

UNIVERSITY OF MARYLAND  
DEPARTMENT OF ECONOMICS  
**ECON 742: ADVANCED INTERNATIONAL ECONOMICS II**  
Fall 2015

**Instructor:**

Nuno Limão  
4118G Tydings Hall, x57842  
[Limao@econ.umd.edu](mailto:Limao@econ.umd.edu)  
Office hours: by appointment

**Time and Location:**

T Th: 11-12:15  
Location: [TYD](#) 4118C

**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](http://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

## Reading list: basic material and notes

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)

Dixit, Avinash and Victor Norman. 1980. *Theory of International Trade* (DN)

Feenstra, R.C. 2004. *Advanced International Trade, Theory and Evidence*. Princeton University Press. (F)

Helpman, Elhanan and Paul Krugman. 1985. *Market Structure and Foreign Trade*. MIT Press. (HK)

### Recommended

Bagwell, Kyle and Robert Staiger. 2002. *The Economics of the World Trading System*, MIT Press. (BS)

Bhagwati, Jagdish; Panagariya, Arvind and T. N. Srinivasan. 1998. *Lectures in International Trade*, 2<sup>nd</sup> ed. MIT Press (BPS)

Bhagwati, Jagdish (ed). 1987. *Selected Readings in International Trade*. 2<sup>nd</sup> ed. MIT Press (B)

Choi, K.E. and J. R. Harrigan. 2004. *Handbook of International Trade*, vol I. Blackwell. (CH)

Fujita, M. Krugman, P., and A. Venables. 2001. *The Spatial Economy*. MIT Press. (FKV)

Grossman, Gene and E. Helpman. 1991. *Innovation and Growth in the Global Economy*. MIT Press. (GH)

Grossman, Gene and K. Rogoff, eds. 1995. *Handbook of International Economics*, Vol III, Elsevier. (GR)

Helpman, Elhanan and Paul Krugman. 1989. *Trade Policy and Market Structure*. MIT Press. (HK 89)

Gopinath, G; Helpman, Elhanan and Kenneth Rogoff. 2015. *Handbook of International Economics*, Vol IV, Elsevier (GHK 15)

### 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.
- “s\*” 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

\*Bernhofen, Daniel M and John C. Brown. 2004 "[A direct test of the theory of comparative advantage: the case of Japan.](#)" *JPE* 112(1): 48-67.

Bernhofen, D. M. and J. C. Brown. 2005. "[An Empirical Assessment of the Comparative Advantage Gains from Trade: Evidence from Japan.](#)" *AER*, 95(1): 208-225.

Deardorff, A. 1980. "[The General Validity of the Law of Comparative Advantage.](#)" *JPE* 88: 941-957.

Dixit, A. and V. Norman. 1986. "[Gains from Trade without Lump-Sum Compensation.](#)" *JIE* 21: 111-122.

### 2. Comparative advantage models

#### 2.1 Technology

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

DN (36-38, 82-85)

\*Dornbusch, R., S. Fischer, and P. Samuelson. 1977. "[Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods.](#)" *AER* 67: 823-839.

Eaton, J. and S. Kortum. 2002. "[Technology, Geography, and Trade.](#)" *Econometrica*, 5: 1741-1779

#### 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

Deardorff, A. 1979. "[Weak Links in the Chain of Comparative Advantage,](#)" in B ch. 7.

*Evidence on factor content and factor prices*

\*F ch. 4

\*Feenstra, R. and G. Hanson. 1999. "[The Impact of Outsourcing and High-Technology Capital on Wages: Estimates For the United States 1979–1990.](#)" *QJE* 114 (3): 907-940.

\*Davis D. and D. Weinstein. 2001. "[An Account of Global Factor Trade.](#)" *AER*, 91(5): 1423-53.

\*Trefler D. 1995. "[The Case of the Missing Trade and Other HOV Mysteries.](#)" *AER*, 85: 1029-47.

Trefler, D. 1993. "[International Factor Price Differences: Leontief Was Right!](#)" *JPE*, 101(6): 961-87

#### 2.3 Specific factors

\* F 72-75

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

Jones, R., 1971. "A Three Factor Model in Theory, Trade, and History," in Bhagwati et al (eds). *Trade Balance of Payments and Growth. Essays in honor of C.P. Kindleberger.* North Holland.

Mussa, M. 1978. "[Dynamic Adjustment in the HOS Model.](#)" *JPE* 86: 775-791

### 3. Monopolistic competition models

#### 3.1 Theory

\* F 137-141

\* Krugman, P. 1979. "[Increasing Returns, Monopolistic Competition and International Trade](#)," *JIE* 9: 469-479.

\* Melitz, M. J. 2003. "[The Impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity](#)," *Econometrica*, 71 (6): 1695-1725

Melitz, M. J. and Redding, S. 2015. "Heterogeneous Firms and Trade," in Handbook of International Economics IV.

Hk Chs. 7, 8, 9.5

#### 3.2 Empirics

\* F 146-169

\* Helpman, E. Melitz, M. and Y. Rubinstein. 2008. "[Estimating Trade Flows: Trading Partners and Trading Volumes](#)," *QJE*, 123(2): 441-487.

† Bernard, A., Redding, S. and P. K. Schott. 2007. "[Firms in International Trade](#)," *JEP*, 21(3): 105-130

#### 3.3 Aggregate Welfare†

\* Arkolakis, C., Costinot, A. and Rodriguez-Clare, A. 2012. "[New Trade Models, Same Old Gains?](#)" *AER*, 102(1):94-130.

\* Melitz, M. and S. Redding. Forthcoming. "[New Trade Models, New Welfare Implications](#)," *AER*.

Broda, C. and Weinstein, D. 2006. "[Globalization and the gains from variety](#)," *QJE*, 121(2):541-585.

† Costinot, A. and A. Rodríguez-Clare. (2015). "Trade Theory with Numbers: Quantifying the Consequences of Globalization." Handbook of International Economics, Vol. 4.

† Feenstra, R.C. 2010 "[Measuring the Gains from Trade under Monopolistic Competition](#)," *CJE*, 43(1):1-28.

### 4. Trade costs, bilateral flows and economic geography

#### 4.1 Trade costs and bilateral flows

\* F 146-169

\* Anderson, J. and E. V. Wincoop. 2003. "[Gravity with Gravitas: A Solution to the Border Puzzle](#)," *AER*, 93: 170-192.

s\* Helpman, E. Melitz, M. and Y. Rubinstein. 2008. "[Estimating Trade Flows: Trading Partners and Trading Volumes](#)," *QJE*, 123(2): 441-487.

† Anderson, J.E. and E. van Wincoop. 2005. "[Trade Costs](#)," *JEL*, 42: 691-75

† Head, K. and Thierry Mayer. 2015. "[Gravity Equations: Workhorse, Toolkit, and Cookbook](#)," in Handbook of International Economics IV.

Eaton, J. and S. Kortum. *Technology in the Global Economy: A Framework for Quantitative Analysis*, chs. 2,3.

Limão, N. and Anthony Venables. 2001. "[Infrastructure, Geographical Disadvantage, Transport Costs and Trade](#)," World Bank Economic Review, 15: 451-479.

#### 4.2 Economic geography: Theory

\* Krugman, P. 1980. "[Scale Economies, Product Differentiation, and the Pattern of Trade](#)," *AER* 70: 950-959.

Krugman, P, 1991. "[Increasing Returns and Economic Geography](#)," *JPE* 99:3, 483-499.

Krugman, P. and A. Venables. 1995. "[Globalization and the Inequality of Nations](#)," *QJE*, 110: 857-80.

FKV Chs. 4, 5, 14

Redding, S.J. 2012. "[Goods Trade, Factor Mobility and Welfare](#)," NBER WP 18008.

### 4.3 Economic geography: Empirics

- \*Redding, S. and A. Venables. 2004. "[Economic geography and international inequality](#)" *JIE* 62: 53-82.
- Hanson, G. and C. Xiang. 2004. "[The Home Market Effect and Bilateral Trade Patterns](#)," *AER*, 94: 1108-29
- † Redding, S. 2009. "[Economic geography: a review of the theoretical and empirical literature](#)," *CEP Discussion Papers*, 904.

## 5. Trade, productivity, and growth

\* F ch. 10

### 5.1 Growth

- \*r Grossman, G. and E. Helpman. 1995. "Technology and trade." in GR. GH Chs. 3, 6, 13
- Young, Alwyn. 1991. "[Learning by Doing and the Dynamic Effects of International Trade](#)." *QJE*, 106 (2): 369-405.
- Frankel, J. and D. Romer. 1999. "[Does Trade Cause Growth?](#)" *AER*; 89(3): 379-399.
- † Rodriguez, F. and Dani Rodrik. 1999. "[Trade Policy and Economic Growth: A Skeptic's Guide to Cross-National Evidence](#)." NBER WP 7081.
- Sampson, T. 2014. "[Dynamic Selection: An Idea Flows Theory of Entry, Trade and Growth](#)" LSE, mimeo.

### 5.2 Micro studies of trade and productivity

- \*s Bernard, A., J. Eaton, J. Jensen and S. Kortum. 2003. "[Plants and Productivity in International Trade](#)," *AER*, 93(4): 1268-1290.
- \*r Tybout, J.R. 2004. "Plant and firm level evidence on new trade theories" in CH
- Pavcnik, N. 2002. "[Trade Liberalization, Exit, and Productivity Improvements: Evidence from Chilean Plants](#)." *REStud*, 69: 245-76.

## Part II: Trade policy

### 1. Instruments, measurement and basic effects

<sup>r</sup> Dixit, A. "[Tax policy in open economies](#)," in A. Auerbach and M. Feldstein (eds.), *Handbook of Public Economics, Volume 1*, 1985, Pages 313-374.

#### 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

<sup>r</sup> Brander, J. 1995 in GR ch. 27

#### 1.3 Estimating some basic effects of trade policy

\*<sup>r</sup> Feenstra, R.C. 1995 in GR ch. 30.

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

<sup>s\*</sup> Trefler, D. 1993. "[Trade Liberalization and the Theory of Endogenous Protection - an Econometric Study of United-States Import Policy](#)." *JPE*, 101(1): 138-160.

Feenstra, R. C. 1989. "[Symmetric Pass-through of Tariffs and Exchange-Rates under Imperfect Competition - an Empirical-Test](#)." *Journal of International Economics*, 27(1-2): 25-45.

### 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

Bhagwati, Jagdish and Ramaswami, V.K. 1963. "[Domestic Distortions, Tariffs and the Theory of Optimum Subsidy](#)." *JPE*, 71: 44-50.

Johnson, H. 1965 "Optimal Trade Intervention in the Presence of Domestic Distortions," in B.

Krishna, P. and A. Panagariya. 2000. "[A unification of second best results in international trade](#)." *Journal of International Economics* 52: 235 -257

### 3. Political economy of trade policy

\* F ch. 9

#### 3.1 Unilateral motives

\*<sup>r</sup> Rodrik, D. 1995. "Political Economy of Trade Policy" in GR, p.1457-94.

\* Grossman, G. and E. Helpman. 1994. "[Protection for Sale.](#)" *AER*, 84: 833-850.

\*<sup>s</sup> Goldberg, P. K. and G. Maggi. 1999. "[Protection for sale: An empirical investigation.](#)" *AER* 89(5): 1135-1155.

Fernandez, R. and D. Rodrik. 1991. "[Resistance to Reform: Status-Quo Bias in the Presence of Individual-Specific Uncertainty.](#)" *AER*, 81:1146-55

#### 3.2 Unilateral and multilateral motives

\* Bagwell, K. and R. W. Staiger. 1999. "[An economic theory of GATT.](#)" *AER* 89(1): 215-248.  
BS, chs. 2,3,4,5,6

\* Broda, C, N. Limão and D. Weinstein. 2008. "[Optimal Tariffs and Market Power: The Evidence.](#)" *AER*, 98(5): 2032-65

<sup>r</sup>Maggi, G. 2015 "International Trade Agreements" in Handbook V. 4 317-390.

<sup>r</sup> Staiger, R. W. 1995. "International Rules and Institutions for Trade Policy" in Handbook V. 3 1495-1551.

Bagwell, K. and R. W. Staiger. 2011. "[What do trade negotiators negotiate about? Empirical evidence from the World Trade Organization.](#)" *AER*. 101 (4): 1238-73

Grossman, G. M. and E. Helpman. 1995. "[Trade Wars and Trade Talks.](#)" *JPE*, 103(4): 675-708.

Limão, N. and G. Maggi. Forthcoming. "[Uncertainty and Trade Agreements,](#)" *AEJ Micro*.

#### 3.3 Quantifying the Basic Effects of Trade Agreements<sup>†</sup>

\* Subramanian, A. and S.J. Wei. 2007. "[The WTO Promotes Trade, Strongly but Unevenly,](#)" *JIE* , 72 (1): 151-75.

\* Handley, K. and Limão, N. "[Policy Uncertainty, Trade and Welfare: Theory and Evidence for China and the U.S.,](#)" NBER WP 19376.

Handley, K. and Limão, N. Forthcoming. "[Trade and Investment under Policy Uncertainty: Theory and Firm Evidence,](#)" *AEJ Policy*.

Ossa, R. 2014. "[Trade Wars and Trade Talks with Data,](#)" *AER*, 104(12): 4104-46.

Rose, A. 2004. "[Do We Really Know That the WTO Increases Trade?,](#)" *AER*, 94(1):98-114.

Scott L. B. and J. Bergstrand. 2007. "[Do free trade agreements actually increase members' international trade?,](#)" *JIE*, 71: 72-95.

Trefler, D. 2004. "[The Long and Short of the Canada-U. S. Free Trade Agreement.](#)" *AER*, 94(4):870-895



## Part III: International Factor Mobility and Organization of Production <sup>†</sup>

### 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)

Jones, R. W. 1967. "[International capital movements and the theory of tariffs and trade.](#)" *QJE*, 81: 1-38.

Mundell, R. 1957. "[International Trade and Factor mobility](#)," *AER*, 47: 321-35, in B.

### 2. Multinationals

\* F 11: 380-99

\* Helpman, E. 1984. "[A Simple Theory of Trade with Multinational Corporations.](#)" *JPE*, 92: 451-71

HK: 12 and 13

<sup>s</sup>\* Helpman, E., Melitz, M. and S. Yeaple. 2004. "[Export versus FDI with heterogeneous firms](#)," *AER*, 94: 300-316.

Brainard, S. 1997. "[An Empirical Assessment of the Proximity-Concentration Hypothesis.](#)" *AER*, 87: 520-544

<sup>r</sup> Markusen, J. and Keith Maskus. 2003. "General-Equilibrium Approaches to the Multinational Firm: A Review of Theory and Evidence", in CH.

### 3. Outsourcing and international organization of production<sup>†</sup>

<sup>\*r</sup> Helpman, E. 2006. "[Trade, FDI, and the organization of firms](#)" *JEL*, 44(3): 589-630.

Antràs, Pol. 2003. "[Firms, Contracts, and Trade Structure.](#)" *QJE*, 118 (4): 1375-1418.

Antras, P. and E. Helpman. 2004. "[Global Sourcing.](#)" *JPE* 112 (3), 552-580.

F ch 4

Hummels, David; Ishii, Jun; Yi, Kei-Mu. 2001. "[The Nature and Growth of Vertical Specialization in World Trade.](#)" *Journal of International Economics*, 54(1): 75-96.

McLaren, John. 2000. "[Globalization and Vertical Structure.](#)" *AER*, 90(5): 1239-1254.