

# EC931: International Trade Theory

- Lecturer: Carlo Perroni
- Research-oriented module surveying:
  - Key contributions and recent developments in the theoretical and empirical literature on international trade
  - Applications of the theory to the analysis of trade policy
- Assessment is by two-hour exam in May 2016
  - Exam format as in previous years (samples available online)

# Module Outline

1. Trade in the competitive (neoclassical) model
  - Comparative advantage; factor abundance; scale economies; tastes and product variety
2. Instruments of trade policy under perfect competition
  - Tariffs and subsidies; quotas and other non-tariff barriers; rent seeking; theory of distortions; externalities and trade
3. Imperfect competition and international trade
  - Oligopoly and trade; trade under increasing returns to scale; trade and geography; strategic trade policy; trade and industry structure; empirical evidence
4. The political economy of trade policy
  - Trade and income distribution; endogenous protection
5. International economic integration
  - The theory of customs unions; regional agreements; multilateral liberalization; the WTO

## **International Trade (MSc option)**

Carlo Perroni

Winter 2016

### **1. Trade in the neoclassical model**

#### Readings:

- Falvey, R., "The Theory of International Trade," Ch. 2 in Greenaway D., and Winters, L. (eds.) *Surveys in International Trade*, Blackwell.
- Jones, R., and Neary, J., "The Positive Theory of International Trade," in Jones, R., and Kenen, P. (eds.), *Handbook of International Economics*, North-Holland.
- Dixit, A., and Norman, V., *Theory of International Trade*, Cambridge U Press; Chs. 1-4 .
- Markusen, J., Melvin, J., Kaempfer, W., and Maskus, K., *International Trade: Theory and Evidence*, McGraw-Hill; Chs. 4-9 (chapter nos. refer to 1995 edition).
- Leamer, E., "Testing Trade Theory," Ch. 4 in Greenaway D., and Winters, L.A. (eds.) *Surveys in International Trade*, Blackwell.
- Feenstra, R., *Advanced International Trade*, Princeton UP, Chs. 1-3.

### **2. Trade policy instruments in the neoclassical model**

#### Readings:

- Krugman, P., and Obstfeld, M., *International Economics*, second edition, Harper Collins, Ch. 8.
- Markusen, J., Melvin, J., Kaempfer, W., and Maskus, K., *International Trade: Theory and Evidence*, McGraw-Hill; Chs. 15-16.
- Johnson, H., "Optimal Trade Intervention in the Presence of Domestic Distortions," in Bhagwati, J.N. (ed.) *International Trade: Selected Readings*, MIT Press.
- Krueger, A., "The Political Economy of the Rent-Seeking Society," in Bhagwati, J. (ed.) *International Trade: Selected Readings*, MIT Press.
- Johnson, H., "Optimum Tariffs and Retaliation," *Review of Economic Studies* 21, 142-153.
- Rodriguez, C., "The Non-Equivalence of Tariffs and Quotas under Retaliation," in Bhagwati, J., (ed.) *International Trade: Selected Readings*, MIT Press.
- Dixit, A., "Strategic Aspects of Trade Policy," in Truman F. Bewley, ed., *Advances in Economic Theory: Fifth World Congress*, New York: Cambridge Press.
- Riezman, R., "Dynamic Tariffs with Asymmetric Information," *Journal of International Economics* 30, 267-83.

### **3. Trade with scale economies and imperfect competition**

#### Readings:

- Krugman, P., and Obstfeld, M., *International Economics*, second edition, Harper Collins, Ch. 6.
- Markusen, J., Melvin, J., Kaempfer, W., and Maskus, K., *International Trade: Theory and Evidence*, McGraw-Hill; Chs. 11, 12, 17.
- Smith, A. "Imperfect Competition and International Trade," Ch. 3 in Greenaway D., and Winters, L. (eds.) *Surveys in International Trade*, Blackwell.

- Brander, J., and Krugman, P., "A Reciprocal Dumping Model of International Trade," *Journal of International Economics* 15, 313-321.
- Krishna, K., "Trade Restrictions as Facilitating Practices," *Journal of International Economics* 26, 251-270.
- Krugman, P., "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics* 9, 469-479.
- Krugman, P., "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review* 70, 950-959.
- Melitz, M., "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica* 71, 1695-1725.
- Markusen, J., "The Boundaries of Multinational Enterprises and the Theory of International Trade," *Journal of Economic Perspectives* 9, 169-189.
- Neary, J., "Of Hype and Hyperbolas: Introducing the New Economic Geography," *Journal of Economic Perspectives* 39, 536-561.
- Brander, J., and Spencer, B., "Export Subsidies and International Market Share Rivalry," *Journal of International Economics* 18, 83-100.
- Anderson, J., and van Wincoop, E., "Gravity with Gravitas: A Solution to the Border Puzzle," *American Economic Review* 93, 170-192.

#### **4. Trade and income distribution**

##### Readings:

- Markusen, J., Melvin, J., Kaempfer, W., and Maskus, K., *International Trade: Theory and Evidence*, McGraw-Hill; Ch. 19.
- Falvey, R., "The Theory of International Trade," Ch. 2 in Greenaway D., and Winters, L. (eds.) *Surveys in International Trade*, Blackwell.
- Dixit, A., and Norman, V., *Theory of International Trade*, Cambridge U Press; Ch. 4.
- Mayer, W., "Endogenous Tariff Formation," *American Economic Review* 74, 970-985.
- Grossman, G., and Helpman, E. "Protection for Sale," *American Economic Review* 84, 833-850.

#### **5. International economic integration**

##### Readings:

- Lipsey, R. "The Theory of Customs Unions: A General Survey," in Bhagwati, J.N. (ed.) *International Trade: Selected Readings*, MIT Press.
- Markusen, J., Melvin, J., Kaempfer, W., and Maskus, K., *International Trade: Theory and Evidence*, McGraw-Hill; Chs. 18, 20.
- Hine, R., "International Economic Integration," Ch. 9 in Greenaway D., and Winters, L. (eds.) *Surveys in International Trade*, Blackwell.
- Krugman, P., "Is Bilateralism Bad?" in Helpman, E., and Razin, A. (eds.), *International Trade and Trade Policy*, MIT Press.
- Riezman, R., "Customs Unions and the Core," *Journal of International Economics* 19, 355-365.
- Bagwell, K., and Staiger, R., "An Economic Theory of the GATT," *American Economic Review* 89, 215-248.
- Conconi, P., and Perroni, C., "Issue Linkage and Issue Tie-in in Multilateral Negotiations," *Journal of International Economics* 57, 423-448.
- WTO legal texts ([http://www.wto.org/english/docs\\_e/legal\\_e/legal\\_e.htm](http://www.wto.org/english/docs_e/legal_e/legal_e.htm))