

AREC643: International Trade II (4 credits)

Spring 2007

Tuesday and Thursday 1:00-2:50, Ballard 118

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Office hours: by appointment

Course Description:

The objective is to introduce students to advanced topics in modern trade theory, including duality and trade, multilateral trade negotiations, distributional effects of trade, and trade and the environment. Applications include agricultural, food and manufacturing industry studies. This is one of the two courses that make up the Ph.D. field in International Trade. Topics not included here are covered in the first course.

Course Objectives and Outcomes:

The goal of this course is to deepen students' understanding of the role of recently developed trade models and their applications as well as the frontier of current research. Students will learn to develop ideas and proposals for original research.

Prerequisites:

ECON 640

Assessments:

A third of the grade will be determined by a final take-home examination. The other two-thirds of the course grade are based on instructor's evaluation of in-class presentations and a term paper. Each student will be asked to prepare five classroom presentations of topics related to the lectures (approx. 30 min. each). In addition, each student is to prepare a term paper, which can also be a research proposal in the area of international trade, both in writing and for a short in-class presentation.

Books:

Required: Feenstra, R., [F], 2003, Advanced International Trade: Theory and Evidence, Princeton: Princeton University Press.

Some of the lectures will rely heavily on select chapters from some of the following books. The course outline lists the relevant chapters as well as a number of journal articles relevant to each subject. The list of books includes supplemental readings especially useful for students wishing to write a thesis in the field.

Bhagwati, J., A. Panagariya and T.N. Srinivasan, [BPS], 1998, Lectures on International Trade. Second Edition. Cambridge, MA: The MIT Press.

Dixit, A.K. and V. Norman, [DN], 1980, Theory of International Trade, Cambridge University Press.

Helpman, E. and P.R. Krugman, [HK], 1985, Market Structure and Foreign Trade, Cambridge, MA: The MIT Press.

Helpman, E., and P.R. Krugman, 1989, Trade Policy and Market Structure, Cambridge, MA: The MIT Press.

Choi, K. and J. Harrigan (eds.), 2002, Handbook of International Trade, New York: Basil-Blackwell.

Course Outline and Readings

1. Duality, Trade Patterns, and Gains from Trade

F, Chapters 1-4.

2. Basic Imperfect Competition Model (refresher on material from ECON 640)

F, Chapter 5

Krugman, P., 1980, Scale Economies, Product Differentiation and the Pattern of Trade, *American Economic Review*, 70, 950:59.

3. Technology and Trade

DN, Chapter 5

Krugman, P.R., 1990, A 'Technology Gap' Model of International Trade, In *Rethinking International Trade*. MIT Press, Cambridge: 152-164.

Kohli, U., 1991, Technology, Duality and Foreign Trade: A GNP Function Approach, Ann Arbor: University of Michigan Press.

Trefler, D., 1993, International Factor Price Differences: Leontieff was Right! *Journal of Political Economy*, 101, 961-987.

Grossman, G. and E. Helpman, 1994, Technology and Trade. National Bureau of Economic Research, Working Paper No. 4926, Cambridge, MA.

Trefler, D., 1995, The Case of Missing Trade and Other Mysteries, *American Economic Review*, 85, 1029-1046.

Harrigan, J., 1997, Technology, Factor Supplies, and International Specialization: Estimating the Neoclassical Model, *American Economic Review*, 87, 475-494.

Harrigan, J., 1999, Estimation of Cross-Country Differences in Industry Production Functions, *Journal of International Economics*, 47, 267-293.

Davis, D., and D. Weinstein, 2001, An Account of Global Factor Trade, *American Economic Review*, 91, 1423-1453.

Eaton, J. and S. Kortum, 2002, Technology, Geography and Trade, *Econometrica*, 70, 1741-1779.

Schott, P., 2003, One Size Fits All? Heckscher-Ohlin Specialization in Global Production, *American Economic Review*, 93, 686-708.

Firm-Level Studies

Bernard, A.B. and J. B. Jensen, 1995, Exporters, Jobs, and Wages in U.S. Manufacturing: 1976-1987, *Brookings Papers on Economic Activity*, Microeconomics, 67-119.

Roberts, M. and J. Tybout, 1997, The Decision to Export in Colombia: An Empirical Model of Entry with Sunk Costs, *American Economic Review*, 87, 545-564.

Pavcnik, N., 2002, Trade Liberalization, Exit, and Productivity Improvement: Evidence from Chilean Plants, *Review of Economic Studies*, 69, 245-76.

Bernard, A.B. and J. B. Jensen, 2004, Why Some Firms Export, *Review of Economics and Statistics*, 86, 561-569.

Melitz, M. 2003, The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity, *Econometrica* 71(6): 1695-1725.

Helpman, E. 2006, Trade, FDI and the Organization of Firms, *Journal of Economic Literature* 44(3): 589-630.

Gopinath, M., I. Sheldon and R. Echeverria, 2007, Firm Heterogeneity and International Trade: Implications for Agricultural and Processed Food Industries, Trade Policy Issues Paper No. 5, International Agricultural Trade Research Consortium. Download at http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=25815&ftype=.pdf

Gopinath, M., and P. M. Upadhyay, 2002, Human Capital, Technology and Specialization: A Comparison of Developed and Developing Countries, *Journal of Economics (Zeitschrift fur Nationalokonomie)*, 75, 161-179.

Gopinath, M., and J. Carver, 2002, Total Factor Productivity and Processed Food Trade: A Cross-Country Analysis, *Journal of Agricultural and Resource Economics*, 27, 539-553.

4. Environment and Trade

Copeland, B. and M.S. Taylor, 1994, North-South Trade and the Environment, *Quarterly Journal of Economics*, 755-87.

Chichilnisky, G., 1994, North-South Trade and the Global Environment, *American Economic Review*, 84, 851-874.

Grossman, G., and A.B. Krueger, 1995, Economic Growth and the Environment, *Quarterly Journal of Economics*, 110, 353-377.

Bagwell, K., and R.W. Staiger, 2001, Domestic Policies, National Sovereignty, and International Economic Institutions, *Quarterly Journal of Economics*, 519-561.

Antweiler, W., Copeland, B. and M.S. Taylor, 2001, Is Free Trade Good for the Environment?, *American Economic Review*, 91, 877-908.

- D.C. Esty, 2001, Bridging the Trade-Environment Divide, *Journal of Economic Perspectives*, 15, 113-130.
- Copeland, B.R. and M.S. Taylor, 2003, *Trade and the Environment. Theory and Evidence*. Princeton: Princeton University Press.
- Copeland, B. and M.S. Taylor, 2004, Trade, Growth and the Environment, *Journal of Economic Literature*, 42, 7-71.
- Copeland, B. and M.S. Taylor, 2005, Free Trade and Global Warming: A Trade Theory View of the Kyoto Protocol, *Journal of Environmental Economics and Management*, 49, 205-34.
- Waldkirch, A. and M. Gopinath, 2004, Pollution Haven or Hythe: New Evidence from Mexico, Working Paper 2004-07, Department of Economics, Oregon State University.

5. Geography and Trade

- Krugman, P.R., 1991, *Geography and Trade*, Cambridge, MA: The MIT Press.
- Krugman, P.R., 1991, Increasing Returns and Economic Geography, *Journal of Political Economy*, 99, 483-499.
- McCallum, J., 1995, "National Borders Matter: Canada-U.S. Regional Trade Patterns," *American Economic Review*, 85(3), 615-23.
- Engel, C., and Rogers, 1996, How Wide is the Border?, *American Economic Review*, 86, 1112-1125
- Rauch, J., 1999, Networks versus. Markets in International Trade, *Journal of International Economics*, 48, 7-37.
- Head, K., and J. Ries, Increasing Returns versus National Product Differentiation as an Explanation for the Pattern of U.S.-Canada Trade, *American Economic Review*, 91, 858-876
- Anderson, J.E. and E. van Wincoop, 2003, Gravity with Gravitas: A Solution to the Border Puzzle, *American Economic Review*, 93, 170-192.
- Davis, D., and D. Weinstein, 2003, Market Access, Economic Geography and Comparative Advantage: An Empirical Test, *Journal of International Economics*, 59, 1-23.
- Redding, S., and A. J. Venables, 2003, Economic Geography and International Inequality, *Journal of International Economics*, 62, 53-82.
- Coughlin, C., 2004, The Increasing Importance of Proximity for Exports from U.S. States, *Federal Reserve Bank of St. Louis Review*, 86, 1-18.
- Hanson, G., and C. Xiang, 2004, The Home-Market Effect and Bilateral Trade Patterns, *American Economic Review*, 94, 1108-1129.
- Rossi-Hansberg, E, 2005, A Spatial Theory of Trade, *American Economic Review*, 95, 1464-1491.

6. Globalization

- Bagwell, K., and R.W. Staiger, 1999, An Economic Theory of GATT, *American Economic Review*, 89, 215-248.

Bagwell, K., and R.W. Staiger, 2004, Multilateral Trade Negotiations, Bilateral Opportunism and the Rules of GATT/WTO, *Journal of International Economics*, 519-561.

Horn, H. 2006, National Treatment in the GATT, *American Economic Review*, 96, 394-404.

Agriculture and the WTO, www.iatrcweb.org.

Selected readings from

Douglas Irwin, *Free Trade Under Fire*, Princeton University Press 2002

Jagdish Bhagwati, *Free Trade Today*, Princeton University Press 2002

Joseph Stiglitz, *Globalization and its Discontents*, W.W. Norton and Co, 2002.

Jeffrey Frankel, *Regional Trading Blocks*, Inst. for International Economics, 1997.