

Classes: TTh 2:30 – 4:20 PM DEN 212

Office: Savery 352

Office Hours: Wednesdays 10:00 a.m. – noon.

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This course covers important theories of the following three activities of connecting countries: international trade in goods, foreign direct investment, and international labor migration.

These theories explain why commodities and factors of production move across countries and how they may affect the consumption, production, prices, and welfare of relevant economies. The policy options of the government in regulating the movements of commodities and factor movements are examined.

The emphasis of this course is on the theories of capital and labor movements internationally. Although trade in goods is also covered, the analysis is on those trade theories that are more related to the movement of factors. There is a different course on international trade, but that is not a pre-requisite of this one.

Real world examples are explained and used to illustrate some of the theories introduced in this course.

To get a grade in this course, students will have to work on the problem sets (carrying a weight of 10% of the total grade), a mid-term exam (40%), and a final exam (50%).

Reading Materials

Text:

No specific text is required but a good textbook on international trade is needed: e.g., Appleyard, Dennis R. and Alfred J. Field (AF), *International Economics*, 9th Edition, McGraw-Hill, 2016. (The 8th edition can be used instead.), or Paul R. Krugman, Maurice Obstfeld, Marc J. Melitz, *International Economics*, 12th edition, Addison Wesley, 2021. (The 11th edition can be used instead.)

Lecture notes will be posted. Other reading materials such as academic papers will be specified in class.

References:

King, Philip and Sharmila King (KK), *International Economics, Globalization, and Policy: A Reader*, fourth (or fifth) edition, McGraw-Hill Economics, 2005 (or 2008).

Wong, K. Y. (WO), *International Trade in Goods and Factor Mobility*, MIT Press, 1995 (second printing, 1997).

Hayes, Helene (HA), *U.S. Immigration Policy and the Undocumented*, Westport: Praeger: 2001.

Syllabus and Reading assignments:

1. International Trade: Partial Equilibrium

Lecture notes

AF, Chapter 14

Robert Feenstra, “How Costly is Protectionism?” in KK, Chapter 1.

WO, Chapter 7.

KO, Chapter 2.

FT, Chapter 2.

- Export supply and import demand
- Derivation of the free-trade equilibrium
- Gains from trade
- Tariffs and their impacts
- Optimal tariff: a small economy, a large economy, and the world
- Duopoly and intra-industry trade

2. International Factor Movement – The Host Country

*Lecture notes

- Autarkic Equilibrium
- Capital Inflow and the Optimal Policy
- The issues of unemployment

3. International Factor Movement – The Source Country

*Lecture notes

- Capital Outflow and the Optimal Policy
- The issues of unemployment
- International equilibrium

4. Multinational Corporations and Outsourcing

*Lecture notes + references

KO, Chapter 8

- Theory of Firms and Multinational Corporations
- The OLI Paradigm
- A Multi-Location Monopoly
- Transfer Pricing
- Outsourcing and Offshoring

5. International Labor Migration

*Lecture notes

WO, Chapter 14

- Permanent Migration and the optimal policy
- Temporary Migration
- Brain Drain/Gain
- Illegal Migration
- Case Study: The Mexican (legal and illegal) Immigrants in the United States
- HA, Chapters 3-5

6. International Trade: General Equilibrium

*Lecture notes

7. Trade and Goods and International Factor Movements

*Lecture notes

Mundell, Robert, (1957). “International Trade and Factor Mobility,” *American Economic Review*, Vol. 67, pp. 321-335.

- The neoclassical two-factor, two-sector model
- Fundamental trade theorems
- Trade in goods and factor movements as substitutes
- Welfare effects of factor movement in the presence of trade

8. Economic Integration

*Lecture notes

- Theory of economic integration: The Theory of the Second Best
- Regionalism vs Multilateralism
- Trade creation and trade diversion
- Case Study: the North American Free Trade Area (NAFTA), Regional Cooperative Economic Partnership (RCEP), European Union (EU), the Association of Southeast Asian Nations (ASEAN), China’s “Belt & Road” (B&R) Initiative, and Comprehensive and Progressive Agreement for Trans-Pacific Partnership.
- Moss, Joanna, “Economic Developments during NAFTA’s First Decade”, in KK, Chapter 14.
- AF, Chapter 17.

Items with an asterisk (*) are more important and should be read as soon as possible.