

**August 25 2014 version**

**Syllabus**

**Duke University**

**Fall 2014**

**Economics 555 International Trade**

**Professor Edward Tower**

Monday, Wednesday 10:05am-11:20am. Social Sciences 107.

Final exam is Tuesday December 9, 2014 2pm-5pm.

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Office Room 227A Social Sciences, 660-1818

Cell 919-332-2264. I prefer emails. That gives me time to think up answers to your queries.

Office Hours: 9am on Mondays and Wednesdays in room Social Sciences 107, our classroom.

I am also happy to make additional appointments to talk with you. A good time is before class.

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**Texts:**

Richard E. Caves, Jeffrey A. Frankel and Ronald W. Jones, *World Trade and Payments: An Introduction*, 10<sup>th</sup> Edition, Prentice Hall 2007, 712 pp. Retail price is \$137.50. From Amazon you can get a used 10<sup>th</sup> edition for \$10.00 including shipping. There is hardly any difference between the two editions. New editions come out all the time. I suggest you buy the 9<sup>th</sup> edition second hand from Amazon if that one cheap copy of the 10<sup>th</sup> edition is sold out.

Douglas A. Irwin, *Free Trade Under Fire*, Princeton University Press. Third Edition, 2009. \$22.95 retail.(including shipping) from Amazon used. I have some extra copies to loan.

R. T. Roberts, *The Choice: A Fable of Free Trade and Protectionism*, Paperback 2006. 3<sup>rd</sup> edition. \$21.75. used from Amazon \$4.00 (including shipping for an old edition. That will work fine). I also have some copies outside my office door along with a signout sheet.

W. M. Corden, *Trade Policy and Economic Welfare*, second edition, Oxford University Press, 1997. On reserve in the library. This is a book that I love, but students find tedious.

Parts of my lecture notes are based on it. \$37.50 retail. \$7.87 including shipping, used from Amazon. I have copies to lend out.

James Bovard, *The Fair Trade Fraud*. St. Martin's Press. 1991. \$7.87 including shipping used from Amazon. I have some copies to lend out.

**Prerequisites:**

Econ 105D and 110D

Synopsis of course content

Outlines the fundamental principles of international trade. Topics covered include the gains from trade, explanations of observed patterns of trade, the welfare and distributional effects of tariffs and other commercial policies, the economics of the trade balance.

This course is a stand-alone course in international trade. Some students may wish to take it as the first in a two course sequence. This course introduces the important ideas in international trade and some treatment of exchange rate and balance of payments issues. It does so with intuition and geometry and very little calculus. The course I teach in the Spring 2004 gets at the same ideas using computer modeling and calculus. That course is called Computer Modeling for Policy Analysis. The textbook for that course is *Introduction to Numerical Simulation for Trade Theory and Policy*, by John Gilbert and Edward Tower, 2013. In addition to teaching international trade, that course builds models in micro and macro economics.

This year for the first time, I will introduce some computer modelling in Economics 555. It is such an important tool for a thorough understanding of international economics that I believe it to be a critical part of the course.

**Assignments**

Readings before each lecture will typically consist of a chapter from an international economics textbook and one article.

Problem sets and comments on the readings will be assigned from time to time. I expect an assignment will be due each Monday before class.

**Exams**

One midterm exam, plus a final exam.

**Term papers**

One. It will examine the congressional debate on a trade policy issue or else a project of a student's choosing. The idea is to compare how politicians carry out the debate with what

economists have to say about the issue. Before writing your term paper you should read some of the papers I have written with students on congressional voting on trade policy issues. The paper on steel quotas with Rob Fisher and Omer Gokcekus considers the trade policy debate. A book by Leland Yeager and David Tuerck, *Foreign Trade and US Policy* also does a nice job of criticizing congressional debate on trade policy. I like this assignment, because it shows how important the issues we deal with in this course are and how badly congresspersons choose to muck up the issues either out of ignorance or on purpose to gain votes, probably the latter.

An alternative is to write a review of a book dealing with an international trade issue and see if you can publish it in a scholarly journal. Several students managed to do that the last time I taught the course. Students have been particularly successful publishing reviews in economics journals based in Asia. The idea is to distill important ideas from a recent book and explain and critique them. The Economic and Social Commission for Asia and the Pacific, a division of the United Nations is keen to publish reviews of books dealing with international trade and other economic policy issues that have relevance for Asia and the Pacific.

The term paper should be between 3 and 8 pages, spaced 1.5 lines per page. I realize that you have not looked at the very recent literature. One possibility for a term paper is for you to take your computer to the library, and look in recent journals, such as the *American Economic Review*, the *Economic Journal*, the *Journal of International Economics*, *World Economy*, *Journal of Economic Perspectives* and others. Find some articles that you find interesting. Explain what the result of each article is, and briefly explain the intuition, and how the article might be extended or ought to be changed. These can be related to one another or not. For example one student last year wrote something on environmental economics and international trade. If you are averse to going to the library, you can find working papers on the social sciences research network, SSRN. These are arranged by subject. I will show you how to access these in class on Thursday. The important thing is for you to learn from this paper.

An alternative term paper is to comment on a working paper or an article dealing with an issue in international economics.

A working paper is one that has not been published yet. Typically the author is looking for comments on how to improve the paper.

You then email the author a letter telling him how the paper could be improved. Journals often ask me to write referee's reports, suggesting how to improve the paper. What do I typically suggest. I look for grammar and spelling mistakes. I ask are there enough headings and subheadings? Are the headings and subheadings descriptive? Has the author paid attention to the ideas that Diedre McCloskey has on how to write. Are the titles of the tables and figures descriptive? Is it possible to understand the major idea of the paper from reading the abstract, introduction, and conclusion? It should be.

Authors will feel happy that you took the time to write them about their paper and that you read and thought about it carefully. This is a chance for you to make a friend. Are you thinking about applying for a PhD at Australian National University. Then perhaps you want to comment on a working paper from someone who is there. I am forwarding a referees report discussing how to improve a paper that I wrote yesterday. This is an example of how to write a referee's report.

Here is the index of working papers by subject. This is published by the Social Sciences Research Network.

<http://papers.ssrn.com/sol3/DisplayAbstractSearch.cfm>

Here is a collection of economics working papers by institution.

<http://econpapers.repec.org/paper/>

I would like a hard copy of the article you comment on, your letter to the author, and your report on the article.

### **Grade:**

For the midterm and final exam, I will give out review questions in advance. The exam questions will be quite close to these review questions.

Final exam 30%  
Term paper 25%  
Essays and Problem sets 25%.  
Midterm 20%

Essays due:

Wednesday August 27. One page essay on Krugman "What Do Undergrads Need to Know about Trade." *The American Economic Review*. Vol 83, No. 2. Papers and Proceedings of the AEA. May 1993, pp. 23-26.

Monday Sept 1. One page essay on Bovard's *The Fair Trade Fraud*

Wednesday September 3. One page essay on Michael Mussa's "Making the Practical Case For Freer Trade." *The American Economic Review*. Vol 83. No. 2. Papers and Proceedings of the AEA. May 1993. Pp. 372-376.

Monday Sept 8. One page essay on Roberts *The Choice*

Monday Sept 15 Two page essay on Irwin *Free Trade Under Fire*

I don't have enough copies of the three books for everybody. So some of you will wish to write the essays on Bovard, Irwin, Roberts and Mussa in a different order from those suggested here.

Wednesday September 17. One page essay total on three articles. The Kaempfer-Tower-Willett one is the major one. The others supplement The KTW article.

. "Is Talk Cheap? Buying congressional Testimony with Campaign Contributions," by Ryan Gibbs, Omer Gokcekus and Edward Tower. *Journal of Policy Reform*, Issue 3, 2002. This paper was the subject of a column titled "Say the Magic Word," by Richard Morin in the *Washington Post*, Sunday April 13, 2003, complete with an illustration of a hand with a dollar sign on the cufflink holding a megaphone made out of the US Capital Building; the column was picked up by the *Durham Herald* and the *Charlotte Observer*.

."Trade Protectionism," by William H. Kaempfer, Edward Tower and Thomas D. Willett, in *The Encyclopedia of Public Choice*, Charles K. Rowley and Friedrich Schneider (ed.) Routledge, 2003. 550-576.

"Steeling House Votes at Low Prices for the Steel Import Quota Bill of 1999," by Robert C. Fisher, Omer Gokcekus and Edward Tower, Chapter 5 of *The Political Economy of Policy Reform: Essays in Honor of J. Michael Finger*, Douglas Nelson (ed.), Elsevier, 2005. pp.105-130.

Late Assignments: Points will be deducted from your grades on late assignments unless you receive an extension from Xin Chen before the deadline.

I will add to the syllabus as the term progresses.