required to choose one of the *ed articles from the syllabus below to present to the class. You will also prepare and hand out to the class a cliff note of the article’s main points. You must clear your choice with me at which point I can give you an expected day to present. All articles are assigned on a first come, first served basis. I will be grading you here on your presentation and the quality of the class notes.

ASSIGNMENT 1- Is Europe an optimum currency area? Why or why not? Why does it matter and how does the adoption and use of the euro relate the current European crisis?

Here you must start with some discussion of what an optimum currency area is drawing on some of the seminal work by Mundell and others. Then you must outline the structure of the euro framework adopted by the 17 members of the EU that use the euro. From there you move to a discussion of the impacts of the monetary union on member countries and your arguments supporting or rejecting the optimum currency area criteria. Due Oct 2, Tuesday.

ASSIGNMENT 2- Discuss the impact of multinationalization of the firm, outsourcing and intra-industry trade on factor price equalization and the distribution of income within different countries and between different country groups.

Here the challenge is to organize your thoughts and the evidence from the literature in a coherent way and to support your arguments with real evidence that is gleaned from the appropriate literature. If you use the ordering of topics as laid out in the prompt the essay should flow logically but that is not the only way to approach the subject. What is most critical to me in this assignment is that you cite appropriately and often and that your arguments and focus are logical and grounded and that your essay reveals some of the complexity of the topic. Due the last day of our regular class.

All written assignments will be evaluated for both content and form. Generally, papers in economics start with an introduction and review of the relevant literature in order to capture the reader's interest and place the topic. Next, the research will outline the key points, theoretical issues, mechanism, etc. surrounding the debate. The model, methodology and/or data sections follow. The theoretical solutions will then be derived or the empirical results presented. This will be followed by a discussion of the findings. The conclusion will summarize the work and point out directions for further work, related issues, etc. Your written assignment will deviate from this format in the sense that there will be no modeling or data/methodology section. Instead you will jump to your conclusions based on the evidence and research you bring to bear on the topic.

*below indicate required reading.

1.) Introduction

Chapter 1 – issues in international

Globalization

Balance of Payments- Chapter 19

Readings:

Measuring globalization, Foreign Policy, Jan./Feb 2001

Political Limits to Globalization, Acemoglu and Yared, WP10-1, Jan 2010

**The Case for Globalization- Globalization and Its Critics* (a survey)
the Economist 9/29/2001.

**Trade Costs, 1870-2000*, Jacks, Meissner, Novy, *AER Papers and Proceedings*,

May 2008, 529-43.

“Stung by Soaring Transport Costs, Factories Bring Jobs Home Again,” Aeppel, WSJ 6/13/08

*The Role of the United States in the Global Economy and its Evolution Over Time, Dees & Saint-Guilhem, ECB WP# 1034 2009

**Do Trade and Financial Linkages Foster Business Cycle Synchronization in a Small Open Economy?* Garcia-Herrero & Ruiz, Bank of Spain WP #0810

International trade theory and Policy: A review of the Literature, Sen, Levy Economics Institute WP #635

Absolute advantage and comparative advantage; Chapters 2,3

History of trade

Range of terms of trade

Role of exchange rates/money

Basic exchange rate determination- Chapters 20-22

Readings:

**Have US Import Prices Become Less Responsive to Changes in the Dollar?*

Hellerstein, Daley and March, FRBNY Current Issues, Sept '06

Does a Fall in the Dollar Mean Higher U.S. Consumer Prices? FRBSF Economic Letter, Aug 13, 2004, Valderrama.

2.) More on Comparative Advantage; Chapters 4,5,6 and appendix

The MRTS

Indifference Curves

The MRS

Gains from Trade

Different tastes

Small country

Expansion Path

Edgeworth box and PPC

**The Pro-trade Effects of Immigration on American Exports...* Dunlevy & Hutchinson

Does Culture Affect Economic Outcomes? Guiso, Sapienza and Zingales, JEP, Spring '06

**Is God Good for Trade?* Helble, Kyklos 2007, 385-413

Terrorism and Trade, P. Van Bergeik, Aelementair Dec 2006

The Price of Terror: the effects of terror on stock Market Returns and Volatility, Arin, Cifern & Spagnolo, Economic Letters 2008

Gravity, Trade and Currency Union, Economic Intuition, Fall 2000.

**The Estimated Effects of the Euro on Trade: Why are they below historical effects of monetary unions on small countries?* Frankel, NBER WP 14542, Dec 2008.

The Foreign Service and Foreign Trade: Embassies as Export Promotion, Rose, The World Economy, 2007.

Has the Internet Increased Trade? Developed and Developing Country Evidence, Clark and Wallsten, Economic Inquiry, July 2006.

An Empirical Assessment of the Comparative Advantage Gains from Trade: Evidence from Japan, AER 2005, Bernhofen and Brown.
**Are We Underestimating the Gains from Globalization for the United States?*
 Broda and Weinstein
Over the Hedge..., Raddatz, World Bank WP 5590, March 2011

3.) Offer Curves and Terms of Trade; Chapter 7

Partial Equilibrium
 Offer Curves/ derivation—lecture and Blackboard
 General Equilibrium
 Terms of Trade
 Elasticity and Offer Curves

Readings:

**Trade and the global Environment*, Graciela Chichilnisky, AER, 48, 1994.
**Is Free Trade Good for the Environment?* W. Antweiler, B. Copeland, M. S. Taylor, AER, 91 2001
Foreign Direct Investment and Environmental Policy: have location factors been neglected?, F. Sanna-Randaccio and R. Sestini, forthcoming Asia-Pacific Journal of Accounting & Finance.

4.) Heckscher- Olin model; Chapters 8,9

Assumptions
 Factor Abundance and Intensity
 Factor Intensity Reversal
 Factor-Price Equalization
 Stolper-Samuelson thm.
 Leontief's Paradox

Readings:

**Factor Proportions and the Structure of Commodity Trade*, Romalis, AER Mar. '04
**Trade and Wage Inequality in Developing Countries*, Economic Inquiry 2004, Marjit, Beladi and Chakrabarti
**A Production Theory Approach to the Imports and Wage Inequality Nexus*, Economic Inquiry 2003, Tamazos
An Empirical Investigation of the Relations among Wage Differentials, Productivity Growth and Trade, Ghosh, Saunders and Biswas, CEP Jan '02
**A Heckscher-Ohlin-Samuelson Model of Immigration and Capital Transfers*, OER 2001, Kohn
The New Global Slave Trade, Kapstein, Foreign Affairs, Nov/Dec '06
**People Flows in Globalization*, Freeman JEP, Spring '06
Trade Social Values and Generalized Trust, Chan, SEJ Jan 2007.
The Structure of Foreign Trade, E. Helpman, Economic Perspectives, 13, 1999.
Migration, Trade, Capital and Development: Substitutes, complements and Policies, G. Ranis Yale discussion paper.
**International Labor and Capital Flows: complements or Substitutes?* M Kuglar and H Rapoport, Economic Letters, 94, Feb 2007

Technology, Endowments and the factor Content of Bilateral Trade, Lai & Shu, J. of International Economics, April 2007.

**Immigration and the Macroeconomy*, Mandelman & Zlate, FRBA WP#2008-25

**Brain Drain and Factor Complementarity*, Pieretti & Zou, Economic Modeling, Mar. 2008

**International Labor and Capital Flows: Complements or Substitutes?* Kugler & Rapoport, Economic Letters 2007

Trade Wages and Productivity, Behrens, Mion, Murata & Sudekum, IZA DP#3682

Skill-biased Technological Change: Is There Hope for the Unskilled? Weiss, Economic Letters 2008

Midterm 1 & 2- Oct 16, 18.

5.) Intra- Industry Trade; Chapter 10 and appendix

Product Cycle

Economies of Scale

Imperfect Competition

Linder Hyp

Technology

Patents/standards

Readings:

**The Increasing Returns Revolution In Trade and Geography*, Krugman, AER June 2009

**Manufacturing: The World as a Single Machine* (a Survey), The Economist, June 20, 1998, p1-18.

**Globalization and Specialization*, Eckel, *J of Int'l Econ.*, May 2008 vol 75

**Global Product differentiation and Wage Inequality*, Bastos & Straume, March 2010, WP Inter-Development Bank

The Muddles over Outsourcing, Bhagwati, Panagariya, Srinivasan, *JEP* Fall'04
Global Production Sharing and Rising Inequality: A Survey of Trade and Wages, Feenstra & Hanson, NBER

**Integrating International Firms into the International Economy*, Markusen, *NBER Reporter*, Winter '01/'02

A World of Work, survey from the *Economist*, Nov 13, 2004, p3-20.

Outsourcing by Financial Services Firms..., *FRBSF Economic Letter*, Nov 26, 2004.

**Trade and Employment: Stylized Facts and Research Findings*, B. Hoekman & A. Winters, World Bank working Paper # WPS3676, August 2005

Offshoring in a Knowledge Economy, P. Antras, L. Garicano and E. Rossi-Hansberg, Harvard Institute of Econ. Research WP #2067, April 2005

International Outsourcing and Productivity: Evidence from the Irish Electronics Industry, H. Gorg & A. Hanley, *American Journal of Economics and Finance*, 16, 2005

**Offshoring in a Ricardian World*, A. Rodrigue-Clare, AER April 2010.

Trade in Goods and Trade in Tasks: An Integrating Framework, Baldwin & Robert-Nicoud, CEPR DP # DP7775, Ap 2010

Patterns of International Fragmentation of Production and the Relative Demand for Labor, R. Helg & L. Tajoli, North American Journal of Economics and Finance, 16, 2005

Trade, FDI and the Organization of the Firm, Helpman, JEL Sept '06

**Globalization, Product Differentiation and Wage Inequality*, Bastos and Straume, Univ. of Nottingham Research Paper 2010/03

Globalization and the evolution of the Supply Chain: Who Gains and Loses? M. Fujita and J. Thisse, International Economic Review Aug 2006

**Distributional Effects of Globalization in Developing Countries*, Goldberg & Pavcnik, JEL March 2007.

Trade Liberalization and Rising Wage Inequality in Latin America..., Atolia, J of International Economics, April 2007.

International Technology Diffusion, J. of Econ Lit., Sept. 2004

Moving Up or Moving Out? A Unified Theory of R&D, FDI and Trade, Lu, J of Int'l Economics, Ap. 2007.

**Counterfeit-Product Trade*, Grossman and Shapiro, AER, March 1988, 59-75

**Globalization, Product Differentiation and Wage Inequality*, Bastos and Straume

**Competing Engines of Growth: Innovation and Standardization*, Acemoglu, Gancia & Zilibotti, Univ of Turicensis WP 48, April 2010

6.) Protectionism; Chapters 13,14,15

Tariffs

Quotas

Effects on Offer Curves

Arguments for protectionism

International Organizations-e.g. WTO

Readings:

**Why are some People (and Countries) More Protectionistic Than Others?*

Mayda & Rodrik

**The Political Economy of Trade Preferences*, Contemporary Economic Policy, April 2005, Devault

**International Protection of Intellectual Property*, AER Dec. 2004, Grossman and Lai.

A Reconsideration of Import Substitution, H. Bruton, JEL, 36, 1998

**Helping Infant Industries Grow...*, Greenwood and Stiglitz, AEA Papers and Proceedings, May '06

Trade Liberalization and Compensation, Davidson and Matusz, International Economic Review, Aug 2006.

**The US is a small Country in World Trade*, Magee & Magee, Review of International Economics 2008.

EU Relations with China and Russia: How to Approach New Superpowers in Trade Matters, Leal-Arcas, J of International Commercial Law and Technology, vol4 #1, 2009

7.) Economic Integration; Chapter 17

Customs Union

Free Trade Areas

Trade Creation vrs. Trade Diversion

Regionalism

Readings:

Not all Trade Agreements are Good, The Economist, Nov 20 2004, pp78

Open Regionalism, C. F. Bergsten, IIE working paper 97-3.

Are Preferential Trading Arrangements Trade-Liberalizing or Protectionist? A. Krueger, J. of Economic Perspectives, 13, 1999.

Are the New Trading Blocs Building Blocs or Stumbling Blocs?, Trotignon, Dec 2009 Gate WP UMR5824 du CNRS.

The Impact of NAFTA on the United States, M. Burfisher, S. Robinson, K. Theirlfelder, J of Economic Perspectives 2001

Mercosur: Implications for Growth in Member Countries, M. Connolly & J. Gunther, FRBNY Current Issues, May 1999

8.) The European Union

The Dynamics of European Society, chapters 1&6, Fligstein, ed.

Europe Deciphered: Ideas, institutions and Laws, Engle

On the extent of Economic Integration: A comparison of EU Countries and the U.S. States, Bowen, Manandar, Viaene, Tinbergen Institute WP TI2010-009/2
History of EU in the Context of Globalization, Deeg & O'Sullivan, World Politics, July 2009

The Euro Crisis: it isn't just fiscal and it doesn't just involve Greece, Wihlborg, Willett, Zhang, Robert Day School WP 2011-03, Sept 2010

The Macroeconomic Costs and Benefits of the EMU and other Monetary Unions..., Beetsma & Giuliodori, JEL, Sept 2010p-603-641.

The Real Effects of Globalization on the Euro Area Macroeconomy, Anderton & Hiebert, Univ of Nottingham WP 2009/14.

How Deep is the Connection Between Turkish and European Union Economies, Kabsal June 2008

New Developments in the EU Internal Market- Harmonization vrs. Mutual Recognition, Dzubirova & Schwarzen, JCMS 2008

European Tax: A Step Invigorating Tax Harmonization, Steinbacher, SSRN #1328242.

Catching-Up Strategy: New Member States of the European Union in the European Internal Market for High-Tech and Environmental Products in the context of the Renewed Lisbon Strategy, Wysokinska, Global Economy Journal, vol 8 #6, 2008

European Migration: Welfare Migration or Economic Migration?, Warin & Svaton, Global Economy Journal, vol 8 #3, 2008.

Macroeconomics of Migration in New Member States, Bems & Schellekens, IMF WP/08/264.

**The Demographic Effects of International Migration in Europe*, Coleman, Oxford Review of Economic Policy, vol 24 #3, 2008.

**The Global Downturn and its impact on Euro area Export Competitiveness*, Mauro, Forster, Lima, ECB Occasional Paper # 119/Oct 2010

Macroeconomics in the EU

The Euro's Effect on Trade Imbalances..., Berger & Nitsch, IMF WP 10/226, Oct. 2010

Bringing Macroeconomics into the EU Budget Debate: Why and How? Dullen & Schwarzen, JCMS vol 47, #1, 2009

**Discretionary Fiscal Policy: Review and Estimates for the EU*, Beetsma & Giuliodore, CESinfo WO#2948, Fed 2010.

**Fiscal Sustainability and Policy Implications for the Euro Area*, Balassone, Cunha, Languen, Manzke, Pavot, Prammer & Tommasino, ECB WP # 994/Jan. 2009

**Euro Area Fiscal Policies and the Crisis*, van Riet, ed., ECB WP #109/April 2010

Macroeconomic and Fiscal Challenges Facing European Countries during the EU Accession Process, Dabrowski, CASE Network Reports # 26, July 2009

**Reforming Pensions in Europe: Economic Fundamentals and Political Factors*, Schneider, CESinfo WP #2572, March 2009

9.) Multinational Institutions and an assessment of Globalization- lecture

Role of the IMF, World Bank, WTO, etc.

Readings:

**Is There a Role for International Policy Coordination?* FRBSF Economic Letter, Feb 8 2002, Bergin.

**Do We Really Know that the WTO Increases Trade?* Rose, AER, Mar. '04

**A Survey of the Theoretical Economic Literature on Foreign Aid*, Paul, Asian-Pacific Economic Literature

Was Development Assistance A Mistake?, Easterly, AER Papers and Proceedings, May 2007.

Does Aid Affect Governance?, Rojan & Subramanian, AER Papers and Proceedings, May 2007.

How Far Will International Economic Integration Go? D. Rodrik, *J. of Economic Perspectives*, Winter 2000

**The Future of the IMF and World Bank*, Rajan, AER Papers and Proceedings May 2008

**Foreign Aid, domestic Capital Accumulation and Foreign Borrowing*, Cai & Gong, *J of Macroeconomics* 2007

A New Era in Global Governance, Leal-Arcas, *International Security Forum*, July 2009.

10.) Economic Growth and International Trade; Chapter 11, lecture and course site.

Developing countries and International Trade as a vehicle; Chapter 18,
Factors of Production

Technology

Big country/Little country

The Solow Growth Model (not in text)

Readings:

**Trade Policy and Economic Development: How We Learn*, A. Krueger, AER, 87, 1997

**The Rise and Fall of Export Led Growth*, Palley, Levy Economic Institute WP675, 2011

Institutions: Top Down or Bottom Up? Easterly, AER Papers and Proceedings, May 2008

Second Best Institutions, Rodrik, AER Papers and Proceedings, May 2008

Liberalization, FDI and Growth, Basu, Cghakraborty, Reagle, *Economic Inquiry*, July 2003.

**The Poor and the Rich*, The Economist, May 25, 1996, p23-26.

**Why Don't Poor Countries Catch Up?*, P. Keefer and S. Knack, *Economic Inquiry*, 35, 1997.

**Democracy and Development: the Devil is in the Details*, Persson and Tabellini, AEA Papers and Proceedings, May '06

**The sources of Growth at Different Stages of Development*, Osborne, CEP, Oct '06

**Does Trade Cause Growth?* J. Frankel, D. Romer, AER, 89 1999.

**Stock Markets, Banks and Economic Growth*, AER June 1998, Levine and Zervos.

**Determinants of Economic Growth in European Regions*, Cuaresma, Doppelhoffer, Feldkircher, CESinfo WP # 2519, Jan 2009.

Saving and Investment: Some International Perspectives, Schmidt, SEJ, 2001.

Do Natural Disasters Promote Long-run Growth? *Economic Inquiry* Oct. 2004, Skidmore and Taya

The Macroeconomic Consequences of Disasters, Noy, J of Development Economics 2008

**Religion and Economy*, McCleary and Barro, JEP Spring '06

Traditional Institutions Meet the Modern World: Caste, Gender and Schooling Choice in a Globalizing World, AER, Sept '06.

**The Macroeconomic Impact of Globalization: theory and Evidence*, Spange, FRB Quarterly Bulletin, Q1 2007.

Is Trade Good for your Health? Owen and Wu, Review of International Economics, 2007, 660-682

What Drives Stock Market Development in Emerging Markets- Institutions, Remittances or Natural Resources, Billmeier, Emerging Market Review 2008

**Aid Policies and Growth in Developing Countries...*, Alvi, Makherjee & Shikralla, SEJ 2008

What do We Know About Global Income Inequality? Anand & Segal, J of Economic Literature, Mar 2008

Foreign Aid, Domestic Capital Accumulation and Foreign Borrowing, Cui & Gong, J of Macro, 2007.

Final