

# **Economics 464 – Fall 2016: International Trade and Finance**

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**Lecture:** Tuesdays and Thursdays 11:00am-12:15pm in Van Vleck B130

**Webpage:** Learn@UW

## **Course Description**

This course investigates the causes and consequences of international trade and investment, and explores the importance of international capital flows. We will consider why nations trade, what they trade, and who gains from international trade. We will explore the effects of trade on economic growth and wage inequality, and discuss the role of multinational corporations, foreign direct investment and international migration. Finally, we will study countries' motives for regulating international trade and the effects of trade policy on economic welfare. The aim of the class is to give students the tools necessary to read critically and understand discussions of past and current events in the world economy found in popular media. To that end, we will study selected basic models in international trade, discuss their practical relevance, and apply them to questions of current interest to policy makers, business leaders and the general public.

## **Course Prerequisites**

Economics 301 is a prerequisite for the course. We will rely on tools and models from microeconomics in this class and so it is important that you are comfortable using these. If you decide to take this class, I will assume you have taken 301 and are also familiar with basic algebra and calculus.

## **Grading Policy**

Grades will be based on class participation (25%), problem sets (15%), and three in-class exams (20% each). Six problem sets will be distributed over the semester, of which only your best 5 scores will contribute to the final grade. Problem sets will be collected at the end of class, and may alternatively be submitted by 12:30pm in my mailbox on the day they are due. Class participation includes attendance, regular participation through questions and comments during lecture, and occasional quizzes.

**Midterm Exam 1:** Tuesday, October 4<sup>th</sup>, 11:00am-12:15pm

**Midterm Exam 2:** Tuesday, November 8<sup>th</sup>, 11:00am-12:15pm

**Final Exam:** Thursday, December 15<sup>th</sup>, 11:00am-12:15pm

### **Recommended Text**

Paul Krugman, Maurice Obstfeld, and Marc Melitz, *International Economics: Theory and Policy*, Pearson (available at the University Bookstore).

**Note:** The textbook is recommended. It provides a very useful reference treatment of the material we will cover in class. Other editions of the book will contain very similar material but the syllabus below lists page references for the 10th edition.

### **Frequently asked questions**

*When will lecture notes be posted?* In general, I will aim to post lecture notes online the night before class. You may bring print-outs to class and take notes on them, though it can also be valuable to take your own notes separately. My slides will provide a good outline of what is covered in each class.

*Can my friends and I work together on the problem sets?* Yes. The problem sets are intended to be learning experiences and you are encouraged to work with your classmates. However, you must submit your own problem set solutions. You may find it useful to attempt the problems on your own before working with others, as working on the problem sets is the best way for you to prepare for your exams. If you draw on another student's work without fully understanding the material, your exam performance may tend to suffer. If you have questions on lecture material, problem sets, or exams, please come and ask either me or the TA.

*How are the problem sets graded?* The problem sets are graded on a detailed numerical scale. Problem set solutions will be posted on the course web page after they are collected.

*What material will be covered on the exams?* Each exam will cover material reviewed in class to date. Recently-reviewed material will receive a larger weight on each respective exam. Exams will cover all lecture material, including in-class discussions and any extensions covered in class or in section. The specific readings that will be required for each exam will be announced well ahead of each exam date.

*What do I do if a mistake was made in grading my exam?* After the exam is returned, please submit a written account of your grading concern to the TA within two weeks.

## Course Outline and Reading List

All required readings will be available online on the class webpage. Recommended readings in the textbook are abbreviated as "K-O-M".

If you are particularly interested in a topic, you are invited to explore the other recommended readings. Some of them come from *Pop Internationalism* by Paul Krugman, *Free Trade Under Fire* (2nd edition) by Douglas Irwin, *International Trade* by Robert Feenstra and Alan Taylor, and *Intermediate Microeconomics* by Hal Varian. You can find these books in the library. Other recommended readings will be made available through links on the class webpage. The textbook by James Markusen et al. *International Trade* is out of print but is available online at <http://spot.colorado.edu/~markusen/textbook.html>.

### Tuesday, September 6. Lecture 1: Introduction

#### Recommended reading:

- K-O-M Chapter 1

### Thursday September 8. Lecture 2: Endowment Economies I

#### Recommended reading:

- K-O-M Chapter 2
- Douglas Irwin (2005), "The Welfare Cost of Autarky: Evidence from the Jeffersonian Trade Embargo," *Review of International Economics*
- Daniel Bernhofen and John Brown (2004), "A Direct Test of the Theory of Comparative Advantage: The Case of Japan," *Journal of Political Economy*

### Tuesday, September 13. Lecture 3: Endowment Economies II

#### Recommended reading:

- K-O-M Chapter 2
- R. A. Radford (1945), "The Economic Organization of a P.O.W. Camp," *Economica*

### Thursday, September 15. Lecture 4: Ricardo I

#### Problem Set 1 due

#### Recommended reading:

- K-O-M Chapter 3
- Mary Amiti and Shang-Jin Wei (2004), "Demystifying Outsourcing," *Finance and Development*
- Walker Hanlon (2015). "Necessity is the Mother of Invention: Input Supplies and Directed Technical Change," *Econometrica*

### Tuesday, September 20. Lecture 5: Ricardo II

#### Recommended reading:

- K-O-M Chapter 3
- Nick Bloom, Mirko Draca, John Van Reenen (2015). "Trade Induced Technical Change? The Impact of Chinese Imports on Innovation, IO, and Productivity," *Review of Economic Studies*

## **Thursday, September 22. Lecture 6: Ricardo III**

### **Recommended reading:**

- K-O-M Chapter 3
- Bela Belassa (1963), "An Empirical Demonstration of Classical Comparative Cost Theory," *Review of Economics and Statistics*
- Dave Donaldson (2010), "Railroads of the Raj: Estimating the Impact of Transportation Infrastructure," *American Economic Review*

## **Tuesday, September 27. Lecture 7: The Specific Factors Model I**

### **Recommended reading:**

- Paul Krugman and Robert Lawrence: "Trade, Jobs, and Wages," *Scientific American*
- K-O-M Chapter 4

## **Thursday, September 29. Lecture 8: Specific Factors Model II**

### **Problem Set 2 due**

### **Recommended reading:**

- K-O-M Chapter 4

## **Tuesday, October 4. Midterm Exam 1**

### **Recommended reading:**

- K-O-M Chapter 5

## **Thursday, October 6. Lecture 9: Hecksher-Ohlin Model I**

### **Recommended reading:**

- K-O-M Chapter 5

## **Tuesday, October 11. Lecture 10: Hecksher-Ohlin Model II**

### **Recommended reading:**

- K-O-M Chapter 5
- David Autor, David Dorn, and Gordon Hanson (2013), "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review*

## **Thursday, October 13. Lecture 11: Hecksher-Ohlin Model III**

### **Recommended reading:**

- K-O-M Chapter 5
- Trefler (1995), "The Case of Missing Trade and Other Mysteries," *American Economic Review*

## **Tuesday, October 18. Lecture 12: The Standard Trade Model I**

### **Problem Set 3 due**

### **Recommended reading:**

- K-O-M Chapter 6

## **Thursday, October 20. Lecture 13: The Standard Trade Model II**

### **Recommended reading:**

- K-O-M Chapter 6
- Claudia Steinwender (2014), "Information Frictions and the Law of One Price: `When the States and the Kingdom Became United,'" Harvard mimeo
- Robert Jensen (2007), "To Do With the Price of Fish," *The Economist*

### **Tuesday, October 25. Lecture 14: Increasing Returns I**

#### **Recommended reading:**

- K-O-M Chapter 7
- Paul Krugman (1980), "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review*
- NYTimes (2008), "Paul Krugman Wins the Nobel Prize."

### **Thursday, October 27. Lecture 15: Increasing Returns II**

#### **Recommended reading:**

- K-O-M Chapter 7

### **Tuesday, November 1. Lecture 16: Increasing Returns III**

#### **Recommended reading:**

- K-O-M Chapter 7
- Pinelopi Goldberg, Amit Khandelwal, Nina Pavcnik, Petia Topalova (2015). "Imported Intermediate Inputs and Domestic Product Growth: Evidence from India", *Quarterly Journal of Economics*

### **Thursday, November 3. Lecture 17: Trade and Migration**

#### **Problem Set 4 due**

#### **Recommended reading:**

- K-O-M Chapter 8
- George Borjas, Richard Freeman, Lawrence Katz (1996), "Searching for the Effect of Immigration on the Labor Market," *American Economic Review*

### **Tuesday, November 8. Midterm Exam 2**

### **Thursday, November 10. Lecture 18: Multinational Firms and FDI I**

#### **Recommended reading:**

- K-O-M Chapter 8

### **Tuesday, November 15. Lecture 19: Multinational Firms and FDI II**

#### **Recommended reading:**

- K-O-M Chapter 8
- Lael Brainard (1997), "An Empirical Assessment of the Proximity-Concentration Trade-Off Between Multinational Sales and Trade," *American Economic Review*

### **Thursday, November 17. Lecture 20: Multinational Firms and FDI III**

#### **Recommended reading:**

- K-O-M Chapter 8

- Pol Antras (2003), "Firms, Contracts, and Trade Structure," *Quarterly Journal of Economics*
- L. Kamran Bilir (2014), "Patent Laws, Product Lifecycle Lengths, and Multinational Activity," *American Economic Review*
- L. Kamran Bilir and Eduardo Morales (2016), "Global Firms in the Innovation Economy," Princeton mimeo.

## **Tuesday, November 22. Lecture 21: Trade Policy I**

### **Problem Set 5 due**

#### **Recommended reading:**

- K-O-M Chapter 9
- Robert Feenstra (1992), "How Costly is Protectionism?" *Journal of Economic Perspectives*
- Paul Krugman (1987), "Is Free Trade Passé?" *Journal of Economic Perspectives*

## **Tuesday, November 29. Lecture 22: Trade Policy II**

### **Recommended reading:**

- K-O-M Chapter 10
- Robert Baldwin (1989), "The Political Economy of Trade Policy," *Journal of Economic Perspectives*
- Douglas Irwin: *Free Trade Under Fire*, Chapters 5 and 6
- Alan Deardorff and Robert Stern (2000), "What the Public Should Know about Globalization and the World Trade Organization"
- Paul Krugman (1993), "The Uncomfortable Truth About NAFTA," *Foreign Affairs*

## **Thursday, December 1. Lecture 23: Trade Policy III**

### **Recommended reading:**

- K-O-M Chapter 11
- Douglas Irwin (2000), "Did Late Nineteenth-Century U.S. Tariffs Promote Infant Industries?" *Journal of Economic History*
- Jeffrey Frankel and David Romer (1993), "Does Trade Cause Growth?" *American Economic Review*

## **Tuesday, December 6. Lecture 24: Trade Policy IV**

### **Recommended reading:**

- K-O-M Chapter 12

## **Thursday, December 8. Lecture 25: Multilateral Trade Agreements**

### **Recommended reading:**

- K-O-M Chapter 19

## **Tuesday, December 13. Course Review**

### **Problem Set 6 due**

## **Thursday, December 15. Final Exam**