ECON-143 INTERNATIONAL TRADE

Syllabus: *beta version* (final version to be distributed in first lecture)
TBA = to be announced

Office Hours: TBA
Office: TBA
Teaching Assistant: TBA
TA's Office Hours: TBA

Prerequisite

ECON 001 (Micro Principles), or equivalent

Required Texts

Paul Krugman and Maurice Obstfeld
Addison Wesley Longman, 2000

Linda Goldberg, Michael Klein, and Jay Shambaugh
Addison Wesley Longman, 2000

Useful Reference Books

Henry Thompson
*International Economics: Global Markets and International Competition*
World Scientific, 2000 (an introductory level textbook)

Markusen, Melvin, Kaempfer and Maskus
(a more advanced textbook)

your Econ 001 textbook, to review the basic microeconomics

Recommended Periodicals

*The Economist, Wall Street Journal, Financial Times*
Exams:

Midterm 1: TBA, in class
Midterm 2: TBA, in class
Final: TBA

Grading:

Problem Sets: 18%
1st Midterm Exam: 21% (non-cumulative)
2nd Midterm Exam: 21% (non-cumulative)
Final Exam: 40% (cumulative)

discounting schedule for problem sets handed in late:
after deadline time (usually beginning of class), to end of following day: 30% off
2 days late: 50% off
3-5 days late: 70% off
no problem sets accepted thenceforth

Honor Code

You have committed to uphold the Honor Code. (http://www.georgetown.edu/honor)

Course Objective

Should a country pursue free trade or protect its domestic industry and employment from foreign competition? Should a country be open to immigrant workers? Is the NAFTA good for the U.S.? What is the WTO doing to the environment? How do policies affect interest groups? There are countless questions surrounding a nation in the international economy, with a diversity of arguments and opinions. There are those who take certain positions for political purposes, using convenient reasoning that sound appealing to the public. Are their justifications correct? You may hear politicians, businessmen and economists with conflicting views. Where does the truth lie? You need to judge by yourself.

The purpose of the course is to equip you with the ability to objectively analyze issues in the international economy. Therefore, the first part of the course consists of training in the tool of analysis, economic theory. Theory allows you to identify how different factors are related. Theory enables you to see mechanisms and effects that you have ignored, and put weights on the gains of losses of different groups. Theory is then applied to specific policy problems, and how you can objectively argue is demonstrated. The latter part of the course will involve class discussions, looking into trade issues for developing countries and for developed countries.
Course Outline

Required readings from the textbook are indicated below. Other materials for reading will be distributed as handouts in class.

I. Introduction
(Reading: Text Chapter 1)

II. Basic Theories/Models of International Trade and Some Applications

Ricardian Model
(Reading: Text Chapter 2)
- trade caused by difference in production technology of countries
- how a country gains from trade
- assessments of some of the common statements concerning trade

Specific Factors Model
(Reading: Text Chapter 3)
- trade caused by difference in resources of countries
- effect of trade on different factors of production
- interest group politics among different factor owners
(specific factors model as theory appropriate for the short-run period)

Heckscher-Ohlin Model
(Reading: Text Chapter 4)
- trade caused by difference in resources of countries
- effect of trade on domestic income distribution and interest group politics
(Heckscher-Ohlin model as theory appropriate for the long-run period)

Standard Trade Model
(Reading: Text Chapter 5)
- effect of economic growth on trade and a country's welfare
- effect of trade intervention (such as tariff and export subsidy) on the country and its trading partner

Economies of Scale and Trade
(Reading: Text Chapter 6)
- trade between similar countries: how trade can occur and be beneficial even if countries have identical technologies and resource endowments
- economics of dumping
- "first-comer advantage" in production (history as a cause of trade) and cases in which trade is harmful to a country
- protection of infant industry
III. **International Labor and Capital Movements**  
(Reading: Text Chapter 7)  
- migration of labor: good or bad?  
- foreign direct investment and multinational firms  
*Case Study*: Immigrant Workers in the Netherlands

IV. **International Trade Policy**  

Instruments of Trade Policy  
(Reading: Text Chapter 8)  
- effective rate of protection of an industry  
- effect of tariff, export subsidy, import quota, and VER (voluntary export restraint): who gains and who loses?  
- non-tariff barriers (NTB)  
*Case Study*: Europe's Agricultural Protection

Political Economy of Trade Policy  
(Reading: Text Chapter 9)  
- arguments for and against free trade  
- international trade agreements (WTO, EU, NAFTA): why they are necessary - an application of the prisoner's dilemma situation of game theory  
*Case Study*: Trade and Environment/Labor Standards

V. **Topics**

Trade Issues for Developing Countries  
(Reading: Text Chapter 10)  
- industrialization and infant industry protection  
- dualism and urban unemployment  
- the North-South debate and technology transfer

Trade Issues for Developed Countries  
(Reading: Text Chapter 11)  
- industrial policy: flawed criteria and sensible criteria  
- the Brander-Spencer argument for strategic trade policy, and its flaws  
*Case Study*: Boeing versus Airbus