

**International Trade and Welfare**  
**Spring 2005**  
**Tuesday & Thursday: 3:00 – 4:15 p.m.**  
**Chung H. Lee**

**Contact Information**

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Office Hours and Place: Tuesday 10:00 - 11:45 a.m., Saunders 518

**Course Requirements**

One mid-term examination (40%)

Final examination (60%), Tuesday, May 10, 2005 (2:15 – 4:15 p.m.)

The text for this course is Yarbrough and Yarbrough, *The World Economy: Trade and Finance*, 6<sup>th</sup> edition, Thomson—South Western, 2003.

**Course Description**

The course is divided into four parts. In the first part, fundamental models of international trade are presented to address questions such as why countries specialize and trade, what determines the pattern of trade, and how trade affects relative prices, economic welfare, and income distribution in the trading countries. The second part of the course deals with issues relating to trade policies such as tariff, quotas, subsidies, and non-tariff barriers. The effects of and rationale behind the use of various trade policy instruments, and the political economy of trade policy will be discussed. The third part deals with international movements of capital and labor—immigration and foreign direct investment. The fourth part deals with the effect of trade on economic development and trade policy for developing countries.

**1. Introduction** (Chapter 1)

Why study international economics?

Globalization and international interdependence

**2. International Trade Theory** (Chapters 2 & 3)

The lecture introduces the concept of comparative advantage, gains from trade, and the Ricardian and neoclassical models of international trade.

**3. Effect of Trade on Income Distribution and Welfare** (Chapter 4)

How does international trade affect factor prices and thus income distribution? Who are gainers and losers from international trade?

**4. Empirical Evidence on the Neoclassical Model and New Trade Theories** (Chapter 5)

This lecture will discuss the results of empirical tests on the Heckscher-Ohlin theory and then introduce other theories of international trade such as intra-industry trade, trade with economies of scale, and the product-cycle theory.

**5. Tariffs** (Chapter 6)

Why does a country impose a tariff? What are its effects on the economy?

**6. Nontariff barriers and the New Protectionism** (Chapter 7)

This lecture will discuss nontariff barriers to free trade such as quotas, voluntary export restraints, and dumping.

**7. Arguments in Favor of Restricting Trade** (Chapter 8)

Various arguments for restricting trade will be discussed. Some examples of such arguments are the infant industry argument, the theory optimum tariff, and strategic trade policy.

**8. Political Economy of Trade Policy** (Chapter 9)

This lecture will present a brief history of international trade policy. It will also cover the topics of economic integration and regional trade arrangements.

**9. Effect of Growth on Trade and International Movement of the Factors of Production** (Chapter 10)

How does the growth of the factors of production affect the trade pattern and economic welfare? What are the effects of technical progress? What are the effects of factor movement? What motivates foreign direct investment and the growth of multinational corporations?

**10. Trade and Economic Development** (Chapter 11)

This lecture examines trade-related issues for developing countries. Questions such as whether free trade promotes economic development and whether it is free trade that has helped the Asian NIEs to achieve their rapid economic development will be addressed.