

Economics 166: International Trade

Spring 2015

Instructor

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Lecture: Tuesdays and Thursdays 9-10:50am in ART 2

Webpage: <http://coursework.stanford.edu>

Course Description

This course will examine the causes and consequences of international trade and investment. We will investigate why nations trade, what they trade, and who gains from international trade. We will explore the effects of trade on economic growth and wage inequality, and discuss the role of multinational corporations, foreign direct investment and international migration. Finally, we will analyze countries' motives for regulating international trade and the effects of such policies on economic welfare.

The aim of the class is to give students the tools necessary to read critically and understand discussions of past and current events in the world economy found in popular media such as *The Economist*, *The Wall Street Journal* and the *Financial Times*. To that end, we will study selected basic models in international trade, discuss their practical relevance, and apply them to questions of current interest to policy makers, business leaders and the general public.

Course Prerequisites

Economics 50 and 51. We will use micro-economics tools and models that you have learned in these courses, and it is important that you are familiar with and feel comfortable using and manipulating them. If you decide to take this class, I will assume this to be the case. I will also assume familiarity with basic algebra and calculus.

Grading Policy

Grades will be based on problem sets and in-class debates (20%), an in-class midterm (30%), and a final exam (50%). Six problem sets will be distributed over the semester, of which only your best 5 scores will contribute to the final grade. Problem sets will be collected at the end of class, and may alternatively be submitted by 11am in my mailbox on the day they are due. Late problem sets will not be accepted. Attendance at both the midterm and final exam is mandatory, and no make-up exams will be offered. In marginal cases, class attendance and participation will be taken into account.

Midterm: Tuesday, April 28, 9-10:50am. Please let me know *as soon as possible* if you cannot make this time.

Final: Friday, June 5, 12:15-3:15pm. If you can't make this time, do NOT take this class.

Academic Accommodations

Students who may need an academic accommodation based on the impact of a disability must initiate the request with the Office of Accessible Education (OAE). Professional staff will evaluate the request with required documentation, recommend reasonable accommodations, and prepare an Accommodation Letter for faculty dated in the current quarter in which the request is being made. Students should contact the OAE as soon as possible since timely notice is needed to coordinate accommodations. OAE address: 563 Salvatierra Walk, phone: (650) 723-1066, website: <http://studentaffairs.stanford.edu/oae>.

Debates

Where noted, once a week the last 15 minutes of class will be devoted to a set topic of current interest. Each time 2 students will engage in a debate, argue for or against a certain issue, and the class will vote which side was more convincing. Debates will be based on specifically assigned readings, which everyone should complete before coming to class. The students leading the debate are welcome to, but not expected to read more on their own.

Recommended Text

Krugman, Obstfeld and Melitz, *International Economics: Theory and Policy*, Addison Wesley.

Note: No textbook is required for this class, but this one is recommended if you would like a textbook treatment of the material. Other editions of the book will contain similar material but the syllabus below lists page references for the 10th edition.

Frequently asked questions

When will lecture notes be posted? In general, lecture notes will be posted online the night before class. You are welcome to bring print-outs to class and take notes on them. Note that class attendance is mandatory, and reading the lecture notes is no substitute for attending.

Can my friends and I work together on the problem sets? Yes. The problem sets are intended to be learning experiences and you are encouraged to work with your classmates. However, you must submit your own problem set solutions. You may find it useful to attempt the problems on your own before working with others. Doing the problem sets is the best way to prepare for the exams. If you copy another student's answers without understanding the material, your exam performance will suffer.

How are the problem sets graded? The problem sets are graded on a scale of check plus, check, check minus and zero (if no problem set is handed in or it is submitted late). Problem set solutions will be posted on the course web page after they are collected and evaluated.

What material will be covered on the midterm and final exam? The midterm will cover the material from the first half of the quarter. The final will cover material from the entire quarter. Exams will cover all lecture material (including in-class discussions) and all required reading. The specific material required for each exam will be announced well ahead of each exam date.

What do I do if a mistake was made in grading my exam? After the exam is returned, you will have one week to submit a written account of your problem or concern to the TA. Beyond this deadline, no complaints will be entertained. Note that re-grades will not be confined to the disputed part of the exam.

Course Outline and Reading List

All required readings will be available online on the class webpage. Recommended readings in the textbook are abbreviated as "KOM".

If you are particularly interested in a topic, you are invited to explore the other recommended readings. Some of them come from *Pop Internationalism* by Paul Krugman, *Free Trade Under Fire* (2nd edition) by Douglas Irwin, *International Trade* by Robert Feenstra and Alan Taylor, and *Intermediate Microeconomics* by Hal Varian. You can find these books in the library. Other recommended readings will be made available through links on the class webpage. The textbook by James Markusen et al. *International Trade* is out of print but is available online at <http://spot.colorado.edu/~markusen/textbook.html>.

Tuesday, March 31. Lecture 1: Introduction

Required reading:

- Paul Krugman: "What do Undergrads Need to Know about Trade?" *American Economic Review*, May 1993, p.23-26 (also in *Pop Internationalism*) [link](#)

Recommended reading:

- KOM Chapter 1 and Chapter 2
- Douglas Irwin: *Free Trade Under Fire*, Chapter 1

Thursday, April 2. Lecture 2: Endowment economies I

Required work:

- PRI America Abroad podcast: "From NAFTA to Narcotics", August 2010 [link](#)

Recommended reading:

- James Markusen et al: *International Trade*, Chapter 3 (a review of properties of indifference curves and utility maximization) [link](#)
- Hal Varian: *Intermediate Microeconomics*, 7th edition, Chapters 2-6 and 31-32
- Douglas Irwin (2005), "The Welfare Cost of Autarky: Evidence from the Jeffersonian Trade Embargo," *Review of International Economics* 13 (4), p.631-645 [link](#)
- Daniel Bernhofen and John 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](#)

Tuesday, April 7. Lecture 3: Endowment economies II & Ricardo I

Debate 1: How does IT outsourcing affect the U.S. and India?

- John Irons and Tyler Cowen blogging for *The Wall Street Journal*: "The Rise of Outsourcing", November 9, 2004 [link](#)
- Mary Amity and Shang-Jin Wei: "Demystifying Outsourcing," *Finance and Development*, December 2004, p.36-39 [link](#)
- Diana Farrell: "U.S. Offshoring: Small Steps to Make It Win-Win," in *The Economists' Voice*, 2007, p.43-50 [link](#)

Required reading:

- Paul Krugman: "Ricardo's Difficult Idea" [link](#)

Recommended reading:

- KOM Chapter 3 (p.24-35)

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

Thursday, April 9. Lecture 4: Ricardo II

Problem Set 1 due

Recommended reading:

- KOM Chapter 3 (p.35-47)
- James Markusen et al: *International Trade*, Chapter 7 [link](#)
- Bela Belassa: "An Empirical Demonstration of Classical Comparative Cost Theory," *Review of Economics and Statistics* 45 (3), p.231-238 [link](#)

Tuesday, April 14. Lecture 5: The specific factors model and the trade and wages debate

Debate 2: Does China's growth hurt the U.S.?

- NPR podcast: "While U.S. Economy Struggles, China's Rises", November 2009 [link](#)
- Paul Krugman: "Does Third World Growth Hurt First World Prosperity?" *Harvard Business Review*, July-August 1994 (also in *Pop Internationalism*) [link](#)
- Martin Wolf: "We Must Act to Share the Gains with Globalization's Losers," the *Financial Times*, 2006 [link](#)

Recommended reading:

- Paul Krugman and Robert Lawrence: "Trade, Jobs, and Wages," *Scientific American*, April 1994 (also in *Pop Internationalism*) [link](#)
- Richard Freeman: "Are Your Wages Set in Beijing?" *Journal of Economic Perspectives*, Summer 1995 [link](#)
- Hal Varian: *Intermediate Microeconomics*, 7th edition, Chapter 18
- Douglas Irwin: *Free Trade Under Fire*, Chapter 3
- Dani Rodrik: *Has Globalization Gone Too Far?*, Chapter 2

Thursday, April 16. Lecture 6: Hecksher-Ohlin Model I

Problem Set 2 due

Recommended reading:

- KOM Chapter 5 (p.84-96)
- Frédéric Bastiat: "Petition of the Candle Makers," *Economic Sophisms*, 1845 [link](#)
- James Markusen et al: *International Trade*, Chapter 8 [link](#)
- Hal Varian: *Intermediate Microeconomics*, 7th edition, Chapter 20

Tuesday, April 21. Lecture 7: Hecksher-Ohlin Model II

Debate 3: Are sweatshops good for workers in developing countries?

- Paul Krugman: "In Praise of Cheap Labor," *Slate*, March 1997 [link](#)
- Nicholas Kristof: "In Praise of the Maligned Sweatshop," *The New York Times*, 2006 [link](#)
- Tim Harford: "Why Anti-Sweatshop Campaigns Might Just Do It After All," *The Financial Times*, 2010 [link](#)
- Justin Jin: "What is the real Cost of Your Jeans?," *Marie Claire*, October 2008 [link](#)

Recommended reading:

- KOM Chapter 5 (p.96-110 and p.114-117)

- James Markusen et al: *International Trade*, Chapter 8 [link](#)
- Hal Varian: *Intermediate Microeconomics*, 7th edition, Chapter 20

Thursday, April 23. Lecture 8: The Standard Trade Model

Problem Set 3 due

Recommended reading:

- KOM Chapter 6
- Douglas Irwin: *Free Trade Under Fire*, Chapter 2
- Alan Deardorff: "Benefits and Costs of Following Comparative Advantage," 1998 [link](#)

Tuesday, April 28. MIDTERM EXAM

Thursday, April 30. Lecture 9: Increasing Returns I

Recommended reading:

- KOM Chapter 7 (p.145-150), Chapter 8 (p. 164-174)
- Paul Krugman: "Talking About a Revolution," *Slate*, August 1999 [link](#)

Tuesday, May 5. Lecture 10: Increasing Returns II

Debate 4: Did the U.S., Canada and Mexico gain from NAFTA?

- NPR podcast: "Mexico Looks to U.S. to Fuel Economic Recovery", October 2009 [link](#)
- Reason.tv: "Mexicans and Machines: Why It's Time to Lay Off NAFTA", 2008 [link](#)
- Robert Feenstra and Alan Taylor: *International Trade*, Chapter 6 p.199-209 [link](#)
- "Intraindustry Trade in Action: The North American Auto Pact of 1964," KOM p.180-181 [link](#)
- "NAFTA Takes the Political Spotlight: It's About Time", Institute for Agriculture and Trade Policy Commentary, March 2008 [link](#)

Recommended reading:

- KOM Chapter 8 (p.174-185)
- Hal Varian: *Intermediate Microeconomics*, 7th edition, Chapters 18 and 24

Thursday, May 7. Lecture 11: Migration

Problem Set 4 due

Required reading:

- *The Economist*: "Migration and Development: The Aid Workers Who really Help," October 2009 [link](#)
- Robert Feenstra and Alan Taylor: *International Trade*, Chapter 5 (p.141-161) [link](#)

Recommended reading:

- KOM Chapter 4 (p.70-76)
- George Borjas, Richard Freeman and Lawrence Katz: "Searching for the Effect of Immigration on the Labor Market," *American Economic Review*, May 1996, p.246-251 [link](#)

Tuesday, May 12. Lecture 12: Multinational Firms and FDI I

Debate 5: FDI: cost advantages and toy recalls

- BNET video: "Outsourcing to China", 2008 [link](#)

- "Foreign Direct Investment in China - Good Prospects for German companies?" *Deutsche Bank Research Paper*, August 2004, p.1-6 [link](#)
- "Toy Recall Shows Challenge China Poses to Partners," *The Wall Street Journal*, August 2007 [link](#)

Required reading:

- *The Economist*: "Small Island for Sale: Foreign Takeovers in Britain," March 2010 [link](#)
- VoxEU.org: "Chinese Foreign Direct Investment: What's Happening Behind the Headlines?," July 2010 [link](#)

Recommended reading:

- KOM Chapter 8 (p.190-200)
- James Markusen: "The Boundaries of Multinational Enterprises and the Theory of International Trade," *Journal of Economic Perspectives*, Spring 1995 [link](#)
- Robert Feenstra: "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, Fall 1998 [link](#)

Thursday, May 14. Lecture 13: Multinational Firms and FDI II

Debate 6: Trade and the environment: eating local vs. trading global

- *The Boston Globe*: "The Localvore's Dilemma," July 2007 [link](#)
- *Forbes*: "Frequent Flier Food," November 2007 [link](#)
- *The Economist*: "Green with Envy: The Tension between Free Trade and Capping Emissions," November 2009 [link](#)
- *The Economist*: "Flat Pack," December 2009 [link](#)

Required reading:

- Robert Feenstra and Alan Taylor: *International Trade*, Chapter 5 (p.161-168) [link](#)

Recommended reading:

- Robert Feenstra and Alan Taylor: *International Trade*, Chapter 5 (p.169-179) [link](#)
- Lael Brainard: "An Empirical Assessment of the Proximity-Concentration Trade-Off Between Multinational Sales and Trade," *American Economic Review*, September 1997, p.520-544 [link](#)
- Drusilla Brown, Alan Deardorff and Robert Stern: "The Effects of Multinational Production on Wages and Working Conditions in Developing Countries," *NBER Working Paper* No.9669, 2003 [link](#)

Tuesday, May 19. Lecture 14: Trade Policy

Problem Set 5 due

Recommended reading:

- KOM Chapter 9
- Robert Feenstra: "How Costly is Protectionism?" *Journal of Economic Perspectives*, Summer 1992 [link](#)
- Paul Krugman: "Is Free Trade Passé?" *Journal of Economic Perspectives*, Fall 1987 [link](#)

Thursday, May 21. Lecture 15: Political Economy of Trade Policy, WTO and International Trade Agreements

Debate 7: Should trade policy be used as a tool for domestic redistribution?

- NPR On Point podcast: "Global Trade Realities," [link](#)
- *The Wall Street Journal*: "U.S. to Impose Tariff on Chinese Tires," September 2009 [link](#)

- White House statement announcing the steel tariffs [link](#)
- White House statement announcing the removal of the steel tariffs [link](#)
- *The Economist*: "Just Say No", Feb 2002 [link](#)

Recommended reading:

- KOM Chapter 10
- Robert Baldwin: "The Political Economy of Trade Policy," *Journal of Economic Perspectives*, Fall 1989 [link](#)
- Douglas Irwin: *Free Trade Under Fire*, Chapters 5 and 6
- Alan Deardorff and Robert Stern: "What the Public Should Know about Globalization and the World Trade Organization," July 2000, Part III [link](#)
- Paul Krugman: "The Uncomfortable Truth About NAFTA," *Foreign Affairs*, November 1993 (also in *Pop Internationalism*) [link](#)

Tuesday, May 26. Lecture 16: Trade and Development

Debate 8: Should developing countries embrace free trade?

- Dani Rodrik: "Globalization for Whom?" *Harvard Magazine*, July-August 2002 [link](#)
- *The Economist*: "More or Less equal?," March 2004 [link](#)

Recommended reading:

- KOM Chapter 11
- Douglas Irwin: "Did Late Nineteenth-Century U.S. Tariffs Promote Infant Industries?" *Journal of Economic History* 60, June 2000, p.335-360 [link](#)
- Jeffrey Frankel and David Romer: "Does Trade Cause Growth?" *American Economic Review*, June 1999, p.379-399 [link](#)
- Pinelopi Goldberg and Nina Pavcnik: "Distributional Effects of Globalization in Developing Countries," *Journal of Economic Literature*, March 2007, p.39-82 [link](#)

Thursday, May 28. Lecture 17: Overview of the Quarter

Problem Set 6 due

Tuesday, June 2. TA Review Session for Final Exam

Recommended work:

- EconTalk Library of Economics and Liberty podcast: "Roberts on Smith, Ricardo and Trade", February 2010 [link](#)

Friday, June 5. FINAL EXAM