

**University of Colorado
Department of Economics**

**Economics 4413: International Trade
Spring 2008**

Lecture time: TR 9:30-10:45

Lecture location: 207 Clare Small Arts and Science

Professor: Stephen Yeaple

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Office hours: TR 11-12 and W 2-3

Course Description and Pre-requisites

This course will analyze the causes and consequences of international trade and investment. We will investigate why nations trade, what they trade, and who gains from this trade. We will then analyze the motives for countries or organizations to restrict or regulate international trade and study the effects of such policies on economic welfare.

Although the course will emphasize the understanding of past and current events in the world economy, we will rely on formal economic modeling to help us understand these events. We will therefore extensively use micro-economic tools that you have learned in your introductory microeconomics classes. Econ 3070 (Intermediate Microeconomic Theory) is a prerequisite for this course. It is important that you not only be familiar with these tools and models, but that you also feel comfortable using and manipulating them.

Course Outline and Reading List

Required text: Feenstra, Robert and Alan Taylor, International Economics, 1st Edition, Worth Publishers, 2008.

Readings in the textbook are abbreviated "F-T." There are other textbooks with useful treatments of the subject matter (1) Krugman and Obstfeld, (2) Markusen et al, and (3) Ethier. Non-textbook readings will be made available on the course CULearn/blackboard page. Other readings concerning current events may be posted on the CULearn/blackboard site from time to time. I will be responsible for all material posted on the CULearn/blackboard site.

1. **Introduction.** Where is the course going? What are the fundamental issues?

Readings: F-T, Chapter 1
Krugman, "What do Undergrads Need to Know about Trade?" *AER* 1993

2. **Comparative Advantage.** Country differences create gains from trade. Trade affects income distribution. Learning to think in general equilibrium.

Readings: F-T, Chapters 2-4

3. **Multinational Firms.** What effect does foreign investment have on wages? Why do some firms become multinationals while others do not?

Readings: F-T, Chapter 5
Markusen, "The Boundaries of Multinational Enterprises and the Theory of International," *Journal of Economic Perspectives*, 1995.

4. **Offshoring, Trade and Wages.** What is offshoring? How is this trend different from earlier trends in globalization?

Readings: F-T, Chapter 7
Feenstra, "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, 1998.
Freeman, "Are your Wages set in Beijing," *Journal of Economic Perspectives*, 1995.
The Economist, "Hard truths about helping the losers from globalization"

5. **Increasing returns to scale & Imperfect Competition.** Does trade reduce monopoly power? Trade and variety. Rationalization effects and productivity. Why free trade in Canada is less controversial than free trade with Mexico.

Readings: F-T, Chapter 6
Lecture notes, "The Helpman-Krugman Version of Heckscher-Ohlin"

6. **Trade Policy.** Types of policies that affect international trade. How trade policies of one country affect well being in another.

Readings: F-T, Chapters 8 - 10

7. **Political Economy.** Why countries do not maximize welfare. Why some interest groups are favored over others.

Baldwin, "The Political Economy of Trade Policy," *Journal of Economic Perspectives*, 1989.
Krugman, "Is Free Trade Passe?" *Journal of Economic Perspectives*, 1987.

8. **International Trade Agreements.** What to make of the WTO. What to make of NAFTA. Why do we or do we not need agreements like the Kyoto protocol.

Readings: F-T, Chapter 11

Evaluation

Class Participation	10%
Homework One	5%
Exam One (tentatively March 4)	30%
Homework Two	5%
Exam Two (tentatively May 1)	30%
Take-Home Final (due May 8 th)	20%

There will be NO make-ups for either exam. Given a valid excuse (e.g. documented illness) all of the weight of the missed exam will be assigned to the other exam. Homework assignments will be handed out roughly two weeks before an exam and will be due roughly a week before the exam. You may work on the homework in groups but must present the material in your own words. Participation includes regular attendance and an effort to engage in classroom discussions. Instructions for the take-home final can be found below.

Instructions for the Take-Home Final Due May 8th, 10:30 a.m. in my office

Choose a country other than the United States from the list below. Write a paper that explicitly addresses the following requirements.

1. What are the major export and import categories for your country?
2. How the composition of the country's exports and imports changed in the last ten years?
3. Who are the country's main trading partners?
4. What theories, if any, can explain the pattern of trade across countries and across goods?
5. Does trade policy appear to affect the country's trading patterns?

Your paper is not to exceed eight typed, double-spaced pages, including tables and references. Exposition counts! Please proofread your paper, PleaT16 Tm(, 10:30 a.m. in my office)TjEs(ss!
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Cooperation Forum (APEC), Asian Development Bank, African Development Bank, Inter-American Development Bank are also possible sources. The World Trade Organization (www.WTO.org) is a source of international trade information. The U.S.