ECONOMICS 660: INTERNATIONAL TRADE & WELFARE

TIME AND PLACE:
- Mondays and Wednesdays, 12:00-1:15pm, BUSAD G103

CONTACT INFORMATION AND OFFICE HOURS:
- Office: Saunders Hall 531  Phone: 808-956-7296  E-mail: baybars@hawaii.edu
- Office Hours: Mondays and Wednesdays 11:00am-12:00pm and by appointment.

COURSE DESCRIPTION:
In this course we aim to gain a solid background in the theory of international trade along with an understanding of trade policy issues faced by nations today. The course is intended to be rigorous both analytically and quantitatively. However, considering the different backgrounds and interests of the students, it is flexible enough to let students choose how deeply they will analyze each topic beyond a certain common denominator.

First, we start out with the main trade theories (both classical and new ones) and their main results to qualify determinants of why nations trade, what they trade, and the gains from trade. We extensively rely on graphical and mathematical methods for our analysis. We also briefly discuss the empirical tests of each of these theories. Second, we look at the new firm-level theories of trade and overview the recent empirical evidence. Third, we analyze trade policy instruments and effects, political economy of trade policy, and preferential and multilateral trade agreements. Finally, additional selected topics may be covered depending on student interest and time constraints.

The list of topics outlined above is admittedly ambitious and could easily be the subject matter of three separate courses. Given that this is a one-semester course, our coverage intensity will differ across topics and will be very brief at times. However, our approach will encourage students to pursue further research in the topics that interest them should they choose to do so.

Prerequisites: ECON 606 Microeconomic Theory I and ECON 608 Microeconomic Theory II.

COURSE REQUIREMENTS:
1) Take-Home Exercises (Short-Exams): We cannot and should not cover everything in class and these exercises will let you work out the details of the models, enhance your understanding of the lectures, and actively participate in the learning process. Given that most of you will no longer be taking courses but doing research on your own, I will not require in-class exams. “Getting your hands dirty” through these exercises is the initial step in becoming disciplined independent researchers.

You may not be able to solve each problem to the full extent which is perfectly normal. What I am looking for is an honest effort. Do not leave the answer to any question blank. You may collaborate with your classmates but you must submit your individual and original answers. For each problem set, I will randomly select one question and grade it for accuracy, whereas the remaining questions will be graded based on completeness only.

Take-home exercises will comprise 50% of your final grade.
2) **Presentations:** Each student will make 2 presentations. The first presentation will be selected from the single starred articles in the reading list. You need to sign up in advance for the paper presentation in order to facilitate co-ordination with your classmates. The presentations will last approximately 30 minutes and has to include a discussion of the motivation, main results, main methodology, placement in the literature, and caveats/shortcomings of the paper selected. You have to prepare slides and distribute it to your classmates prior to your presentation. The second presentation will be illustrating the solution to instructor selected take-home exercises in class. Again the students need to confirm with me prior to preparing their problem solution presentations.

Presentations will comprise 20% of your final grade.

3) **Paper Summaries:** 5 papers previously not covered in class will be assigned to be summarized. It is imperative to use your own original words in the summary. The paper summaries have to be approximately one page in length and must definitely include its main contributions and limitations as well as any open questions you may identify.

Paper summaries will comprise 15% of your final grade.

4) **Final Paper (Literature Survey):** At the end of the semester, you will be responsible for writing a literature survey paper on a specific topic of your choice. The topic may be one the optional topics noted in the reading list or any other international trade topic that interests you. Instructor approval is required before starting your survey. Your literature review should: a) identify the key papers; b) cover how papers have contributed, c) indicate what the common and conflicting findings as well as the unanswered questions/puzzles are within the topic, and d) (optional) propose how you would extend the literature yourself.

Final paper will comprise 15% of your final grade.

**GRADING SUMMARY:**

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<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>1. Take-Home Exercises</td>
<td>50%</td>
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<tr>
<td>2. Presentations</td>
<td>20%</td>
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<tr>
<td>3. Paper Summaries</td>
<td>15%</td>
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<td>4. Final Paper</td>
<td>15%</td>
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<tr>
<td><strong>Total</strong></td>
<td>100%</td>
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Final grades will include the +/- designation.

**COURSE MATERIALS ONLINE: LAULIMA**

Here is a list of the things that you can find on [https://laulima.hawaii.edu/portal](https://laulima.hawaii.edu/portal):

- A copy of the syllabus if you lose this
- Important announcements
- Take-home exercises, due dates, and solutions
- Handouts on the material covered or to be covered in class (please print these and bring to class)
- Papers in the reading list

**OFFICE HOURS:**

You are encouraged to utilize my office time. Please do not hesitate to see me for any questions you have in the posted hours or by arranging an appointment with me if these hours do not work for you. I am here to help, not judge you so do not be afraid to ask questions.
COURSE OUTLINE:

I. Trade Theory and Evidence
   1. Ricardian Model
      1.1. Theory
      1.2. Evidence
   2. Heckscher-Ohlin Model
      2.1. Theory
      2.2. Evidence
   3. Specific Factors (Ricardo-Viner) Model
   4. Monopolistic Competition Model
      4.1. Theory
      4.2. Evidence
   5. Gravity Model

II. Multinationals and Heterogeneous Firm Models
   1. Firm Heterogeneity
      1.1. Theory
      1.2. Evidence
   2. Multinationals and Outsourcing

III. Trade Policy
   1. Trade Policy under Perfect Competition: Welfare and Price Effects
   2. Trade Policy under Imperfect Competition and Strategic Trade Policy
   3. Political Economy of Trade Policy
   4. Multilateral and Preferential Trade Agreements

IV. Optional Trade Topics
   1. Trade and Environment
   2. Trade and Growth
   3. Trade and Labor Markets
   4. Institutions and Trade

TEXTBOOKS:

Required:

Recommended:

You are expected to read the relevant sections of the textbook (Feenstra) as pointed out in the reading list below before each lecture.
READING LIST:

Notes:
1. Disclaimer: This list is subject to change as we progress through the semester.
2. “***” designated articles are must reads
3. “*” designated articles can be selected for presentations

I. Trade Theory and Evidence

1. Ricardian Model

1.1. Theory

**Feenstra: Chapter 1 (pp. 1-4).


1.2. Evidence


2. Heckscher-Ohlin Model

2.1. Theory

**Feenstra: Chapter 1 (pp. 4-29), Chapter 2 (pp. 31-35).

2.2. Evidence

**Feenstra: Chapter 2 (pp. 35-61).


3. Specific Factors (Ricardo-Viner) Model

**Feenstra: Chapter 3 (pp. 71-75).


4. Monopolistic Competition Model

4.1. Theory

**Feenstra: Chapter 5 (pp. 137-141).


4.2. Evidence


5. Gravity Model

**Feenstra: Chapter 5 (pp. 144-169).


II. Multinationals and Heterogeneous Firm Models

1. Firm Heterogeneity

1.1. Theory


1.2. Evidence


2. Multinationals and Outsourcing

**Feenstra: Chapter 11 (pp. 371-399).


III. Trade Policy

1. Trade Policy under Perfect Competition: Welfare and Price Effects

**Feenstra: Chapter 7 (pp. 209-220), Chapter 8 (pp. 254-259, pp. 281-285)


2. Trade Policy under Imperfect Competition and Strategic Trade Policy

**Feenstra: Chapter 7 (pp. 221-249), Chapter 8 (pp. 259-281, pp. 286-297)


3. Political Economy of Trade Policy

**Feenstra: Chapter 9 (pp. 300-315)**


4. Multilateral and Preferential Trade Agreements

**Feenstra: Chapter 6 (pp. 174-179, 192-199), Chapter 9 (pp. 315-335)**


**IV. Optional Trade Topics**

1. Trade and Environment
2. Trade and Growth
3. Trade and Labor Markets
4. Institutions and Trade