

The Chinese University of Hong Kong
Econ 5440: International Trade
Spring 2017

Instructor:

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Time and Location: Th 08:30 - 11:15am Wu Ho Man Yuen Bldg 403
Class date: 12/01/2017 - 20/04/2017

Office Hours: Wed 11:00am-12:00pm or by appointment

Course Website: Access through CUSIS

Textbook:

Robert Feenstra: Advanced International Trade: Theory and Evidence, Princeton University Press, 2004. (Second version is also available)

This course offers theoretical, empirical and current topics in international trade. It covers studies of positive issues, such as: Why do countries trade? What goods do countries trade? How does open to trade shape countries' industrial structure and global production sharing? The course also concerns the normative issues, such as; is trade beneficial to everyone, or are there winners and losers? What is the impact of trade on economic growth, wage inequality and poverty? All these issues will be discussed both from theory and empirics, as well as at country, industry and firm level. In particular, we will also discuss the globalization of China.

Grading

Your overall performance will be determined by midterm exam (30%), presentation (20%) and final exam (50%). No reschedule of the exams will be given except medical or family emergency.

Occasionally I will give some problem sets. These are designed to build a mixture of theoretical and empirical skills. Homework will not be graded, but they are essential adjunct to the lecture material, and will assist you in preparing for the exams. Thus, it is important to work on them carefully. I will also give some quiz in class but they are not graded as well.

Presentation: each student selects a paper on international trade, and present in class for about 20-25 minutes. The presentation date is tentatively scheduled on **April 20**. I will give some paper but you can also propose your own with my approval.

Exam Schedule

Midterm exam: In class **on 23-Feb**

Final exam: TBA

Attendance

Please attend the regular class and any announcement in the class is formal, you should take the responsibility if you miss the lecture.

Academic Honesty

For guidelines on academic honesty, students are referred to Honesty on Academic Work: A Guide for Students and Teachers at the following URL:

<http://www.cuhk.edu.hk/policy/academichonesty/>

Lecture Outlines: (13 weeks)

Section I: Neoclassical Theories of Trade (5 weeks)

1. Introduction (0.5 week)
2. The Heckscher-Ohlin Model (Feenstra, Ch 1-2) (2 week)
3. Trade in intermediate goods and wage inequality (Feenstra, Olin-lecture) (2 week)
4. Ricardian Model (0.5 week)

Section II: "New" and "New New" Trade Theory (7 weeks)

5. Increasing Returns and the Gravity Equation-Krugman model (1 week)
6. New Economic Geography (1 week)
7. Heterogeneous firms-Melitz model (2003) (3 weeks)
8. Eaton and Kortum (2002) framework (2 weeks)

Section III: Miscellaneous Topics (1 weeks)

9. Multinationals and Organization of the Firm (1 week, if time permits)

Reference

Neoclassical Theories of Trade

(*) Dornbusch, R., Fischer, S. and Samuelson, P., 1977. Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods. *American Economic Review*, 1977, pp. 823-839.

Costinot, A., Donaldson, D. and Komunjer, I., 2012. What goods do countries trade? A quantitative exploration of Ricardo's ideas. *Review of Economic Studies*, Vol. 79(2), pp. 581-608.

Chor, D., 2010. Unpacking sources of comparative advantage: A quantitative approach. *Journal of International Economics*, Vol. 82(2), pp. 152-167.

Goldberg, P. and Pavcnik, N., 2007. Distributional effects of globalization in developing countries. *Journal of Economic Literature*, Vol. 45(1), pp. 39-82.

Offshoring Theory

(*) Feenstra, R. and Hanson, G., 1999. The impact of outsourcing and high-technology capital on wages: Estimates for the United States, 1979-1990. *Quarterly Journal of Economics*, Vol. 114(3), pp. 907-940.

Feenstra, R., 2010. *Offshoring in the global economy*. Olin Lecture, MIT Press.

(*) Grossman, G. and Rossi-Hansberg, E., 2008. Trading tasks: A simple theory of offshoring. *American Economic Review*, Vol. 98(5), pp. 1978-1997.

(*) Hsieh, C. and Woo, K., 2005. The impact of outsourcing to China on Hong Kong's labor market *American Economic Review*, Vol. 95(5), pp. 1673-1687.

The “New” Trade Theory

(*) Krugman, Paul R. "Increasing returns, monopolistic competition, and international trade." *Journal of international Economics* 9.4 (1979): 469-479.

Krugman, Paul. "Scale economies, product differentiation, and the pattern of trade." *The American Economic Review* 70.5 (1980): 950-959.

Dixit, Avinash K., and Joseph E. Stiglitz. "Monopolistic competition and optimum product diversity." *The American Economic Review* 67.3 (1977): 297-308.

Gravity equation

Anderson, James E., 1979. A theoretical foundation for the gravity equation, *American Economic Review*, 69, 106-116.

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Helpman, E., Melitz M., and Rubinstein, Y., 2008. Estimating trade flows: trading partners and trading volumes, *Quarterly Journal of Economics*, 123, 441-487.

(*) Keith Head, Thierry Mayer, 2013. "Gravity Equations: Workhorse, Toolkit, Cookbook", *Handbook of International Economics Vol. 4* forthcoming.
Companion website: <https://sites.google.com/site/hiegravity/data-sources>

New Economic Geography

Krugman, Paul, 1991. Increasing Returns and Economic Geography, *Journal of Political Economy*, 99(3), 483-99.

(*) Redding, S. and Venables, A., 2004. Economic geography and international inequality. *Journal of international Economics*, Vol. 62(1), pp. 53-82.

Redding, S. and Sturm, D., 2008. The costs of remoteness: Evidence from German division and reunification. *American Economic Review*, Vol. 98(5), pp. 1766-1797.

Costinot, A. & Donaldson, D., 2012. How Large are the Gains from Economic Integration? Theory and Evidence from U.S. Agriculture, 1880-2002. MIT working paper.

Redding, S. J., 2009. *Economic Geography: A review of the theoretical and empirical literature*. Centre for Economic Performance, LSE.

Heterogeneous Firms

Theory

Arkolakis, C., 2010. Market Penetration Costs and the New Consumers Margin in International Trade. *Journal of Political Economy*, Vol. 118(6), pp. 1151-1199.

Bernard, A., Redding, S. and Schott, P., 2008. Comparative advantage and heterogeneous firms. *Review of Economic Studies*, Vol. 74(1), pp. 31-66.

Chaney, T., 2008. Distorted gravity: The intensive and extensive margins of international trade. *American Economic Review*, Vol. 98(4), pp. 1707-1721.

(*) Melitz, M., 2003. The impact of trade on intra-industry reallocations and aggregate industry productivity. *Econometrica*, Vol. 71(6), pp. 1695-1725.

Empirics

Bernard, A., Eaton, J., Jensen, B., and Kortum, S., 2003. Plants and Productivity in International Trade, *American Economic Review*, vol. 93(4), pp. 1268-1290.

(*) Lileeva, A. and Trefler, D., 2010. Improved access to foreign markets raises plant-level productivity... for some plants, *Quarterly Journal of Economics*, Vol. 125(3), pp. 1051-1099.

Bustos, P., 2011. Trade liberalization, exports, and technology upgrading: Evidence on the impact of Mercosur on Argentinian firms, *American Economic Review*, Vol. 101(1), pp. 304-340.

Hummels, D. and Klenow, P., 2005. The variety and quality of a nation's exports, *American Economic Review*, pp. 704-723.

Surveys

Bernard, A., Jensen, J., Redding, S., and Schott, P., 2007. Firms in international trade, *Journal of Economic Perspectives*, Vol. 21(3), pp. 105-130.

Bernard, J., Redding, S., and Schott, P., 2011. The empirics of firm heterogeneity and international trade, *Annual Review of Economics*, Forthcoming.

(*) Redding, S., 2011. Theories of heterogeneous firms and trade, *Annual Review of Economics*, 3, 77-105.

Eaton-Kortum Model

(*) Eaton, J. and Kortum, S., 2002. Technology, Geography, and Trade, *Econometrica*, Vol. 70(5), pp. 1741-1779.

Alvarez, F. and Lucas, R., 2007. General equilibrium analysis of the Eaton-Kortum model of international trade, *Journal of Monetary Economics*, Vol. 54(6), pp. 1726-1768.

Caliendo, Lorenzo, and Fernando Parro. "Estimates of the Trade and Welfare Effects of NAFTA." *The Review of Economic Studies* (2014)

Eaton, J., Kortum, S., Neiman, B. and Romalis, J., 2016. Trade and the global recession *American Economic Review*, vol. 106, no. 11.

Multinationals and Organization of the Firm

(*) Helpman, E., Melitz, M. J. and Yeaple, S. R., 2004. Export versus FDI with heterogeneous firms. *American Economic Review*, 2004, Vol. 94(1), pp. 300-316.

(*) Antràs, P. and Helpman, E., 2004. Global sourcing. *Journal of Political Economy*, Vol. 112(3), pp. 552-580.

Antràs, P., 2005. Incomplete Contracts and the Product Cycle. *American Economic Review*, Vol. 95(4), pp. 1054-1073.

Antràs, P. and Chor, D., 2012. Organizing the global value chain. Forthcoming, *Econometrica*.