Objectives and Scope
This course is designed for graduate students interested in understanding the central issues in international trade. We start by analyzing the sources of gains from trade, trade patterns and its impact on factor prices and growth. We draw both on classical approaches and recent ones that emphasize the role of firms and trade costs. The second part focuses on trade policy effects, its determinants and role in regional and multilateral agreements. The third part of the course examines the impact of capital mobility and firm's decisions to export, outsource or integrate production across borders. The objective is to learn the theoretical and empirical tools used in trade and how their interaction can provide insights on several important economic outcomes. Given the breadth of topics, some will only be covered briefly in this course but in more detail in a subsequent one.

Pre-requisites
ECON 603 or permission from instructor.

Requirements

- Presentations: To move from consuming to producing research requires a critical evaluation of what has been done. Thus each student is required to make at least one presentation based on the starred articles in the reading list (depending on enrolment). Students are also required to make a final presentation on a trade related paper. The latter requires you to select and discuss a reading list on the chosen topic with me.
- Exercises: I will assign theoretical and empirical exercises.
- Summary papers: In order to benefit the most from the course all students must do the required reading before class. I will require a 1 page summary before class of at least 5 articles marked either "*" or "s*" spread through the semester (excludes book chapters and articles you present).
- The final grade will be a weighted average of your presentations (30%), midterm (20%), final (30%), exercises (15%) and summary papers (5%).

Resources
Most articles in the reading list are available electronically through any university computer. The main books in the reading list are available in McKeldin library's reserves. I encourage you to share interesting working papers or news articles related to International Trade by uploading a link or file through the course software (include a description line). The course web page contains information and links to research, data and commentary on issues related to the course. <www.wam.umd.edu/~Limao/econ742/econ742.html>
COURSE OUTLINE

Part I: Trade Theory and Evidence
1. Comparative advantage and the gains from trade
2. Comparative advantage models
3. Monopolistic competition models
4. Trade costs and economic geography
5. Trade, productivity and growth

Part II: Trade Policy
1. Instruments, measurement and basic effects
2. Welfare and optimal policy targeting
3. Political economy of trade policy

Part III: International Factor Mobility and Organization of Production
1. International capital mobility and trade
2. Multinationals
3. Outsourcing and international organization of production

“†” Denotes topics we will cover only partially if time permits
We will make use of articles and chapters from different textbooks and monographs. Therefore, there is no single required textbook for the course. However, students interested in trade may want to purchase the books listed, particularly the strongly recommended books, as we will draw extensively on some of their chapters (particularly Feenstra, 2004). The reading list is long because it is meant as an initial guide to the main papers in each topic. The key readings for the course are marked with an asterisk.

**Strongly recommended (on reserve)**


**Recommended**


**Notes for the reading list**

- “X Ch. #”: Refers to chapter # in book (X), as abbreviated in the list above.
- “*”: Denotes a required reading. Summary papers can cover *articles* thus marked.
- “**” Denotes a required reading of an article that I expect a student to present. Summary papers can cover these.
- “*r”: Denotes a review. Some are important enough and so required, they are marked as “*r”.
- “†” Denotes topics we will cover only if time permits
- The blue titles indicate online availability (you must access some from a campus connection).
**Part I: Trade Theory and Evidence**

1. Comparative advantage and the gains from trade

*DN p. 1-8, 65-82, 93-96


2. Comparative advantage models

2.1 Technology

* F ch. 1 (p. 1-4)

DN (36-38, 82-85)


2.2 Factor proportions

*F ch. 1 (p. 4-29), ch. 2, ch. 3.

Theory

DN ch 1 (8-19), ch. 2, ch. 4. (p. 96-102, 106-122).

HK ch. 1


Evidence on factor content and factor prices

*F ch. 4


2.3 Specific factors

* F 72-75

DN pp. 38-43, 102-106, 122-125


3. Monopolistic competition models

3.1 Theory
* F 137-141
Hk Chs. 7, 8, 9.5

3.2 Empirics
* F 146-169

3.3 Aggregate Welfare†

4. Trade costs, bilateral flows and economic geography

4.1 Trade costs and bilateral flows
* F 146-169

4.2 Economic geography: Theory
FKV Chs. 4, 5, 14
4.3 Economic geography: Empirics

5. Trade, productivity, and growth

* F ch. 10
5.1 Growth

5.2 Micro studies of trade and productivity
*r Tybout, J.R. 2004. "Plant and firm level evidence on new trade theories" in CH
Part II: Trade policy

1. Instruments, measurement and basic effects


1.1 Perfect competition: effects on welfare and prices of goods and factors

* F ch. 7 (p. 209-220); ch 8 (254-259, p. 281-285)
HK 89 ch 2
W ch. 11

1.2 Imperfect competition and strategic trade policy

* F ch. 7 (p. 221-233, 240-251) and ch. 8 (p. 259-271, 286-297 )
HK 89 chs. 3, 6 and 7
Brander, J. 1995 in GR ch. 27

1.3 Estimating some basic effects of trade policy

* F ch. 7 (p. 233-40) and ch. 8 (p. 271-81)

2. Welfare and optimal policy targeting

*BPS ch. 20
*DN ch. 3 (p. 76-80) and ch. 6 (p. 176-184)
*F ch. 6 (p. 174-187)
BPS chs. 21-28


3. Political economy of trade policy

3.1 Unilateral motives


3.2 Unilateral and multilateral motives


3.3 Quantifying the Basic Effects of Trade Agreements†


Part III: International Factor Mobility and Organization of Production

1. International capital mobility and trade

* F: 11: 371-80
BPS ch. 32
W ch. 4 (perfect competition); ch. 5 (p. 244-47: econ. scale); ch. 6 (p. 292-297: monopolistic competition)

2. Multinationals

* F 11: 380-99
HK: 12 and 13

3. Outsourcing and international organization of production

F ch 4