

MA INTERNATIONAL ECONOMICS
International Economics
Autumn Term 2007
Sherman Robinson, Alasdair Smith and L Alan Winters

Course objectives

This course is designed to introduce you to basic theory and results in international trade, including recent advances; develop your ability to use them to answer policy questions; and help you to present arguments in a clear and convincing way.

We will start with the building blocks of positive trade theory, including the influence of trade on factor markets. We then move on to the theory of international trade policy, drawing on some of the positive analysis to develop normative prescriptions for national, global and individual welfare. We shall examine a number of specific topics such as the trade-wage debate, trade and poverty, trade and growth, and regional trade agreements.

As well as learning how to analyse international trade issues, you will develop general skills such as presenting and analysing data, working with Excel, writing clearly and concisely on economic issues, making oral presentations, engaging in debate, and working with colleagues.

Timetable

The course entails eighteen classes of 2 hours each and private study plus a round-up session in the last week of term. The class times will be divided, with a degree of flexibility, between lectures, seminar-discussions, and problem classes. The sessions are scheduled

Friday 9:00 – 11:00am Russell 30

Friday 2:00 – 4:00am Russell 30

The first session will be on Friday 5th October.

Faculty

The three faculty involved in the course are;

Professor **Sherman Robinson**, (Arts E 520). Office Hours: Wednesday 10:00 - 12:00.
email: Sherman.Robinson@sussex.ac.uk.

Professor **Alasdair Smith**. I may be contacted through the Economics Office or by email on alasdair@sussex.ac.uk.

Professor **L Alan Winters** (Arts E513). Office Hours: Mondays 9:30-11:00. e-mail:
L.A.Winters@sussex.ac.uk

Alasdair Smith will be responsible for the first third of the course; Alan Winters for the second and Sherman Robinson for the third.

Course requirements and assessment

Each student is required to write two essays of 1500 words maximum. Details to be announced shortly. You will also be required to prepare work in advance of some of the classes. This is an important part of the course and we will expect to see everyone contributing to the discussions in class.

Assessment will be by a 3½ hour unseen exam in January. You will be required to write three essay-type answers out of a choice of about eight questions. Exams from previous years are available in the Library, but bear in mind that the course evolves over time.

Student feedback

As in all Economics courses, you will be asked to fill in anonymously a student evaluation questionnaire near the end of term and there will be a feedback meeting for the whole MA programme near the end of the academic year. But if you have views about the course, whether its content or its delivery, which you think would be useful to pass on during the term, do not hesitate to discuss them with either of us.

Textbooks

We make extensive use of

Feenstra, Robert C. *Advanced International Trade: Theory and Evidence*. Princeton University Press, 2004.

This book covers much of the material of the course, but sometimes at a higher mathematical level than we will require in this course. As much as possible, we will make the material covered in lectures compatible with Feenstra, in notation, diagrams etc. Other useful sources of material are:

David Greenaway and L. Alan Winters, *Surveys in International Trade* (Basil Blackwell, 1994).

P.B. Kenen and R.W. Jones, *Handbook of International Economics*, Volume 1 (North Holland, 1984)

Gene Grossman and Kenneth Rogoff, *Handbook of International Economics*, Volume 3 (North Holland, 1995)

This course does not assume that you have prior knowledge of international economics, and if you have not studied international trade course before, you may find an introductory textbook useful. We suggest any one of:

James R. Markusen, James R. Melvin, William H. Kaempfer, and Keith E. Maskus, *International Trade: Theory and Evidence* (McGraw-Hill, 1995). Referred to as MMKM below.

Paul Krugman and Maurice Obstfeld, *International Economics: Theory and Policy* (MIT Press).

L. Alan Winters, *International Economics* (Routledge).

Charles van Marrewijk, *International Trade and the World Economy* (Oxford University Press).

Useful selections of readings are provided in :

Joseph F. Francois and Kenneth A. Reinart, eds. 1997. *Applied Methods for Trade Policy Analysis: A Handbook*. Cambridge: Cambridge University Press

Jagdish Bhagwati (ed.), *International Trade: Selected Readings* (MIT Press, second edition 1987) [referred to as *ITSR* below]

Gene M. Grossman (ed.), *Imperfect Competition and International Trade* (MIT Press, 1992)

Paul R. Krugman, *Rethinking International Trade* (MIT Press, 1990)

Research seminars:

Keep an eye on IDS Yellow Monday and the University Bulletin for information about research seminars in IDS and in SPRU which may be of interest. :

There will be Economics research seminars on Mondays at 4-5.30pm. You should aim to attend some of these seminars.

Topics to be covered in the course include:

Comparative advantage

Imperfect competition and trade

Trade and factor markets

The trade-wage debate

Principles of trade policy under perfect and imperfect competition

The Political Economy of Trade Policy

Trade, economic performance and poverty

From theory to empirical models

Trade shocks and structural adjustment

The gravity model of trade

Regional trade agreements

Starred references, marked with an * are critical. We have listed many others to provide variety and a basis for dissertation work. You should sample these; ask if you want guidance about them. In some of the references the following abbreviations are used for journal titles:

AER *American Economic Review*

EJ *Economic Journal*

JIE *Journal of International Economics*

JPE *Journal of Political Economy*

1. Models of comparative advantage (AS)

*Feenstra, chapters 1-2a.

Rodney E. Falvey, *The theory of international trade*, chap 2 of Greenaway/Winters

R.W. Jones and J.P. Neary, The positive theory of international trade, *Handbook 1*, chap 1

Empirical evidence:

*Feenstra, chapter 2b

Edward E. Leamer, Testing trade theory, chapter 4 of GW.

James Levinsohn and Edward E. Leamer, International trade theory: the evidence, *Handbook 3*, chapter 26.

Harry Bowen, Edward E. Leamer, and Leo Sveikauskas, Multicountry, multifactor tests of the factor abundance theory, *AER* 1987, 791-809.

Daniel Trefler, International factor price differences: Leontief was right! *JPE* 1993, 961-987

Daniel Trefler, The case of the missing trade and other mysteries, *AER* 1995, 1029-1046.

Donald R. Davis, and David E. Weinstein, (2001) An Account of Global Factor Trade., *American Economic Review*, Vol.91, No.6, pp.1423-53

Beyond the 2x2 model:

*Feenstra, chapter 3

J. Peter Neary, Short-run capital specificity and the pure theory of international trade. *Economic Journal*, 1978, Vol.88, No.351, pp.488-510., (and *ITSR* - chap 5)

Wilfred J. Ethier, Higher dimensional issues in trade theory, *Handbook 1*, chap 3

Elhanan Helpman, The factor content of foreign trade, *EJ* March 1984

2. Imperfect Competition and Intra-Industry Trade (AS)

*Feenstra, chap 5 pp. 137-44

*Smith, A. *Imperfect competition and international trade*. Chap 3 of GW.

Krugman, P. (1992) Scale economies, product differentiation and the pattern of trade. *American Economic Review*, Vol.70, No.5, pp.950-959. (also chapter 2 of Krugman (1990), and chapter 11 of Grossman (1992))

James, A. Brander and Krugman, P.R., (1983) A reciprocal dumping model of international trade. *Journal of International Economics*, Vol.15, pp. 313-323. (also chapter 4 of Krugman (1990), and chapter 1 of Grossman (1992))

- Krugman, P. (1979) Increasing returns, monopolistic competition and international trade. *Journal of international Economics*, (also *ITSR* chapter 9, and Krugman (1990) chapter 1)
- Hummels, D. and Levinsohn, J. (1995) Monopolistic competition and international trade: reconsidering the evidence. *Quarterly Journal of Economics*, Vol.110, No.3, pp.799-836.
- Greenaway, D., Hine R., Milner, C. (1995) Vertical and horizontal intra-industry trade: a cross industry analysis for the United Kingdom. *Economic Journal*, Vol.105, No.433, pp. 1505-18.

3. Principles and practice of trade policy under perfect and imperfect competition (LAW)

- *Feenstra, chapters 7, 8
- *Anderson, J. E. (1994) Trade policy. In Greenaway D. and Winters L.A. eds. *Surveys in International Trade*, Oxford, Blackwell, pp.107-138.
- *Helpman, E. and Krugman, P. (1989) *Trade Policy and Market Structure*. MIT Press. (chaps 1-5)
- Feenstra, R. (1995) Estimating the effects of trade policy. Chapter 30 of H-book III.
- Rodrik, D. (1995) Getting interventions right: how South Korea and Taiwan grew rich. *Economic Policy*, Vol.20, April.
- Winters, L.A. (1989) The 'So-Called Non-Economic Objectives' of Agricultural Policy. *OECD Economic Studies*, No.13, Winter 1989-1990, pp.237-266
- Rodrik, D, 2004, Industrial Policy for the Twenty-first Century, http://www.actualidadeconomica-peru.com/anteriores/ae_2005/marzo/art_01_mar_05.pdf
- Krugman, P. (1987) Is free trade passé? *Journal of Economic Perspectives*, Vol.1, No.2, pp.131-144.
- Laussel, D. and Montet, C. (1994) Strategic Trade policies. In Greenaway, D. and Winters, L. A. eds. *Surveys in International Trade*, Oxford, Blackwell, pp.177-205.
- Rob Feenstra, (1988) *Empirical Methods for International Trade* (MIT Press, 1988), especially chapter by Feenstra on Japanese trucks; also chapters by Dixit (on US automobile industry) and Baldwin-Krugman (on semi-conductors) reprinted in Grossman (1992) chaps 9,10.
- Robert E. Baldwin, (1988) *Trade Policy Issues and Empirical Analysis* (University of Chicago Press for NBER, 1988), chapters by Baldwin-Krugman (on aircraft market) and Rodrik (on developing countries)

4. The Trade-Wage Debate (AS)

- *Feenstra, chapter 4. Trade in Intermediate Inputs and Wages.

- *Wood, A (1995) How Trade Hurt Unskilled Workers, *Journal of Economic Perspectives*; 9(3), 57-80
- *Slaughter M (1998) International trade and labour market outcomes, *Economic Journal*, 108,1452-62.
- *Thierfelder, Karen and Sherman Robinson. 2003. Trade and Tradability: Exports, Imports, and Factor Markets in the Salter-Swan Model. *The Economic Record*, Vol. 79, No. 244, March, pp. 103-111.
- Freeman, Richard B. 1995. Are Your Wages Set in Beijing? *Journal of Economic Perspectives*, Vol. 9, No. 3, pp. 15-32.
- Richardson, J. David. 1995. Income Inequality and Trade: How to Think, What to Conclude. *Journal of Economic Perspectives*, Vol. 9, No. 3, pp. 33-45.
- Adrian Wood. *North-South Trade, Employment, and Inequality*. Oxford: Oxford University Press, 1994.
- Baldwin, Robert E. and Glen G. Cain. 2000. Shifts in Relative U.S. Wages: The Role of Trade, Technology and Factor Endowments. *Review of Economics and Statistics*, Vol. 82., No. 4, pp. 580-595.
- Krugman, Paul R. 2000. Technology, Trade and Factor Prices. *Journal of International Economics*, Vol. 50, pp. 51-71.
- Haskel, J, (2000), The trade and labour approaches to wage inequality, *Review of International Economics* vol 8, no 3, pp 397-408. Also CEPR Discussion Paper no. 2476.
- Berman, E, Bound, J, and Machin, S (1998) Implications of Skill-biased Technological Change: International Evidence, *Quarterly Journal of Economics*, November, 1245-79
- Feenstra, R. and G. Hanson (1995), Foreign Investment Outsourcing and Relative Wages in R. Feenstra, G. Grossman and D. Irwin (eds), *Economy of Trade Policy: Essays in Honour of Jagdish Bhagwati*, MIT Press, Cambridge.

5. The Political Economy of Trade Policy (LAW)

- *Feenstra chapter 9
- *Helpman, E. (1997) Politics and trade policy. In Kreps, D. and Wallis, K. eds. *Advances in Economics and Econometrics*, Vol.1.
- Grossman, G. and Helpman, E. (1994) Protection for sale. *American Economic Review*, Vol.84, No.4, pp.833-50.
- Gawande, Kishore and Krishna, Pravin, "Lobbying Competition Over US Trade Policy" (May 2005). NBER Working Paper No. W11371. Available at SSRN: <http://ssrn.com/abstract=731026>
- Gawande K. and U Bandyopadhyay (2000) 'Is Protection for Sale? Evidence on the Grossman-Helpman Theory of Endogenous Protection' *The Review of Economics and Statistics*, 82:139-52,

- Dani Rodrik, Political economy of trade policy. *H-book 3*, chapter 28.
- Krueger, A.O. (1974) The political economy of the rent-seeking society. *American Economic Review*, Vol.64, No.3, pp.291-303. (and *ITSR* chap 17)
- Finger, J.M., Hall, K.H. and Nelson, D.R. (1982) The political economy of administered protection. *American Economic Review*, Vol.72, No.3, pp.452-66.
- Anderson, K. (1995) Lobbying incentives and the pattern of protection in rich and poor countries. *Economic Development and Cultural Change*, Vol.43, pp.401-23.
- Scheve, K. F. and Slaughter, M .J. (2001) What determines individual trade policy preferences? *Journal of International Economics*, Vol.54, No.2, pp.267-292.
- MMKM chaps. 19-20
- Winters, L. A. (1991) *International Economics*, Routledge, chapter 12.

6. Trade, Economic Performance, and Poverty (LAW)

- *Feenstra, chapter 10, Trade and Endogenous Growth.
- *Rodriguez, F. and Rodrik, D. (2001) Trade policy and economic growth: a skeptic's guide to the evidence. *NBER Macroeconomics Annual 2000*, plus comments by Hsieh and Jones.
- *Rivera-Batiz, and Romer, P. (1991) International Trade with Endogenous Technological Change. *European Economic Review*, Vol.35, pp.971-1004.
- *Winters, L .A. (2004) Trade Liberalisation and Economic Performance: An Overview. *The Economic Journal*, Vol. 114 (February), pp. F4-F21.
- *Winters, L. Alan, Neil McCulloch and Andrew McKay, 2004. Trade Liberalization and Poverty: The Evidence So Far. *Journal of Economic Literature*, Vol. XLII (March), pp. 72-115.
- Ben David D. (2000) Trade, growth and disparity between nations. In Ben David D, Norstrom, H. and Winters, L.A. eds. *Trade, Income Disparity and Poverty*, Geneva, World Trade Organization.
- Eaton, J. and Kortum, S. (2001) Trade in capital goods. *European Economic Review*, Vol.45, No.7, pp.1195-1236.
- Coe, D., Helpman, E. and Hoffmaister, A. (1997) North-South R&D Spillovers. *Economic Journal*, Vol.107, No.440, pp.134-149.
- Rodrik, D.; Subramanian, A. and Trebbi, F. (2004) Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development, *Journal of Economic Growth* 9:131-65, also *CEPR Discussion Paper*, No.3643 (2002).
- Noguer, M. and M. Siscart 2005. "Trade raises income: a precise and robust result" *Journal of International Economics* 65:447-60.
- Freund, C. and B. Bolaky 2002. "Trade, Regulations, and Growth." World Bank Policy Research Working Paper No 3255, November.

7. From Theoretical Models to Empirical Implementation (SR)

*Feenstra, chapter 3-4.

*Devarajan, Shantayanan, Delfin S. Go, Jeffrey D. Lewis, and Sherman Robinson. Simple General Equilibrium Modeling. Chapter 6 in Francois and Reinart.

Ronald W. Jones. The Structure of Simple General Equilibrium Models. *Journal of Political Economy*, Vol. 73 (December 1965), pp. 557-572. Reprinted in Alan V. Deardorff and Robert M. Stern, *The Stolper-Samuelson Theorem: A Golden Jubilee*. This is the original article setting out the Jones algebra.

Joseph F. Francois and H. Keith Hall. Partial equilibrium modeling. Chapter 5 in Francois and Reinart.

Other references that discuss the 1-2-3 model, as an alternative to Devarajan et al., are:

Devarajan, Shantayanan, Jeffrey D. Lewis, and Sherman Robinson. Policy Lessons from Trade-Focused, Two-Sector Models. *Journal of Policy Modeling*. Vol. 12 (1990), pp. 625-657.

Sadoulet, Elisabeth and Alain de Janvry. 1995. *Quantitative Development Policy Analysis*. Baltimore: Johns Hopkins University Press. Chapter 12: Computable General Equilibrium Models, especially pp. 344-349.

8. Trade Shocks and Structural Adjustment (SR)

*Taylor, Lance (ed). 1993. *The Rocky Road to Reform: Adjustment, Income Distribution, and Growth in the Developing World*. MIT Press. Chapters 1 and 3 by Taylor: The Rocky Road to Reform and Stabilization, Adjustment, and Reform.

*Dervis, Kemal, Jaime de Melo, and Sherman Robinson. 1982. *General Equilibrium Models for Development Policy*. Cambridge: Cambridge University Press. Reprinted by the World Bank, 1989. Chapter 13: Also available as an article: Dervis, K. and S. Robinson. 1982. A General Equilibrium Analysis of the Causes of a Foreign Exchange Crisis: The Case of Turkey. *Weltwirtschaftliches Archiv*, Band 118, Heft 2, pp. 259-280.

*Devarajan, Shantayanan, Jeffrey D. Lewis, and Sherman Robinson. 1993. External Shocks, Purchasing Power Parity, and the Equilibrium Real Exchange Rate. *World Bank Economic Review*. Vol. 7, No. 1, pp. 45-63.

Taylor, Lance. 1988. *Varieties of Stabilization Experience*. Oxford: Clarendon Press.

Taylor, lance. 1990. *Socially Relevant Policy Analysis: Structuralist Computable General Equilibrium Models for the Developing World*. Cambridge: MIT Press.

Ian Little , W. Max Corden , Sarath Rajapatirana , Richard N. Cooper (eds). 1993. *Boom, Crisis, and Adjustment: The Macroeconomic Experience of Developing Countries, 1970-90*. Oxford: Oxford University Press for the World Bank.

Williamson, John. 1994. *Estimating Equilibrium Exchange Rates*. Washington: Institute for International Economics.

Pedro-Pablo Kuczynski and John Williamson, eds. 2003. *After the Washington Consensus: Restarting Growth and Reform in Latin America*. Washington: Institute for International Economics.

Stiglitz, Joseph E. 2002. *Globalization and Its Discontents*. W.W. Norton. Chapter 4: The East Asia Crisis: How IMF Policies Brought the World to the Verge of a Global Meltdown.

For an NGO perspective, look at the Oxfam web site.

9. Gravity Models (SR)

*Feenstra chapter 5

Anderson, J and Wincoop, E., (2003) Gravity with gravitas: A solution to the border puzzle, *American Economic Review*, 93, 170-92.

Deardorff, A.V. (1997), Determinants of bilateral trade: Does gravity work in a classical world?, in *The Regionalization of the World Economy*, Jeffrey Frankel, ed., University of Chicago Press.

Evenett, S, and Keller, W, (2002), On theories explaining the success of the gravity equation, *Journal of Political Economy*, 110; 281-316.

Hamilton, C. and Winters, L.A. (1992), Trade with Eastern Europe, *Economic Policy*.

Santos Silva J. M. C. and Silvana Tenreyro, The Log of Gravity, *Review of Economics and Statistics* November 2006, Vol. 88, No. 4: 641-658.

Matyàs L. (1997) Proper Econometric Specification of the Gravity Model *The World Economy* Vol. 20.

Soloaga I., and Winters L. A., (2001), How has Regionalism in the 1990s affected trade?, *North American Journal of Economics and Finance*, 12:1 -29, also Policy Research Working Paper 2156, World Bank (1999).

Carrere Celine, 2006, Revisiting the effects of regional trade agreements on trade flows with proper specification of the gravity model, *European Economic Review*, Volume 50, Issue 2, February 2006, Pages 223-247

Feenstra, Robert C., James R. Markusen and Andrew K. Rose, 2001, Using the gravity equation to differentiate among alternative theories of trade, *Canadian Journal of Economics*, Volume 34 Issue 2 Page 430-447, May 2001

10. Regional Trade Agreements (SR)

*Feenstra, chapter 6: Gains from Trade and Regional Agreements.

*Schiff, M. and Winters, L. A. (2003) *Regional Integration and Development*. Oxford University Press. Chapters 2, 3

*Panagariya, A. (2000) Preferential trade liberalisation: The traditional theory and new developments. *Journal of Economic Literature*, Vol.38, No.2, pp.287-331.

*Burfisher, Mary, Sherman Robinson, and Karen Thierfelder. 2004. Regionalism: Old and New, Theory and Practice. In G. Anania, M. E. Bohman, C. A. Carter and A. F. McCalla, eds., *Agricultural Policy Reform and the WTO: Where Are We Heading?*, Edward Elgar, Cheltenham, UK & Northampton MA, USA. Also

available as MTID Discussion Paper No. 65, Markets, Trade and Institutions Division, IFPRI, February, 2004.

*World Bank. 2004. *Global Economic Prospects, 2005: Trade, Regionalism, and Development*. Washington: World Bank.

Baldwin, R. and Venables, A.J. (1995) Regional Economic Integration. In *Handbook III*.

Robinson, Sherman and Karen Thierfelder. 2002. Trade Liberalisation and Regional Integration: The Search for Large Numbers. *Australian Journal of Agricultural and Resource Economics*, Vol. 46, No. 4 (December), pp. 585-604.

Baldwin, R.E. (1997) The Causes of Regionalism. *The World Economy*, Vol.20, No.7, pp.865-888.

Puga, D. and Venables, A.J. (1997) Preferential trading arrangements and industrial location. *Journal of International Economics*, Vol.43, pp.347-68.

Winters, L.A. and Chang, W. (2002) How Regional Blocs Affect Excluded Countries: The Price Effects of MERCOSUR, *American Economic Review*, 2002, vol. 92, no. 4, pp889-904.