

Economics 120: International Trade

Term 2, 2018-2019

Instructor

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Lecture: Wednesdays 9-11am in Drayton House B6 (weeks 21-24, 26-30)
Monday 4-6pm in Bentham Building LG16 (week 24)

Tutorials: Friday 5-6pm in Drayton House B20 Jevon LT (week 22)

Thursdays 11am-12pm & 12-1pm in South Quad Pop-Up 102 (weeks 24, 26, 28, 30)

Course website: <https://www.ucl.ac.uk/economics/international-trade-econ0120>

Course Description

Globalization is a fascinating phenomenon – complex, interesting and constantly evolving. This course examines the causes and consequences of international trade and investment through basic theoretical frameworks, empirical evidence, and applications to real-world questions of interest to business leaders, policy makers and the general public. It investigates why nations trade, what they trade, and how trade affects aggregate welfare and inequality. It explores the role of multinational companies, foreign direct investment, and international migration. Finally, it analyzes the rationale for international trade policy and its economic impact. Special segments highlight key current phenomena, such as offshoring and global value chains; firm heterogeneity in productivity, quality and management practices; financial frictions and global financial crises.

Course Objectives

The goal of the course is to prepare students for future careers in business, policy and research that require an understanding of the global economy. It aims to:

- Educate students to be informed consumers, workers, citizens and policy makers who can make informed decisions when they buy and invest in the world marketplace, navigate their professional careers, vote on economic policies, and design economic policies.
- Equip students with a critical understanding of economic theory, empirical evidence and key phenomena relevant to firm behavior and policy design in a globalized world.
- Enable students to form independent opinions about the performance, challenges and opportunities facing different people, firms, and countries in the global economy.

To that end, the course will:

- Introduce the key models economists use to think about international trade and investment, and build understanding through math, graphs and economic intuition.
- Confront these models with systematic empirical data and anecdotal evidence.
- Develop familiarity with key historical and recent developments in globalization.

- Apply these analytical tools and specific knowledge to real-world cases using mixed media and interactive discussions in class.

Course Prerequisites

ECON G21 Micro for MSc students in Economics or Economic Policy.

Course Website

The course website on MOODLE will contain the most up-to-date course outline, lecture notes and recordings, required and recommended readings, homework assignments and solutions.

Course Materials

Lectures will be recorded and made available on MOODLE whenever possible.

Lecture notes will be detailed and self-contained. Additional required and recommended reading will draw on academic papers, chapters in non-academic books, articles in the popular press, blogs, pod casts, and online videos.

No textbook is required. If you would like a textbook treatment of the material, a recommended text is Krugman, Obstfeld and Melitz, *International Economics: Theory and Policy*, Addison Wesley. The syllabus below lists page references for the 10th edition, but other editions will contain similar material.

Course Tutorials and Assignments

There will be bi-weekly tutorial classes and homework assignments. Homework assignments will be posted on MOODLE and should be submitted in the designated course dropbox in the economics department by their preannounced due date. Assignments will be marked V+ / V / V- but not count towards the final grade, and suggested solutions will be posted on MOODLE.

Course Exam

Course grades will be based on a 2-hour final exam in Term 3. Practice exam questions with solutions will be provided on MOODLE.

Course Outline and Reading List

The recommended textbook is Krugman, Obstfeld and Melitz, *International Economics: Theory and Policy*, abbreviated below as "KOM".

If you are interested in a topic, you are invited to explore the recommended readings and mixed media. You are encouraged to read 1 chapter each from these books: *Pop Internationalism* by Paul Krugman, *Free Trade Under Fire* (2nd edition) by Douglas Irwin ([book review](#)), *International Trade* by Robert Feenstra and Alan Taylor, and *The Great Convergence: Information Technology and the New Globalization* by Richard Baldwin ([book summary](#)).

Chad Bown and Soumaya Keynes have an excellent weekly [Trade Talks](#) pod-cast on current trade policy developments. Richard Baldwin edits CEPR's fantastic series of [Vox EU](#) non-technical write-ups of policy-relevant academic papers. CEP Brexit Policy Analysis Series issues illuminating [papers](#) and [videos](#). Interesting facts about [Our World in Data](#).

Lecture 1: Introduction & Endowment Economies

Required:

- P. Krugman: "What do Undergrads Need to Know about Trade?" *American Economic Review*, May 1993, p.23-26 (also in *Pop Internationalism*) [link](#)
- One [Trade Talks](#) pod-cast of your choice

Recommended:

- KOM Chapter 1 and Chapter 2
- D. Irwin: *Free Trade Under Fire*, Chapter 1
- P. Samuelson: "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization," *Journal of Economics Perspectives*, Summer 2004, p.135-146 [link](#)
- P. Krugman: "Ricardo's Difficult Idea" [link](#)

Lecture 2: Ricardo

Required:

- One trade-related podcast of your choice from the [EconTalk](#) Library of Economics and Liberty, for example "Roberts on Smith, Ricardo and Trade" August 2010 [link](#)

Recommended:

- KOM Chapter 3
- D. Bernhofen and J. Brown (2004), "A Direct Test of the Theory of Comparative Advantage: The Case of Japan," *Journal of Political Economy* 112 (1), p.48-67 [link](#)
- D. Irwin (2005), "The Welfare Cost of Autarky: Evidence from the Jeffersonian Trade Embargo," *Review of International Economics* 13 (4), p.631-645 [link](#)
- A. Costinot and D. Donaldson (2012), "Ricardo's Theory of Comparative Advantage: Old Idea, New Evidence," *American Economic Review P&P* 102 (3), p.453-8 [link](#)

Lecture 3: Specific Factors Model & Trade and Wages Debate

Required:

- One trade-related piece on [Vox EU](#)
- One chapter of your choice from Richard Baldwin, *The Globotics Upheaval: Globalization, Robotics and the Future of Work* (2019)

Recommended:

- Pinelopi Goldberg and Nina Pavcnik: "Distributional Effects of Globalization in Developing Countries," *Journal of Economic Literature*, March 2007, p.39-82 [link](#)
- Elhanan Helpman, "Globalization and Inequality", 2018, Harvard University Press, Chapters 1-2
- Autor, D., Dorn, D., Hanson, G. and J. Song (2014). "Trade Adjustment: Worker Level Evidence." *Quarterly Journal of Economics* 129(4), p.1799-1860. [link](#)
- Borusyak, K. and Jaravel, X. (2018). "The Distributional Effects of Trade: Theory and Evidence from the United States". Harvard University mimeo. [link](#)
- Hummels, D., Jørgensen, R., Munch, J. and C. Xiang (2014). "The Wage Effects of Offshoring: Evidence from Danish Matched Worker-Firm Data." *American Economic Review* 104 (6), p.1597–629. [link](#)

Lecture 4: Hecksher-Ohlin

Required:

- One chapter of your choice from Richard Baldwin, *The Great Convergence: Information Technology and the New Globalization* (2016)

Recommended:

- KOM Chapter 5
- Douglas Irwin: *Free Trade Under Fire*, Chapter 3
- Alan Deardorff: "Benefits and Costs of Following Comparative Advantage," 1998 [link](#)
- Frédéric Bastiat: "Petition of the Candle Makers," *Economic Sophisms*, 1845 [link](#)

Lecture 5: Standard Trade Model & Increasing Returns to Scale

Required:

- EITHER the [Press Release](#) OR the [Scientific Background](#) for Krugman's 2008 [Nobel Prize](#)

Recommended:

- KOM Chapters 6-7
- Douglas Irwin: *Free Trade Under Fire*, Chapter 2
- Krugman "Talking About a Revolution," *Slate*, August 1999 [link](#)

Lecture 6: Firm Heterogeneity

Required:

- One trade-related [IGC Policy Brief or Growth Brief](#) of your choice from IGC, for example "Trading Up: The Benefits of Exporting for Small Firms" [link](#)
- One academic article from the list below

Recommended:

- KOM Chapter 8.
- Melitz, M. (2003). "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity." *Econometrica* 71(6), p.1695-725. [link](#)
- Melitz, M. and Trefler, D. (2012). "Gains from Trade when Firms Matter." *Journal of Economic Perspectives* 26(2), p.91-118. [link](#)
- Melitz, M. and Redding, R. (2014). "Heterogeneous Firms and Trade." *Handbook of International Economics* 4. [link](#)
- Bernard, A., Jensen, B., Redding, S. and Schott, P. (2012). "The Empirics of Firm Heterogeneity and International Trade." *Annual Review of Economics* 4, p.283-313. [link](#)
- Bloom, N., Manova, K., Sun, S., Van Reenen, J. and Z. Yu (2015). "Managing Trade: Evidence from China and the US." NBER Working Paper 24718. [link](#)

Lecture 7: FDI, MNCs and GVCs

Required:

- One trade-related report of your choice from the [CEPR Policy Insights](#) series
- EITHER Baldwin, R., "If This is Globalization 4.0, What Were the Other Three?", VoxEU post [link](#) OR Johnson & Noguera (2017) below

Recommended:

- KOM Chapter 8 (p.190-200)
- Robert Feenstra and Alan Taylor: *International Trade*, Chapter 5 (p.161-179)
- *The Economist*: "Small Island for Sale: Foreign Takeovers in Britain," March 2010 (available on MOODLE under assignments)
- Johnson, R. and G. Noguera (2017). "A Portrait of Trade in Value Added over Four Decades." *Review of Economics and Statistics* 99(5), p.896-911. [link](#)
- Helpman, E., Melitz, M. and S. Yeaple (2004). "Exports versus FDI with Heterogeneous Firms." *American Economic Review* 94(1), p.300-16. [link](#)
- Antràs, P. (2003). "Firms, Contracts, and Trade Structure." *Quarterly Journal of Economics* 118(4), p.1375-418. [link](#)

Lecture 8: Trade, FDI and Finance

Required:

- EITHER one [WTO Trade Finance](#) publication or document (explore news archive) OR [Trade Finance interview](#) at 2017 World Trade Symposium

Recommended:

- Foley, F. and K. Manova (2015). "International Trade, Multinational Activity, and Corporate Finance." *Annual Review of Economics* 7, p.119-46. [link](#)
- Manova, K. (2013). "Credit Constraints, Heterogeneous Firms and International Trade." *Review of Economic Studies* 80, p.711-44. [link](#)
- Manova, K. and Z. Yu (2013). "How Firms Export: Processing vs. Ordinary Trade with Financial Frictions." *Journal of International Economics* 100, p.120-37. [link](#)
- Antràs, P., Desai, M. and F. Foley (2009). "Multinational Firms, FDI Flows and Imperfect Capital Markets." *Quarterly Journal of Economics* 124, p.1171-219. [link](#)

Lecture 9: Trade Policy

Required:

- One report of your choice from the [CEP Brexit Analysis](#) series
- One of three options:
- EITHER Trade Talks pod-cast on [Brexit](#)
- OR NPR On Point podcast: "Global Trade Realities" [link](#) and *The Wall Street Journal*: "U.S. to Impose Tariff on Chinese Tires," September 2009 [link](#)
- OR White House statements announcing new U.S. steel tariffs in 2002 [link](#) and their removal in 2003 [link](#), and *The Economist*: "Just Say No", Feb 2002 [link](#)

Recommended:

- KOM Chapter 9 and Chapter 10
- "Brexit: The Uncivil War", HBP Original Movie, 2019
- Swati, D., Huang, H., Ottaviano, G., Peesoa, J.P., Sampson, T. and Van Reenen, J. (2017). "The Costs and Benefits of Leaving the EU." *Economic Policy*, p.651-705.
- D. Trefler (2004). "The Long and Short of the Canada-U.S. Free Trade Agreement." *American Economic Review* 94(4), p.870-95.

Lecture 10: International Trade Agreements & Trade and Development

Required:

- One chapter from a [WTO World Trade Report](#) of your choice
- One report of your choice from the [Global Trade Alert](#) series

Recommended:

- KOM Chapter 11
- Douglas Irwin: *Free Trade Under Fire*, Chapters 5 and 6
- Rodrik, D. (2018). "What Do Trade Agreements Really Do?" *Journal of Economic Perspectives* 32(2), p.73–90. [link](#)
- Dragusanu, R., Giovannucci, D. and N. Nunn (2014). "The Economics of Fair Trade." *Journal of Economic Perspective* 28(3), p.217-36. [link](#)
- *The Boston Globe*: "The Localvore's Dilemma," July 2007 [link](#)
- *The Economist*: "Green with Envy: The Tension between Free Trade and Capping Emissions," November 2009 [link](#)