

Economics 1535 International Trade and Investment

ORGANIZATION

Time/location: MW 1:00-2:30pm/Sever Hall 206
Course webpage: <http://www.courses.fas.harvard.edu/~ec1535/>

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COURSE OBJECTIVE

This course will analyze the causes and consequences of international trade and investment. We will first 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.

Structurally, the course is divided into two parts:

In part (I), we will study models of trade - the Ricardian model, the specific-factors model, the Heckscher-Ohlin model, and the increasing-returns-to-scale model - to understand the patterns, determinants, and consequences of international trade. These models help us examine the effects of trade on growth, wages and income distribution, the relationship between trade and immigration, and multinationals and foreign direct investment.

In Part (II) of the course, we will analyze the tools used by governments to conduct trade policy (e.g., tariffs and quotas) and their impact on trade volumes and countries' welfare. We will also investigate the political economy of governments' trade policy decisions and of the world trading system, with special emphasis on the WTO and on preferential trade agreements. We may also touch upon aspects of the current debate on "globalization" such as the use of international labor standards, interactions between trade and environmental concerns, and/or intellectual property right protections.

PRE-REQUISITE

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 Economics 1010a or 1011a (a pre-requisite for this class). It is extremely important that you not only be familiar with these tools and models, but that you also feel comfortable using and manipulating them. If you are taking this class, I will assume this to be the case. If you do not feel absolutely comfortable with these models, I strongly urge you to review your Economics 1010a or 1011a text and notes early on in the semester.

TEXTBOOKS

Most of this course will be based on the following required text (henceforth referred to as KO):

- Paul Krugman and Maurice Obstfeld: *International Economics*, 7th edition, Addison-Wesley (available at the COOP).

Most other readings will be available online (see course web page for links).

* Note: Many the additional readings are contained in the following books:

- *International Trade, Theory and Evidence* by James Markusen et al
- *Pop Internationalism* by Paul Krugman
- *Free Trade Under Fire* by Douglas Irwin
- *Has Globalization Gone Too Far?* by Dani Rodrik.

These books are all on reserve at Lamont (and sometimes Littauer). Several of the chapters from *Pop Internationalism* and *Free Trade Under Fire* are on the reading list, and you may also be interested in reading through the rest of the books. *Free Trade Under Fire* provides an excellent non-technical discussion of most of the topics covered in this course. You may also want to use the book by James Markusen et al as a secondary textbook; it is a useful reference for the more technical parts of the course.

GRADING POLICY

1. Problem Sets (20%). These problem sets will be collected and evaluated, and answers will be subsequently posted on the course web page. You are encouraged to discuss these problems with your classmates; however, you must write up your own answers.
2. A midterm (20%), to be held on March 14th. The exam will cover all the lecture material (including any extensions covered in section), all of the assigned textbook reading, and some of the additional readings. The specific readings that will be required for the midterm will be announced well ahead of the exam date.

3. In-class group presentations (20%). The class will be divided into small groups of 4-5 students to work on policy-related projects. Each group is expected to make a 25-minute presentation and answer questions on an assigned topic, as well as turn in short individual write-ups. The presentations will take place during the last two weeks of class.
4. Final exam (40%).

TOPICS AND READINGS

A detailed course schedule will be posted and maintained on the course website. Please check it regularly for up-to-date schedule and reading assignments. Readings are to be completely **prior** to each class meeting.

The following outline provides a guide to the material that will be covered in this course.

I. Introduction

- K-O, Chapters 1 and 2
- Paul Krugman, “What do Undergrads Need to Know about Trade?”, *AER*, May 1993. (in Pop Internationalism)
- Douglas Irwin, “The United States in A New Global Economy? A Century’s Perspective,” *AER*, May 1996
- Douglas Irwin, *Free Trade Under Fire*, Chapter 1.

II. Gains from Trade, Comparative Advantage, and the Terms of Trade

- James Markusen et al, *International Trade*, Chapter 3. (Review properties of indifference curves and utility maximization.)
- K-O, Chapter 5
- Alan Deardorff, “Benefits and Costs of Following Comparative Advantage,” January 1998.
- Douglas Irwin, *Free Trade Under Fire*, Chapter 2.

III. Technology and Factor Endowments

- K-O, Chapters 3, 4, and 6
- Paul Krugman, “Ricardo’s Difficult Idea,” in *The Economics and Politics of International Trade*.
- Paul Krugman, “In Praise of Cheap Labor,” *Slate*, March 1997.
- Frédéric Bastiat, “Petition of the Candle Makers”, *Economic Sophisms*, 1845.

IV. Trade Policy

- K-O, Chapter 8-9
- Robert Feenstra, “How Costly is Protectionism?,” *Journal of Economic Perspectives*, Summer 1992.
- Robert Baldwin, “The Political Economy of Trade Policy,” *Journal of Economic Perspectives*, Fall 1989.

- Paul Krugman, “Is Free Trade Passe?,” *Journal of Economic Perspectives*, Fall 1987.

V. Policy Topics

A. Trade and Wages

- Paul Krugman and Robert Lawrence, “Trade, Jobs, and Wages,” *Scientific American*, April 1994. (in Pop Internationalism)
- Richard Freeman, “Are Your Wages Set in Beijing?,” *Journal of Economic Perspectives*, Summer 1995.
- Paul Krugman, “Does Third World Growth Hurt First World Prosperity?,” *Harvard Business Review*, July-August 1994 (in Pop Internationalism)
- Douglas Irwin, *Free Trade Under Fire*, Chapter 3.
- Dani Rodrik, *Has Globalization Gone Too Far?*, Chapter 2.

B. International Migration, Multinational Enterprises, and Foreign Direct Investment

- K-O, Chapter 7
- James Markusen, “The Boundaries of Multinational Enterprises and the Theory of International Trade”, *Journal of Economic Perspectives*, Spring 1995.
- Robert Feenstra, “Integration of Trade and Disintegration of Production in the Global Economy,” *Journal of Economic Perspectives*, Fall 1998.
- The Economist (2002), "The Longest Journey: A Survey of Migration"
- The New York Times Magazine (2006), "The Immigration Equation"

C. Trade and Development

- K-O, Chapter 10
- Paul Krugman, “A Raspberry for Free Trade,” *Slate*, November 1997.
- Jeffrey A. Frankel and David Romer, “Does Trade Cause Growth?” *American Economic Review*, June 1999, pp. 379-399.
- Romain Wacziarg and Karen Horn Welch, “Trade Liberalization and Growth: New Evidence,” November 2003
- Douglas Irwin, *Free Trade Under Fire*, Chapter 6.
- Penny Goldberg and Nina Pavcnik, “Trade, Inequality and Poverty: What Do We Know?” *Brookings Trade Forum* 2004, 223-269.
- Dollar, David and Aart Kraay (2001), "Trade, Growth and Poverty," *Finance and Development*
- Rodrik, Dani (2001), "The Global Governance of Trade: As If Development Really Mattered," United Nations Development Programme Background Paper.

D. Industrial Policy, Labor Standards, and the Environment

- K-O, Chapter 11 (6th Edition)
- Douglas Irwin, *Free Trade Under Fire*, Chapter 4.
- Drusilla Brown, Alan Deardorff, and Robert Stern, “Issues of Environmental and Labor Standards in the Global Trading System,” May 1997.
- Dani Rodrik, *Has Globalization Gone Too Far?*, Chapter 3 and 5.

- Phillip McCalman, “Reaping What You Sow: An Empirical Analysis of International Patent Harmonization,” *Journal of International Economics* 55 (2001), pp. 161-186.
- Lee Branstetter, Ray Fisman, Fritz Foley and Kamal Saggi, “Intellectual Property Rights, Imitation and Foreign Direct Investment: Evidence and Theory,” October 2005

E. Trade Agreements and the WTO

- Douglas Irwin, *Free Trade Under Fire*, Chapter 5 and 6.
- Alan Deardorff and Robert Stern, “What the Public Should Know about Globalization and the World Trade Organization,” July 2000
- Paul Krugman, “The Uncomfortable Truth About NAFTA,” *Foreign Affairs*, November 1993. (in Pop Internationalism)
- Husted and Melvin, Chapter 8 (pages 224-230)
- Hoekman and Kostecki, Introduction, Part I, Part II, Part IV-Chapter10
- WTO website (2006), "Understanding the WTO."