

Winter 2001

Assaf Razin - Landau 150, ext. 33894 Economics 266

INTERNATIONAL TRADE THEORY

Course requirements:

This is the second course in the three- quarter sequence in international economics. The comprehensive field consists of 265, offered last quarter, and 266. Economics 267, Special topics, is focussed on international trade and payments in relation to economic development and may be taken as a third quarter.

For those using international as a comprehensive field, a term paper is due (on a topic form any one of the three quarters) two weeks before the end of classes in the spring term.

If you did not take an undergraduate course covering international trade theory, you would be wise to find one of the good undergraduate textbooks and go over the relevant material before we get to it in class. Krugman and Obstfeld is perhaps the best choice, although Caves et al. and a number of others would be perfectly adequate for the purpose.

I will hold office hours from 2: 00 to 3: 00 PM, in Landau 150. See my TAU home page at <http://www.tau.ac.il/~razin> for readings, handouts, and syllabus.

The following list puts required readings at the top for each topic, and then puts recommended readings. It is expected that students will read at least some of the recommended readings.

Course Readings

There are no required texts. However, there are a number of books that will be valuable references for some time and you may wish to buy them. If there is enough interest in any of them, we can arrange to place a class order for (usually fairly rapid delivery). They include: 2

Books

Dixit, A. and V. Norman, Theory of International Trade, (Cambridge, Cambridge University Press), 1980.

Jones, R. W. and P. B. Kenen (eds.), Handbook of International Economics, Vol. I, (Amsterdam, North Holland), 1984.

Grossman, G. M. and K. Rogoff (eds.), Handbook of International Economics, Vol. III, (Amsterdam, North Holland), 1995.

Leamer, E. E., Sources of International Comparative Advantage, (Cambridge, MA, and London, The MIT Press), 1984.

Kierzkowski, H. (ed.), Monopolistic Competition and International Trade (Oxford: Oxford University Press), 1984.

Razin, A. and E. Sadka, Lecture Notes on Theory of International Factor Movements, Tel Aviv

University, Mimeo, January 2000.

Helpman, E. and P. Krugman, Market Structure and Foreign Trade, (Cambridge, MA, and London, The MIT Press), 1985.

Feenstra, R. (ed.), Empirical Methods for International Trade, (Cambridge, MA, and London, The MIT Press), 1988.

Helpman, E. and P. Krugman, Trade Policy and Market Structure, (Cambridge, MA, and London, The MIT Press), 1989.

Books

- Dixit, A. and V. Norman, Theory of International Trade, (Cambridge, Cambridge University Press), 1980.
- Jones, R. W. and P. B. Kenen (eds.), Handbook of International Economics, Vol. I, (Amsterdam, North Holland), 1984.
- Grossman, G. M. and K. Rogoff (eds.), Handbook of International Economics, Vol. III, (Amsterdam, North Holland), 1995.
- Leamer, E. E., Sources of International Comparative Advantage, (Cambridge, MA, and London, The MIT Press), 1984.
- Kierzkowski, H. (ed.), Monopolistic Competition and International Trade (Oxford: Oxford University Press), 1984.
- Razin, A. and E. Sadka, Labor, Capital and Finance: International Flows, Cambridge University Press, 2001.
- Helpman, E. and P. Krugman, Market Structure and Foreign Trade, (Cambridge, MA, and London, The MIT Press), 1985.
- Feenstra, R. (ed.), Empirical Methods for International Trade, (Cambridge, MA, and London, The MIT Press), 1988.
- Helpman, E. and P. Krugman, Trade Policy and Market Structure, (Cambridge, MA, and London, The MIT Press), 1989.
- Grossman, G. M. and E. Helpman, Innovation and Growth in the Global Economy, (Cambridge, MA, and London, The MIT Press), 1991.
- Grossman, G. M. (ed.), Imperfect Competition and International Trade, (Cambridge, MA, and London, The MIT Press), 1992.
- Jagdish Bhagwati, editor, International Trade: Selected Readings. MIT Press. There are two editions; each has some good readings that are not in the other.
- Richard Caves and Harry G. Johnson, Readings in the Theory of International Trade, Richard D. Irwin, 1968.

Syllabus

1. Ricardian Trade Theory

Required:

Dornbusch, R., S. Fischer and P. A. Samuelson, "Comparative Advantage, Trade and Payments in

A Ricardian Model with a Continuum of Goods”, American Economic Review, 1977, Dec., 823-39.

Jones, R. W., “Technical Progress and Real Incomes in a Ricardian Trade Model”, in his *International Trade: Essays in Theory*, (Amsterdam, North Holland), 1979.

Davis, D. R., “Intra- Industry Trade: A Heckscher- Ohlin- Ricardo Approach”, Journal of International Economics, 39(1995) 201- 26.

Recommended:

Edgeworth, F., “The Theory of International Values”, Parts I, II, and III in his *Papers Relating to Political Economy*, Vol. II.

Graham, F. D., “The Theory of International Values”, Quarterly Journal of Economics, 1932

McKenzie, L., “Specialization and Efficiency in World Production”, Review of Economic Studies, 1953- 54.

Jones, R. W., “Comparative Advantage and the Theory of Tariffs: A Multi- country Model”, Review of Economic Studies, 1961. Multi-commodity

Wilson, C., “On the General Structure of Ricardian Models with a Continuum of Goods”, Econometrica, 1980.

1.1 Testing the Ricardian Theory

Required:

McDougall, G. D. A., “British and American Exports: A Study Suggested by the Theory of Comparative Costs”, Part I, Economic Journal, 1951 (Dec.), Vol. LXI, No. 244, 697- 724.

McDougall, G. D. A., “British and American Exports: A Study Suggested by the Theory of Comparative Costs”, Part II, Economic Journal, 1952 (Sept.), Vol. LXII, No. 247, 487- 521.

Recommended:

Stern, R. M., “British and American Productivity and Comparative Costs in International Trade”, *Oxford Economic Papers*, October 1962, 14(3), 275- 96.

2. Heckscher-Ohlin Trade Theory

Required:

Deardorff, A., “The General Validity of the Heckscher- Ohlin Theorem”, American Economic Review, 72(4), September, 1982, 683- 94.

Helpman and Krugman, 1985, Chapter 1.

Recommended:

Heckscher, E., “The Effect of Foreign Trade on the Distribution of Income”, *Economisk Tidskrift*, 1919 (in Flam and Flanders).

Ohlin, B., "The Theory of Trade", in Flam and Flanders.

Jones, R. W., "Factor Proportions and the Heckscher- Ohlin Theorem", Review of Economic Studies, 1956- 57 (reprinted in his Essays, 79).

Vanek, J., "Factor Proportions Theory: The N- factor Case", Kyklos, 1968.

Deardorff, A., "Weak Links in the Chain of Comparative Advantage", Journal of International Economics, 1979.

Ford, J. L., "The Ricardian and Heckscher- Ohlin Explanations of Trade: A General Proof of an Equivalence Theorem and its Implications", Oxford Economic Papers, 1982.

Dixit, A. and A. Woodland, "The Relationship between Factor Endowments and Commodity Trade", Journal of International Economics, 1982.

Helpman, E., "The Factor Content of Foreign Trade ", Economic Journal, 1984.

Factor Price Equalization

Required:

Dixit and Norman, Chapter 4.

Recommended:

Lerner, A., "Factor Prices and International Trade", Economica, 1952.

Samuelson, P. A., "International Trade and the Equalization of Factor Prices", Economic Journal, 1948.

Samuelson, P. A., "International Factor- Price Equalization Once Again", Economic Journal, 1949.

Samuelson, P. A., "Prices of Factors and Goods in General Equilibrium", Review of Economic Studies, 1953- 4.

McKenzie, L., "Equality of Factor Prices in World Trade", Econometrica, 1955.

2.1 Prices and Quantities

Required:

Jones, R. W., "The Structure of Simple General Equilibrium Models", Journal of Political Economy, December 1965, 557- 72 (Reprinted in his Essays).

Ethier, W. J., "Higher Dimensional Issues in Trade Theory", in Jones and Kenen.

Recommended:

Stolper, W. and P. A. Samuelson, "Protection and Real Wages", Review of Economic Studies, 1941.

Rybczynski, J. M., "Factor Endowments and Relative Commodity Prices", Economica, 1955.

Jones, R. W., and J. A. Scheinkman, "The Relevance of the Two- Sector Production Model in Trade Theory", Journal of Political Economy, 1977.

Neary, P. J., "Two- by- Two Trade Theory with Many Goods and Factors", Econometrica, 1985.

2.2 Testing the Heckscher- Ohlin Theory

Required

Treffer, D., “The Case of the Missing Trade and Other Mysteries”, American Economic Review, December 1995, 85(5), 1029- 46.

Recommended

Leamer, E. E., “The Leontief Paradox , Reconsidered”, Journal of Political Economy, 1980, 88(3)

495- 503.

Magee, S. P., “Three Simple Tests of the Stolper- Samuelson Theory”, in

Oppenheimer, P. (ed.), Issues in International Economics, 1980.

Leamer, Chapters 4 and 6 (plus as much as you can).

Bowen, H. P., E. E. Leamer and L. Sveikauskas , “Multicountry, Multifactor Tests of the Factor Abundance Theory”, American Economic Review, December 1987, 77(5), 791- 809.

Treffer, D., “International Factor Price Differences: Leontief was Right!”, Journal of Political Economy, December, 1993, 101(6), 961- 87.

Leamer, E. E. and J. Levinsohn, “International Trade Theory: The Evidence”, in Grossman and Rogoff.

Davis, D. R., D. E. Weinstein, S. C. Bradford and K. Shimp, “Using International and Japanese Regional Data to Determine When the Factor Abundance Theory of Trade Works,” American Economic Review, June 1997, 87(3), 421- 46.

Gabaix, X., “The Factor Content of Trade: A Rejection of the Heckscher- Ohlin- Leontief Hypothesis,” mimeo, 1997.

Welfare and Trade Policy

TENTATIVE

[Welfare 1: First- Best Considerations

Required:

J. Bhagwati, “On the Equivalence of Tariffs and Quotas”, in R. E. Baldwin et al., Trade, Growth and the Balance of Payments 1966.

Johnson, Harry G., “Optimum Tariffs and Retaliation”, Ch. 11 in H. G. Johnson. International Trade and Economics Growth, 1958.

Krueger, Anne, 1974. “Political Economy of the Rent Seeking Society”, American Economic Review.

Dixit, A., “Taxation in an Open Economy”, in A. Auerbach and M. Feldstein, editors, Handbook of Public Economics, 1986.

Johnson, H. G., “The Transfer Problem and Exchange Stability”, in Bhagwati Readings. First edition.

Recommended:

Dasgupta P., and Joe Stiglitz, “Tariffs vs. Quotas as Revenue Seeking Devices under Uncertainty”, American Economic Review, 1977.

Lerner, A. P., "The Symmetry between Import and Export Taxes", 1936. Reprinted in Caves and Johnson 1976.

Rodriguez, Carlos, "The Non- Equivalence of Tariffs and Quotas", in Bhagwati Readings, Second Edition.

Romer, P. "New Goods, Old Theory, and the Welfare Costs of Trade Restrictions", Journal of Development Economics, 1994 (1).

Baldwin. R. E., "Are Economists' Traditional Trade Policy View Still Valid?", Journal of Economic Literature, June 1992.

J. Bhagwati, R. Brecher and T. N. Srinivasan, "DUP Activities and Economic Theory", in Bhagwati, Readings, second edition.

Recommended:

P. Samuelson, "The Grains from Trade Once Again", Economic Journal, 1962

Baldwin, R. E. "Are Economists' Traditional Trade Policy Views Still Valid?", Journal of Economic Literature, June 1992.

Baldwin, R. E. "The New Welfare Economics and the Gains in International Trade" in Caves and Johnson, Ch. L2

Corden, W. M. Trade and Welfare, Oxford University Press 1974-8

Dixit, A. and Norman, V., "Gains from Trade Without Lump- Sum Compensation", Journal of International Economics, 21 (1986) 111- 122.

Dixit and Norman, Chapter 3.

Ohyama, M., "Trade and Welfare in General Equilibrium", Keio Economics Studies, 1972.

Smith, M. A. M., "International Gains from Trade", Journal of International Economics, 1979.

Grossman, G. M., "The Gains from International Factor Movements", Journal of International Economics, 1984.

Welfare 2: Second- Best

Required:

Baldwin Robert E. "The Case Against Infant Industry Protection", Journal of Political Economy, 1969.

Bhagwati, J., "The Generalized Theory of Distortions and Welfare", in Bhagwati, Jones, et al.

Bhagwati, J. and T. N. Srinivasan, 1974, "On Reanalysing the Harris- Todaro Model: Policy Rankings in the Case of Sector- Specific Sticky Wages", American Economic Review, June 1974.

Corden, M. W., "The Structure of a Tariff System and the Effective Protection Rate", Journal of Political Economy, 1966.

Recommended:

Bhagwati, J. and T. N. Srinivasan, "Domestic Resource Costs, Effective Rates of Protection and Project Analysis in Tariff Distorted Economies", Quarterly Journal of Economics, February 1980.

Srinivasan, T. N., "The Generalized Theory of Distortions and Welfare Two Decades Later", mimeo.

Johnson, H. G., "Optimal Trade Intervention in the Presence of Domestic Distortions", in R. Caves et al. Trade, Growth and the Balance of Payments, 1965.

Welfare 3: Preferential Trading Arrangements

Required:

J. Bhagwati, "Regionalism and Multilateralism: An Overview", Pp. 3- 32 in Bhagwati, Krishna, and Panagariya, Trading Blocs: Alternative Approaches to Analyzing Preferential Trading Arrangements, MIT Press, 1999.
Krueger, A., 1997, "Free Trade Arrangements versus Customs Unions", Journal of Development Economics, 1997 (October).
Kemp, M. and H. Wan, "An Elementary Proposition Concerning the Formation of Custom Unions", Journal of International Economics, February 1976, 6(I), 95- 97.
Krugman, P. R., "Is Bilateralism Bad?", in E. Helpman and A. Razin (eds.), International Trade and Trade Policy (Cambridge, MA, and London, The MIT Press), 1991.

Recommended:

Baldwin, R. E. and Venables, A. J., "Regional Economic Integration" in Grossman and Rogoff.
Bagwell, K. and R. W. Staiger, "Multilateral Tariff Cooperation During The Formation of Custom Unions", Journal of International Economics, February 1997, 42 (1- 2), 91- 123.
McLaren, J., "Size, Sunk Costs, and Judge Bowker's Objection To Free Trade", American Economic Review, June 1997, 87 (3), 400- 20.
Lipsey, R., "The Theory of Custom Unions: A General Survey", Economic Journal, 1960.
Corden, W. M., "Economies of Scale and Customs Union Theory", Journal of Political Economy, 1972.
Berglas, E., "Preferential Trading Theory: The N Commodity Case", Journal of Political Economy, 1979.
Lloyd, P., "3- By- 3 Theory of Custom Unions", Journal of International Economics, 1982.
Ethier, W. and H. Horn, "A New Look at Economic Integration", in Kierzkowski. Anderson, Kym and Richard Blackhurst, editors, Regional Integration and the Global Trading System, Harvester, Wheatsheaf, 1993.] END OF TENTATIVE PART

International Factor Movements

Razin and Sadka(2001), Chapters 1-6, chapter12

Political Economy of Trade Policy

Required:

Grossman, G. M. and E. Helpman, "Protection for Sale", American Economic Review, September 1994, 84(4), 833- 50.

- Grossman, G. M. and E. Helpman, "The Politics of Free Trade Agreements", *American Economic Review*, September 1995, 84(4), 667- 90.
- Recommended:*
- Hillman, A. L., *The Political Economy of Protection* (London, Harwood Academic Publishers), 1989.
- E. Helpman, "Politics and Trade Policy", in D. M. Kreps and K. F. Wallis (eds.), *Advances in Economics and Econometrics: Theory and Applications* (New York, Cambridge University Press), 1997.
- Brainard, L. S. and T. Verdier, "The Political Economy of Declining Industries: Senescent Industry Collapse Revisited", *Journal of International Economics*, February 1997, 42(1- 2), 221- 37.
- Maggi, G. and A. Rodriguez- Clare, "The Value of Trade Agreements in the Presence of Political Pressure", *Journal of Political Economy*, 1998.
- Caves, R. E., "Economic Models of Political Choice: Canada's Tariff Structure", *Canadian Journal of Economics*, 1976.
- Brock, W. A. and S. P. Magee, "The Economics of Special Interest Group Politics: The Case of the Tariff", *American Economic Review* (Papers and Proceedings), 1978.
- Boltuck, Robert and Litan, Robert, 1991. *Down in the Dumps: Administration of the Unfair Trade Laws*, Brookings Institution.
- Grossman, G. M. and E. Helpman, "Trade Wars and Trade Talks", *Journal of Political Economy*, 1995.
- Grossman, G. M. and E. Helpman, "Foreign Investment with Endogenous Protection", in Feenstra, R., G. M. Grossman and D. Irwin (eds.), *The Political Economy of Trade Policy*, 1996.
- Rodrik, D., "Political Economy of Trade Policy", in Grossman and Rogoff.
- Levy, P. L., "A Political- Economy Analysis of Free- Trade Agreements", *American Economic Review*, 1997.
- Krishna, P., "Regionalism and Multilateralism: A Political Economy Approach", *Quarterly Journal of Economics*, 1998.

Final Examination: March , 2000

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