Course Econ 27000: International Economics (also listed as PBPL 27000)

This course covers international economics with an emphasis on international trade. The basic theories of international trade are introduced and used to analyze welfare and distributional effects of international trade, government policies, and technology diffusion. The course also discusses the main empirical patterns of international trade as well as international investment.

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Office hours:
Robert Jackman, Thursday, 3-4pm, Booth Winter Garden
Meru Bhanot, Friday, 11am-12pm, Corridor east to SHFE 146
Pablo Robles Santamarina, Monday 10:30-11:30am, Corridor east to SHFE 146 [from week 3 onwards]

Schedule: The class meets Tuesday and Thursday from 9-10:20am (Section 1) and from 10:30-11:50am (Section 2) in SHFE-146. The discussion sections are held on Monday from 4-4:50pm (Section 1) in Pick 103 and 5-5:50pm (Section 2) in SHFE 021. The midterm exam will be held in class on Thursday, February 2. The final exam will be held on a date yet to be determined during the final exam week. There will be a final exam for graduating senior students on the last day of class (March 7) in a separate room (the room will be announced in time for the exam).

Grading policy: HW 20%, Midterm 40%, Final exam 40%. These weights are final. There will not be any re-weighting (e.g., you cannot expect a higher weight on the final if you do better in the final than in the midterm; of course, your average grade goes up due to the better score on the final, but not through changes in the weights). I will count only the best 5 out of your 6 homework problem sets. Therefore it is ok to miss to submit a homework problem set for one week. If you miss the midterm due to illness, your final carries a weight of 80%. Note that this alternative weighting only applies to students who miss the midterm due to illness.

No Screen rule: No laptops or other electronic devices are allowed to be used in class during the lectures or TA sessions (unless the instructor or TAs explicitly allow their use to go over an empirical exercise). I impose this rule since these devices generate a negative externality on your fellow classmates.

Problem sets <u>are due at the beginning of the TA session</u>. The TA will discuss the problem set and hand out last week's problem set. See also the Problem Set guidelines at the end.

Textbook: A recommended textbook for the class is International Trade: Theory and Policy by Paul Krugman, Maurice Obstfeld, and Marc Melitz (Pearson, 10th edition, henceforth KOM). Note: this is the "green book" (there also exist a "blue book" called International Economics by the same authors, which includes additional material that is not needed for this class). The textbook will be particularly useful for the first 5 weeks of class. The book is recommended but not required. In addition, we will frequently discuss chapters from "Pop Internationalism," by Paul Krugman. While the book is from 1997, it is very well written and discusses many misconceptions of international trade. It will provide a good basis for in-class discussion. Also it is interesting to see the perspectives taken by the author in 1997.

Warning: The syllabus will likely be updated during the quarter. The assignment of weeks to topics is tentative.

Outline of topics: The following list summarizes the topics and readings by week. I may deviate from this schedule if more time is required for a certain topic or add an additional topic if time remains. I may add additional readings to the list.

1. Overview of the class and facts (January 3)
   Readings:
   - KOM chapters 1 and 2;
2. Endowment economy models (weeks 1-2)
   Readings:
   - Background reading: Markusen chapter 3 (a review of properties of indifference curves and utility maximization)
     http://www.colorado.edu/Economics/courses/Markusen/textbook/mmkm1.pdf;
   - Anderson and van Wincoop (2003), Gravity with Gravitas: A Solution to the Border Puzzle, *American Economic Review*, 93(1), 170-192 [only the model part of the paper];
3. The Ricardian trade model (weeks 2-3)
   Readings:
   - KOM chapter 3;
   - Samuelson (2004): Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization, *Journal of Economic Perspectives*, 18(3), 135-146.
4. The specific-factor model (weeks 3-4)
   Readings:
   - KOM chapter 4;
5. Trade models with increasing returns (week 4-5)

External economies of scale, Intra-industry trade, Home market effect, Selection effect

Readings:

- KOM chapters 7 and 8;
- Krugman (1979), Increasing Returns, Monopolistic Competition, and International Trade, *Journal of International Economics*, 9(4), 469-479;
- Additional readings (not required):
    o Krugman (1980), Scale Economies, Product Differentiation, and the Pattern of Trade, *American Economic Review*, 70(5), 950-959;
    o Melitz and Trefler (2012), Gains from Trade when Firms Matter, *Journal of Economic Perspectives*, 26(2), 91-118*;*
    o Melitz (2003), The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity, *Econometrica*, 71(6), 1695-1725.

6. Digression: Empirical work in Economics (week 6)
    - Regression, IV , Calibration

7. Empirical work in International Economics (week 7-8)
    - Testing the Ricardian Trade model:
        o Costinot and Donaldson (2012), Ricardo's Theory of Comparative Advantage: Old Idea, New Evidence, *American Economic Review*, 102(3): 453-58.
        o Bernhofen and Brown (2004), A Direct Test of the Theory of Comparative Advantage: The Case of Japan, *Journal of Political Economy*, 112:1, 48-67
    - Labor market effects of international trade:
        o Autor, Dorn, and Hanson (2013), The China Syndrome: Local Labor Market Effects of Import Competition in the United States, American Economic Review, Vol. 103 (6), 2121-2168
        o Hummels, Jorgensen, Munch, and Xiang (2014), The Wage Effects of Offshoring: Evidence from Danish Matched Worker-Firm Data, *American Economic Review*, 104(6), 1597-1629.
    - Labor market effects of immigration:
        o Borjas (2014), Immigration Economics, Harvard University Press (chapters 4 and 5)
        o Card (1990), The Impact of the Mariel Boatlift on the Miami Labor Market, *ILR Review*, 43, issue 2, p. 245-257.
        o Card and Peri (2016), *Immigration Economics by* George J. Borjas: A Review Essay, *Journal of Economic Literature*, 54(4): 1333-49.

8. Trade policy (week 8-9)

    Readings:
    - KOM chapters 9 and 10.

9. Multinational firms (week 9-10)
   Readings:
   - KOM chapter 8;
   - Helpman (2011), Understanding Global Trade, Chapter 6 (available on Chalk – Library Course Reserves).
   - Antras and Yeaple (2014), Multinational Firms and the Structure of International Trade, Handbook of International Economics, 2014, Vol 4, p. 55-130
   - Helpman, Melitz, and Yeaple (2004), Export Versus FDI with Heterogeneous Firms, American Economic Review, 94, 300-316.

Problem Set Guidelines

1. You are encouraged to work on your problem sets in **groups of up to three**, but **every** student must hand in an individual copy of the problem set.

2. All group members should be active in group sessions. Do not just watch others anticipating for answers and encourage your friends to be active if they are not.

3. Write the names of all group members clearly on top of the first page. If your name is not readable, your problem set will not be graded!

4. Each group should hand in all write-ups from its members TOGETHER!

5. Mark the final answer to each question clearly. If appropriate, include the final answer to each question in a BOX.

6. Use the notation established in the problem.

7. Write your answers as neatly and clearly as possible. You will not receive points if your answer is not readable.

8. Use a ruler and different colors to draw your plots. Also, please avoid drawing small graphs. The more content you want to display on a single graph, the larger the graph must be.

9. Staple all pages before handing them in. You do not want some of the work you have worked hard on to be lost.

10. You may work in groups, but do not just copy each other's work. Answers should be a balance of discussion and work among your peers, and you should turn in individual answers. If answers are typed, the graphs may be shared, but the answers still need to be your own.