

International Trade Theory and Policy
Spring 2021
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Office Hours: By Appointment

Course Description

The objective of this course is to introduce students to the core theories of why countries trade, what they trade, and who gains and loses from trade. The course will also review existing research on the effects of trade and offshoring on domestic wages, employment, and other measures of well-being.

The second part of the course will examine the measures countries take to restrict trade, and the effects of such policies on trade patterns and global welfare. There will be particular emphasis on recent and ongoing policy issues and trade agreements, as well as the role of global institutions that attempt to regulate and improve the framework for global trade.

Course Goals / Learning Objectives

At the end of this course, students will have a command of the basic models of international trade, and the mechanisms by which trade can affect national welfare as well as subnational population groups. Students will be able to engage in informed dialogue on the key controversies in international trade, via analytical reasoning based on theory and empirical research at the frontier of the field. Finally, students will be able to describe and assess the key mechanisms by which countries restrict trade, and intelligently elaborate on the effects of such restrictions.

Readings

The required textbook for this class is:

Krugman, P., Marc Melitz, and Maurice Obstfeld. 2014 International Economics: Theory and Policy. Pearson 10th edition, ISBN: 0133423646. (hereafter KOM) (9th edition is also acceptable. I will provide references to content material for both editions.)

There are also additional required readings as listed in the course outline. Please be sure to check the required readings each week. The readings that will complement the main textbook will be posted on the Blackboard page. Several of these readings will come from the following texts:

Feenstra, R. and Taylor. International Economics. Worth Publishers.
Irwin, Doug. 2015. Free Trade Under Fire Princeton University Press. 4th edition. Princeton University Press.
Edwards, Lawrence and Robert Z. Lawrence. 2013 Rising Tide: Is Growth in Emerging Economies Good for the United States? Peterson Institute for International Economics.

I will also provide lists of supplementary, non-required readings that will vary by topic and lecture.

Exams

The midterm will be on March 15th during normal class time. Please be sure to have no conflicts with this date before enrolling. The final date is Thursday, May 13th, as announced by the registrar's office.

Course Requirements

Assessment for this course will take place by means of a midterm, problem sets, final exam, and policy memo. The weights corresponding to each of these in your final grade will be:

Midterm: 30 percent
Problem Sets: 15 percent
Empirical Paper/Memo: 30 percent
Participation: 5 percent
Final Quiz: 20 percent

Grading will follow the guidelines outlined by the Masters in Applied Economics Program. If necessary, I will apply a curve to the raw scores of the midterm and final.

Details on Problem Sets

The purpose of problem sets is to provide practice in analyzing the models and understanding the concepts we study in class. These will be a crucial resource in study and practice for the midterm and final exam. The problem sets will be collected on the dates specified below. Late problem sets will not be accepted.

Problem Set #1: February 22nd
Problem Set #2: March 8th
Problem Set #3: April 19th

Grading for problem sets will be qualitative, based on a reasonable attempt at each question.

Details on empirical paper/memo assignment

Roughly half of Georgetown MAE graduates take jobs in the public, non-profit, or multilateral sector. These jobs require the composition of memoranda to superiors and colleagues on relevant policy issues. Regardless of future field or employer, all MAE graduates will require the clear and cogent communication of complicated issues for informed decision-making.

The purpose of this memo is to provide practice in policy or issue oriented analysis and effective communication of issues related to international trade. An advantage of this exercise is to grant students the flexibility to study specific topics or issues in trade that are of particular personal interest or relevance.

Guidelines: Imagine that you land the ideal employment situation upon graduation. Think of an issue that may be relevant for that work, and determine a realistic gap in knowledge that could be improved upon by a short memorandum (~5 pages). **Note: I am asking for the use of data to inform the memo. Please see resources for data on trade below.** A proposal including answers to the following four questions will be due on March 22nd.

1. *To whom will it be sent?* (i.e. division manager of NGO, research director of think tank, cabinet member, undersecretary, president of country, country manager of IMF, etc)
2. *From Whom? Student will be writing in the role of?* (i.e. analyst at NGO, think tank, or government agency; employee of interest group or trade association; researcher summarizing policy issue or summarizing state of knowledge on an issue (with recommendations); etc)
3. *Topic or Question* (Below are some examples)
 - a. Effects of Trade (policy) on poverty – specific action recommended
 - b. Potential effects of specific trade policy measure on a particular industry (antidumping duties on steel/aluminum)
 - c. Environmental Aspects of Trade (policy) – specific action recommended (Carbon taxes and border adjustments, worldwide carbon trading permits?)
 - d. Membership in WTO and the effects on domestic markets in developing countries?
 - e. Transfer pricing regulations
 - f. Benefits / Costs of FDI and policies to attract FDI
 - g. How will a regional trade agreement affect _____?
 - h. Export-Import Bank
 - i. Port infrastructure and improving efficiency / reducing costs of U.S. exports
 - j. Analyzing the effects of AGOA, CAFTA, etc on specific industries, groups, etc
 - k. Global coordination of intellectual property protection
4. *Principal Data Source Used*

Assessment: This empirical paper/memoranda will be graded along four dimensions

- 1) Proposal (20 percent)
- 2) Proper format and writing style (20 percent)
- 3) Applicability/Relevance to International Trade (20 percent)
- 4) Presentation of evidence and arguments (I'm looking for critical analysis. Interacting with the evidence and arguments: citing problems/issues with evidence and sources and summarizing alternative views.) (40 percent)

The paper/memo is due by the end of the course. I strongly urge you to turn this in prior to that date so that you can focus on studying for the final exam. Instructions and guidelines will be discussed during class.

Data Resources

Some helpful links to data are below:

- Direction of Trade Statistics, IMF (for access, see [GU Economics Data Page](#))
- International Financial Statistics, IMF (for access, see [GU Economics Data Page](#))
- [World Input Output Database](#): (input-output data covering 43 countries)
- [Market Access Map](#): A consistent, ad-valorem equivalent measure of applied protection across the world: The MAcMap-HS6 database, Antoine Bouët, Yvan Decreux, Lionel Fontagné & Laborde, Review of International Economics, 2008
- [Data Resources Provided by IFPRI](#) (agricultural emphasis)
- [Tariff Data](#), WTO
- [Bilateral Trade in Services](#) (World Bank)
- [Resources from the Global Trade Analysis Project](#) (includes modelling utilities)
- [Non-Tariff Measures in Goods and Services](#), WTO

- [Regional Trade Agreements Information System](#), WTO
- [Services Trade Restrictiveness Index](#), OECD
- [U.S. Commodity Flow Survey](#) (intra-US goods flows)
- [Hummels Data Sets](#) on trade by transport mode, and emissions

Academic Integrity

The Graduate School's rules and regulations regarding academic integrity are strictly observed. All students must read these rules and regulations, which can be found in Section VI of the Graduate Bulletin. Any student found to have violated these rules and regulations will receive a failing grade for the course and is subject to further sanctions imposed by the Graduate School.

Other Policies

Make-ups:

No make-ups for the midterm or final are scheduled. The only acceptable reason for missing a midterm or a final is sickness, and for accommodation such cases must provide sufficient documentation from a doctor. Please notify the Student Affairs office, as well as the professor, immediately if this is the case. If you miss an exam due to any other reason you will receive a zero for that exam. Please check the dates of the exams carefully and do not enroll in this class if you have any conflict.

Requests for Re-grade:

An appeal for re-grade of an exam should be typed in detail. To be considered, you must hand in this request within one week of announcement of your grade.

Announcements:

I will quite often use email to make important class-related announcements. Please make sure you check your Georgetown email account or have your emails forwarded to an account that you check frequently.

Course Outline:

Lecture 1: Introductions, Course Overview, and Global Patterns of Trade

Required Readings:

KOM (Chapter 2)

Non-Required Readings:

[Trade Talks Podcast #133 "How One Man and Some Metal Boxes Revolutionized Global Trade"](#)

[Planet Money: The Humble Innovation at the Heart of the Global Economy](#)

[Keith Head, Gravity for Beginners](#)

[Head, Keith, and Thierry Mayer. 2013. "Gravity Equations: Workhorse, Toolkit, and Cookbook" Sciences Po Discussion Paper 2013-02.](#)

[Anderson, James E. and Eric van Wincoop. 2003. "Gravity with Gravitas: A Solution to the Border Puzzle" American Economic Review.](#)

[Hanson, Gordon H. 2012. "The Rise of Middle Kingdoms: Emerging Economies in Global Trade." *Journal of Economic Perspectives*, 26\(2\): 41-64](#)

[Hummels, David. 2007. "Transportation Costs and International Trade in the Second Era of Globalization" *Journal of Economic Perspectives* 21:3 pp. 131-154](#)

Lecture 2: Basic Ricardian Model

Required Readings:

KOM (Chapter 3)

Etkes, Haggay and Assaf Zimring. 2015 "When Trade Stops: Lessons from the 2007-2010 Gaza Blockade" *Journal of International Economics*, 95:1 (pages 16-27 only)

Non-Required Readings:

[Trade Talks Podcast #59: A Hard Border from History](#)

[Krugman, Paul. "Ricardo's Difficult Idea". Mimeo](#)

Lecture 3: Specific Factors Models (Identifying/Quantifying Distributional Effects of Trade)

Required Readings:

KOM (Chapter 4)

Edwards, Laurence and Robert Z. Lawrence 2013. [Rising Tide: Is Growth in Emerging Economies Good for the United States?](#) Peterson Institute for International Economics. Washington D.C. [Chapters 1 and 2]

Non-Required Readings:

[Trade Talks Podcast #11: "The Complicated Impact of Trade...on Developing Countries"](#)
[Goldberg, Pinelopi Koujianou, and Nina Pavcnik. 2007. "Distributional Effects of Globalization in Developing Countries." *Journal of Economic Literature*, 45\(1\): 39-82.](#)

[Leamer, Edward E. 2007. "A Flat World, a Level Playing Field, a Small World After All, or None of the Above? A Review of Thomas L. Friedman's The World is Flat" *Journal of Economic Literature*, 45 pp 83-126.](#)

Lecture 4: Standard Trade Model

Required Readings:

KOM (Chapter 4 and Chapter 6)

[Samuelson, Paul. 2004. "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization" *Journal of Economic Perspectives* 18:3 135-146](#)

Non-Required Readings:

[Haskel, Jonathan, Robert Z. Lawrence, Edward E. Leamer, and Matthew J. Slaughter. 2012. "Globalization and U.S. Wages: Modifying Classic Theory to Explain Recent Facts." *Journal of Economic Perspectives*, 26\(2\): 119-40.](#)

[Harrison, Ann, Avraham Ebenstein, Margaret McMillan, and Shannon Phillips. 2009. "International Trade, Offshoring, and U.S. Wages" VOX-EU Summary Article.](#)

[Eaton, Jonathan, and Samuel Kortum. 2012. "Putting Ricardo to Work." *Journal of Economic Perspectives*, 26\(2\): 65-90.](#)

Lecture 5. External Economies of Scale / Heckscher-Ohlin Model

Required Readings:

KOM (Chapter 5 and 7)

[Krugman, Paul. 2009. "The Increasing Returns Revolution in Trade and Geography" *The American Economic Review* 99\(3\): 561-571.](#)

Non-Required Readings:

None

Lecture 6: New Trade Theory: Increasing Returns, Heterogeneous Firms Models, Firms in Trade

Required Readings:

KOM (Chapter 8 [pp. 164-189])

Non-Required Readings:

[Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding, and Peter K. Schott. 2007. "Firms in International Trade." *Journal of Economic Perspectives*, 21\(3\): 105-130.](#)
[Melitz, Marc J., and Daniel Trefler. 2012. "Gains from Trade When Firms Matter." *Journal of Economic Perspectives*, 26\(2\): 91-118](#)

Lecture 7: Transfer Pricing and Profit Shifting

Required Readings:

None

Non-Required Readings:

[Flaen, Aaron. 2017. "The Role of Transfer Prices in Profit Shifting by U.S. Multinationals: Evidence from the 2004 Homeland Investment Act"](#)

Lecture 8: Foreign Direct Investment / Offshoring

Required Readings:

KOM (Chapter 8 [pp. 190-200])

Non-Required Readings:

Feenstra and Taylor (Chapter 7) [ERes]
[Gene Grossman and Esteban Rossi-Hansberg, "The Rise of Offshoring: It's Not Wine for Cloth Anymore" *The New Economic Geography: Effects and Policy Implications*, Federal Reserve Bank of Kansas City, 2006.](#)
[Boehm, Christoph, Aaron Flaen, and Nitya Pandalai-Nayar. 2019. *The Role of Foreign Sourcing by Multinationals in the Decline in U.S. Manufacturing Employment*. NBER Working Paper #25824](#)

Lecture 9: Tariffs and Quotas

Required Readings:

KOM (Chapter 9)

Non-Required Readings:

[Trade Talks Podcast #23 “Did Protectionism Make America Great?”](#)
[Trade Talks Podcast #34 “Trade Wars and the Smoot-Hawley Tariff: What Really Happened?”](#)
[O’Rourke, Kevin, 2009. “Government Policies and the Collapse in Trade during the Great Depression” VoxEU Article Summary.](#)
[Eichengreen, Barry, and Douglas Irwin. 2009 “The Protectionist Temptation: Lessons from the Great Depression for Today” VoxEU Article Summary](#)

Lecture 10: Variations on Tariffs and Quotas, Antidumping Provisions (NGOs and Trade --Fair Trade)

Required Readings:

KOM (Chapter 9)

Feenstra and Taylor (Chapter 9) [ERes]

[Dragusanu, Raluca, Daniele Giovannucci, and Nathan Nunn. 2014. "The Economics of Fair Trade." *Journal of Economic Perspectives*, 28\(3\): 217-36.](#)

Non-Required Readings:

[Trade Talks Podcast #45: “Zeroing: The Biggest WTO Threat You’ve Never Heard of” *short rejoinder* to Dragusanu et al.](#)

[Does Fair Trade Help Poor Workers? *Marginal Revolution*, July 29, 2015](#)

[Stiglitz, Joseph E. 1997. “Dumping on Free Trade: The U.S. Import Trade Laws” *Southern Economic Journal*, 64\(2\) 402-424.](#)

Lecture 11: Other Arguments for Trade Protection

Required Readings:

KOM (Chapter 10 / 11)

Non-Required Readings:

Readings on Trade Adjustment Assistance

[Trade Talks Podcast #91: Can Trade Adjustment Assistance Work?](#)

[Ciminio-Isaacs, Cathleen, and Gary Clyde Hufbauer. June 11, 2015. “The Fate of Trade Adjustment Assistance: The Basics” *Trade and Investment Policy Watch*, Peterson Institute for International Economics.](#)

[James, Sallie. 2007. “Maladjusted: The Misguided Policy of ‘Trade Adjustment Assistance’” *Trade Briefing Paper*, the Cato Institute.](#)

[Baicker, Katherine and M. Marit Rehavi. 2004. “Policy Watch: Trade Adjustment Assistance” *Journal of Economic Perspectives*, 18\(2\) 239-255.](#)

[Rosen, Howard. 2008. “Strengthening Trade Adjustment Assistance” *Peterson Institute Policy Brief*.](#)

[Collins, Benjamin. “Trade Adjustment Assistance for Workers” *Congressional Research Service White Paper*.](#)

[Aldonas, Grant, Robert Z. Lawrence, and Matthew J. Slaughter. 2008. “Succeeding in the Global Economy: An Adjustment Assistance Program for American Workers.” *Financial Service Forum White Paper*.](#)

Lecture 12: Empirical Effects of Trade Policy: 2018

Required Readings:

[Amiti, Mary, Stephen Redding and David Weinstein “The Impact of the 2018 Tariffs on Prices and Welfare” *Journal of Economic Perspectives* 33\(4\) 187-210.](#)

Non-Required Readings:

[Trade Talks Podcast #115: The Trade War and U.S. Elections](#)

[Flaaen, Aaron, Ali Hortascu, and Felix Tintelnot “The Production Relocation and Price Effects of U.S. Trade Policy: The Case of Washing Machines”, NBER Working Paper #25767.](#)

[Flaaen, Aaron and Justin Pierce “Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected U.S. Manufacturing Sector, FEDS Working Paper #2019-086](#)

[Fajgelbaum, Pablo D., Pinelopi K. Goldberg, Patrick J. Kennedy, and Ami K.](#)

[Khandelwal. “The Return to Protectionism” *The Quarterly Journal of Economics* Forthcoming.](#)

Lecture 13: WTO and Regional Trade Agreements

Required Readings:

KOM (Chapter 10 [pp. 252-267])

Irwin (Chapter 7) [ERes]

Feenstra and Taylor (Chapter 11) [ERes]

Non-Required Readings:

[Trade Talks Podcast #9 “Happy 70th GATTiversary – The Origins of Multilateral Trade](#)

[Baldwin, Richard. 2016. “The World Trade Organization and the Future of Multilateralism” *Journal of Economic Perspectives* 30:1 95-116](#)

Tentative Schedule:

Date	Lecture
Jan 25	Introductions, Course Overview, Trade Patterns
Feb. 1	Ricardian Model
Feb. 8	Specific Factors Model
Feb. 15	Standard Trade Model
Feb. 22	External Economies of Scale / Heckscher Ohlin Model (Problem Set Due) Shortened Material – one-on-one discussion of paper ideas
Mar. 1	New Trade Theory / Firms in International Trade / Heterogeneous Firms Models / Review
Mar. 8	Transfer Pricing and Profit Shifting (Problem Set Due)
Mar. 15	Midterm
Mar. 22	Foreign Direct Investment and Offshoring (Paper Proposal Due)
Mar. 29	No Class: Easter Break
Apr. 5	Tariffs and Quotas
Apr. 12	Variations on Tariffs and Quotas / Antidumping NGOs and Trade
Apr. 19	Other Arguments for Trade Protection (Problem Set Due)
Apr. 26	Empirical Effects of Trade Policy: 2018
May 3	The WTO and Regional Trade Agreements
TBD	Final Exam