ECON/ABIZ 7630 - Theory of International Trade

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OBJECTIVES
The main purpose of this course is to equip you with the basic principles and tools of international trade. In class lectures, most of the analysis will be presented in terms of economic intuition and diagrams. This will occasionally be supplemented by use of calculus and elementary duality theory.

TEXTBOOKS
There is no required text for the course, but the following books are highly recommended:


These books provide a concise discussion of conventional topics (e.g., Heckscher-Ohlin model) and a good discussion of recent extensions and developments (e.g., imperfect competition and trade policy).

The following books are also highly recommended:

Kar-yiu Wong, International Trade in Goods and Factor Mobility, MIT Press 1995 (WONG);


Chacoliades develops the analysis of conventional topics in detail and is particularly appropriate
for students taking their first course in trade. Both B-P-S and Cha colaides primarily employ diagrammatical techniques. In contrast, Dixit and Norman employ duality theory in analyzing international trade. Wong provides a technical discussion of conventional topics and especially the new trade theory under imperfect competition.

Other discussions of trade theory under imperfect competition are:

Elhanan Helpman and Paul R. Krugman, Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition and the International Economy, MIT Press 1985, (H-K I);


A good undergraduate text on international trade (and finance) is:


The following books are recommended for supplementary readings:

Ronald W. Jones and Peter B. Kenan (ed.) Handbook of International Economics, Volume I, North-Holland 1983 (Surveys of topics in trade theory) (HIE 83);

Gene M. Grossman and Kenneth Rogoff (ed.) Handbook of International Economics, Volume III, North-Holland 1995 (Surveys of topics in trade theory and international macroeconomics) (HIE 95);


GRADING

The course grade will be based on one midterm exam, a final exam, and a term paper. In determining your grade for the course, the highest of these three grades will receive a weighting of 60 percent, the second highest will receive a weighting of 30 percent, and the lowest of these three grades will receive a weighting of 10 percent. The term paper is due on the day of the last lecture for the course.

NOTE

Please see the University of Manitoba Graduate Calendar for policies regarding plagiarism and cheating.
OUTLINE

1. **Introduction**
   
   B-P-S (Chapters 2-4)
   Feen (Chapter 1)
   Chac (Chapter 2-6)
   D-N (Chapters 2-1 - 2.2, 2.4)

2. **Heckscher-Ohlin Model**
   
   (Stolper-Samuelson, and Rybczynski theorems, factor price equalization, Leontief paradox)
   B-P-S (Chapters 5-6,8)
   Feen (Chapter 2-4)
   Chac (Chapters 8A & D, 9-11, 19B)
   D-N (Chapters 2.3, 2.4)
   Wong (Chapter 2)
   Jones and Neary, The Positive Theory of International Trade *(HIE 83).*
   Ethier, Higher Dimensional Issues in Trade Theory *(HIE 83).*
   Leamer and Levinsohn, International Trade Theory: The Evidence *(HIE 95).*
   Deardorff, Testing Trade Theories and Predicting Trade Flows *(HIE 83).*


3. **Specific Factors Model**

B-P-S (Chapter 7)
D-N (pp. 102-106, 122-125)

4. **Comparative Advantage and Gains From Trade**

B-P-S (Chapters 17-19)
Feen (Chapter 6)
Chac (Chapters 15-16)
D-N (Chapter 3)
Wong (Chapter 3, 8)
Corden, The Normative Theory of International Trade (*HIE 83*).


5. **Commercial Policy**

(tariffs, quotas, effective protection, transfers)

B-P-S (Chapters 12 - 16)
Feen (Chapters 7-8)
Chac (Chapters 17-22)
D-N (Chapters 5.5-5.7, 6)
Wong (Chapters 10, 11)
Corden, The Normative Theory of International Trade (*HIE 83*).
Feenstra, Estimating the Effects of Trade Policy (*HIE 95*).
Rodrik, Political Economy of Trade Policy (*HIE 95*).


6. **Customs Unions and Preferential Trade Agreements**

B-P-S (Chapter 31)
Feen (Chapter 6)
Chac (Chapters 22-23)
D-N (Chapter 6.4)


Baldwin and Venables, Regional Economic Integration (*HIE 95*).


Grinols and Wong, An Exact Measure of Welfare Change, *Canadian Journal of*
7. **Agricultural Trade Policies**


8. **Returns to Scale and Noncompetitive Behaviour.**

B-P-S (Chapters 11, 30)

Feen (Chapter 5)

Wong (Chapters 6-7, 9, 12)

H-KI

H-KII

Chac (Chapter 7)

D-N (Chapter 9)

Krugman, Increasing Returns, Imperfect Competition and the Positive Theory of International Trade (*HIE* 95).

Brander, Strategic Trade Policy (*HIE* 95).

Helpman, Increasing Returns, Imperfect Competition and Trade Theory, (*HIE* 83)


Press 1990.

9. **Technology, Growth and Trade**

B-P-S (Chapters 36-37)
Feen (Chapter 10)
Grossman and Helpman, Technology and Trade (*HIE 95*).
Findlay, Growth and Development in Trade Models (*HIE 83*).
Smith, Capital Theory and Trade theory (*HIE 83*).