

# 745 Topics in International Trade

Luca David Opromolla\*

University of Maryland, Spring 2016

## Outline

This course focuses on a firm-level approach to the study of international trade and on selected topics in trade. The course is intended to consolidate the tools and models learned in ECON 742, and train students in frontier research methods, addressing issues both from a theoretical, empirical and quantitative point of view. The course will cover topics related to trade and heterogeneous firms, trade and the international organization of production, multinationals and vertical specialization, quantitative trade models, trade and firm organization, and trade costs. The course will also include a number of sessions/problem sets to show how to bring the models to the data and perform counterfactuals. Successful students should be ready to start exploring potential dissertation topics in international trade by the end of the semester.

## Readings

I list below the main papers for each section of the course. A set of lecture notes prepared for the course (henceforth LN) will cover part of the material.

## Requirements

Your grade will be based on a presentation (20%), referee report (20%), problem sets (25%), and paper proposal (35%). All of these are important for developing a number of distinct and complementary skills. The paper proposal is a crucial component, especially for who intends to work on a dissertation on international trade. I ask that you will do your best to do all the assigned work and actively participate to the classes.

**Presentation** You can either pick one of the recent job market paper in international economics—I will distribute a list during the course—or one recent NBER or CEPR working paper (in this case you need my OK). The presentation (we will schedule them) should take the form of a short seminar. It should take about 45min (including questions). Make sure you communicate the main message of the paper, have a general understanding of the literature, are able to answer questions and finish on time.

---

\*Website: <https://sites.google.com/a/nyu.edu/luca-david-opromolla/> E-mail: [luca.opromolla@nyu.edu](mailto:luca.opromolla@nyu.edu)

**Referee report** You are asked to write a referee report for an unpublished paper. You can either pick one of the recent job market paper in international economics—I will distribute a list during the course—or one recent NBER or CEPR working paper (in this case you need my OK). The report should be 3-4 pages double spaced. The first 1-2 paragraphs should summarize the paper for the editor and describe the main features of the paper and its contribution to the existing or subsequent literatures. The report should discuss the strengths and weaknesses of the paper, contrasting it to others in the literature as necessary. You should describe how the authors could address the weaknesses (if possible) and give your recommendations for changes that would strengthen or enhance the paper. Some of the questions you should pose to yourself while writing the report are: (a) Is the question addressed by this paper relevant and important?; (b) Is the model the right one for the question?; (c) Is the model necessary or could we have something much simpler or “off the shelf” to answer this question?; (d) Is the data used in the paper the best possible data available to answer the question?; (e) Does the estimation closely follow the theoretical model? In other words, are the empirics actually testing what the authors claim they test?; (f) Are the identification assumptions reasonable?; (g) Are the counterfactual exercises reasonable?; (h) Does the paper have a relevant contribution to the literature? If the answer to any of these questions is negative, then the referee report should include recommendations that would strengthen or enhance the paper.

**Paper proposal** The proposal should be up to 5 pages long and describe the question that you want to address, why you think it is important, why you think the answer of the existing literature is unsatisfactory, and how you plan to improve it. Some of you might already have a clear idea on what to propose. If that’s not the case start by thinking of a broad topic you would like to research on and review the literature. In any case, you should come and talk to me asap. We will discuss your idea/topic. From then on I will ask you to regularly keep me updated with the progress of your proposal.

# Content

## Main tools

### *Part I: Microeconomic foundations of gravity trade models*

Armington and the gravity equation (Week 1 - 1/27/16)

- Armington, P. S., 1969. “A Theory of Demand for Products Distinguished by Place of Production,” *Staff Papers-International Monetary Fund*, pp.159–178
- Anderson, J., 1979. “A Theoretical Foundation for the Gravity Equation,” *American Economic Review*
- LN

Monopolistic Competition with homogeneous firms (Week 1 - 1/27/16)

- Krugman, P., 1980. “Scale economies, product differentiation, and the pattern of trade,” *The American Economic Review*, 70(5), pp.950–959
- LN

Ricardo (Week 2 - 2/3/16)

- Jonathan E. and S. Kortum, 2012. "Putting Ricardo to Work," *Journal of Economic Perspectives*, American Economic Association, vol. 26(2), pp.65-90, Spring
- Dornbusch, R., S. Fischer, and P. A. Samuelson, 1977. “Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods,” *The American Economic Review*, 67(5), pp.823–839

- LN

A common framework (Week 2-4 - 2/3/16, 2/10/16, 2/17/16)

- Eaton, J. and S. Kortum, 2002. "Technology, Geography, and Trade." *Econometrica*, 5, pp.1741-1779
- Melitz, M. J., 2003. "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 71(6), pp.1695–1725
- Bernard, A. B., J. Eaton, J. B. Jensen, and S. S. Kortum, 2003. "Plants and Productivity in International Trade," *American Economic Review*, 93(4), pp.1268–1290
- LN

## ***Part II: The general equilibrium of gravity trade models***

Existence and uniqueness (Week 5 - 2/24/16)

- Alvarez, F. and R. E. Lucas, 2007. "General Equilibrium Analysis of the Eaton-Kortum Model of International Trade," *Journal of Monetary Economics*
- Allen, T. and Arkolakis, C., 2014. "Universal Gravity," Working Paper [Sections 1-3.2]

Gains from trade (Week 6 - 3/2/16)

- Allen, T. and Arkolakis, C., 2014. "Universal Gravity," Working Paper [Sections 3.3]
- Arkolakis, C., Costinot, A. and Rodriguez-Clare, A., 2012. "New Trade Models, Same Old Gains?" *American Economic Review*, 102(1), pp.94-130
- Melitz, M., and S. Redding, 2015. "New Trade Models, New Welfare Implications," *American Economic Review*, 105(3), pp.1105-46

## ***Part III: Taking the gravity model to the data***

Identification and calibration (Week 7-8 - 3/9/16, 3/23/16)

- Allen, T. and Arkolakis, C., 2014. "Universal Gravity," Working Paper [Sections 4.1]
- Waugh, M., 2012. "International Trade and Income Differences." *American Economic Review*

Counterfactuals (Week 7-8 - 3/9/16, 3/23/16)

- Allen, T. and Arkolakis, C., 2014. "Universal Gravity," Working Paper [Sections 4.2]
- Dekle, R., Eaton, J., and S. Kortum, 2007. "Unbalanced Trade," *American Economic Review*, Papers and Proceedings
- Dekle, R., Eaton, J., and S. Kortum, 2008. "Global Rebalancing with Gravity: Measuring the Burden of Adjustment," *IMF Staff Papers* 55(3)
- LN

Estimation of the gravity equation (Week 9 - 3/30/16)

- Head, K. & Mayer, T., 2014. "Gravity Equations: Workhorse, Toolkit, and Cookbook," In *Handbook of International Economics*, 4th ed. Elsevier

- Anderson, J. and van Wincoop, E. (2003) "Gravity with Gravitas: A solution to the Border Puzzle," *American Economic Review*

#### Estimating trade costs (Week 10 - 4/6/16)

- Anderson, J. E., and E. van Wincoop. 2004. "Trade Costs," *Journal of Economic Literature*, 42(3), pp.691-751
- Allen, T. and Arkolakis, C., 2014. "Universal Gravity," Working Paper [Sections 5]
- Irarrazabal, A., Moxnes, A., and L. D. Opmomolla, 2015. "The Tip of the Iceberg: A Quantitative Framework for Estimating Trade Costs," *The Review of Economics and Statistics*, 97(4), pp.777-792

## Topics

#### Organization of the firm, productivity, wages, trade (Week 11 - 4/13/16)

- Caliendo, L. and E. Rossi-Hansberg, 2012. "The Impact of Trade on Organization and Productivity" *The Quarterly Journal of Economics* 127(3): pp.1393-1467
- Caliendo, L., Monte, F., and E. Rossi-Hansberg, 2015. "The Anatomy of French Production Hierarchies" *Journal of Political Economy* 123(4): pp.809-852
- Mion, G. and L. D. Opmomolla, 2013. "Managers' Mobility, Trade Performance, and Wages," *Journal of International Economics* 94(1), pp.85-101
- Caliendo L., Mion, G., Opmomolla, L. D., and E. Rossi-Hansberg, 2015. "Productivity and Organization in Portuguese Firms", NBER Working Paper 21811 / CEPR Discussion Paper DP10993
- Bloom, N. and J. Van Reenen. 2007. "Measuring and Explaining Management Practices Across Firms and Countries," *Quarterly Journal of Economics*, 4, 1351-1408

#### Multinationals (Week 12 - 4/20/16)

- Brainard, S. 1997. "An Empirical Assessment of the Proximity-Concentration Hypothesis." *American Economic Review*, 87, pp.520-544
- Helpman, E., Melitz, M. and S. Yeaple. 2004. "Export versus FDI with heterogeneous firms," *American Economic Review*, 94, pp.300-316
- Irarrazabal, A., Moxnes, A., and L. D. Opmomolla. 2013. "The Margins of Multinational Production and the Role of Intrafirm Trade," *Journal of Political Economy* 121(1), pp.74-126

#### Dynamics (Week 13 - 4/27/16)

- Impullitti, G., Irarrazabal, A. and L. D. Opmomolla. 2013. "A Theory of Entry into and Exit from Export Markets," *Journal of International Economics* 90, pp.75-90
- Caliendo, L., Dvorkin, M. and F. Parro. 2015. "Trade and Labor Market Dynamics," mimeo
- TBA

#### Students' presentations (Week 14 - 5/4/16)