



vikram kumar • vanderbilt summer in london • 2007

International Trade

vanderbilt university at birkbeck college • university of london

Objective

The objective of this course is to provide a comprehensive understanding of the causes and effects of trade between countries. The theories of gains made possible by free trade, the distinct patterns of international commodity flows, and changes in domestic income distribution that occur as a consequence of international exchange are analyzed. Furthermore, the effects of trade-restrictive commercial policies such as tariffs and quotas are studied. With this background of trade theory and policy, the controversial debate of free trade versus protectionism is explored, and special international trade relationships formalized in the EU and NAFTA are reviewed.

Requirements

- Mid-Term Examination: 33%.
- Final Exam: 67%.

Text

P. R. Krugman and M. Obstfeld, *International Economics: Theory and Policy*, 7th edition, 2006. Addison-Wesley: Massachusetts. ISBN 0-321-27884-4. This text is referred to as 'KO' in the Course Content section.

Readings

A handouts binder will supplement most lectures. Additional readings, some listed on the next page, will be distributed to you in class.

Web Resources

Several useful websites can be directly accessed from the links page off my homepage at: <http://www.davidson.edu/academic/economics/kumar/My%20Links.htm>. Some useful URLs are provided on the next page. When you have the opportunity to do so, please explore the web to get a good sense of the resources available.

Note

All scheduled activities, including guest lectures and field trips, pertinent to this course will be determined by the Program Director.

Supplementary Readings

The following readings are included in your handouts pack, provided to you in class.

- R1 D. A. Irwin, "GATT Turns 60," *Wall Street Journal*, April 9, 2007.
- R2 K. Wingfield, "Bilaterals: Bad for Business," *Wall Street Journal*, April 26, 2007.
- R3 "The trade two-step," *The Economist*, April 4, 2007.
- R4 S. Lueck et. al., "Bush, Congress Agree On Trade Standards," *Wall Street Journal*, May 11, 2007.
- R5 S. E. Eizenstat and G. D. Aldonas, "Changing the Global Architecture," *Wall Street Journal*, May 22, 2007.
- R6 René Stulz, "The Limits of Financial Globalization," MorganStanley.com, April 02, 2007.
- R7 "Third thoughts on foreign capital," *The Economist*, Nov 16, 2006.
- R8 R. A. Cass, "Drug Patent Piracy," *Wall Street Journal*, May 7, 2007.
- R9 F. Zakaria, "The Democrats' Trade Troubles," *Newsweek*, May 21, 2007.
- R10 A. Batson, "China Adds Steel Duties to Curb Exports," *Wall Street Journal*, May 22, 2007.
- R11 "Trade Winds," *The Economist*, November 6, 1997.

Useful Websites

US	Office of Trade and Economic Analysis US Trade Representative US International Trade Commission US Customs	www.ita.doc.gov www.ustr.gov www.usitc.gov www.customs.ustreas.gov
UK	Office of National Statistics: National Accounts Database Department of Trade and Industry: Foreign Trade	www.statistics.gov.uk/themes/economy/default.asp www.dti.gov.uk
EU	European Parliament EU Economic, Social, and Financial Data	europa.eu.int europa.eu.int/en/comm/eurostat
World	World Trade Organization	www.wto.org

Course Content

I. Introduction

OVERVIEW OF THE WORLD TODAY

Gains from Trade, Patterns of Trade
Empirical Dimensions of Trade
The Gravity Model
On Rules of Origin

**KO: CH 1: PP. 1-6
& chapter 2**



II. Comparative Advantage: The Ricardian Model

THE MEN AND THEIR VIEWS

Adam Smith and Absolute Advantage
David Ricardo and Comparative Advantage

THE RICARDIAN THEORY

Defining Absolute and Comparative Advantage
Before Trade: Prices, Wages, and Output
After Trade: Equilibrium World Price, Gains, Relative Wages
Slaying Myths

EMPIRICAL EVIDENCE ON THE RICARDIAN MODEL

Balassa and MacDougall Studies, Productivity and Cost
Productivity and Global Competition

**KO: chapter 3
PP. 24-40, 45-47**



III. Resources, Comparative Advantage, Income Distribution: The Heckscher-Ohlin Model

MODEL BASICS

Factor Abundance and Factor Intensity
Factor Prices, Factor Intensity, and Goods Prices
Output and Resources: The Rybczynski Effect

INTERNATIONAL TRADE

Relative Prices, Patterns of Trade
Distribution of Income and Gains from Trade
Factor Price Equalization, Factor Content of Trade
Trade and the Short-Run Distribution of Income: Specific Factors

EMPIRICAL EVIDENCE

The Leontief Paradox, Factor Content Tests
North-South Trade

**KO: chapter 4
APP. TO CH. 4**



IV. Modern Theories of Trade

KO: chapter 6

INTRA-INDUSTRY TRADE

Measuring Intra-Industry Trade

Determinants of Intra-Industry Trade

TRADE WITH ECONOMIES OF SCALE

Internal v. External Economies of Scale

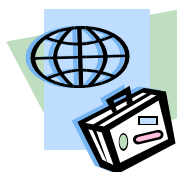
Economies of Scale and Market Structure

Pattern of Trade: Explaining IIT

DUMPING

The Economics of Dumping

Reciprocal Dumping



V. International Factor Movements

KO: chapter 7

INTERNATIONAL LABOR MOBILITY

Marginal Productivity and Wage Equalization

Domestic Income Distribution

INTERNATIONAL CAPITAL FLOWS

A. Financial Portfolio Investment

The Role of Interest Rates

Inter-Temporal Comparative Advantage

B. Foreign Direct Investment

Examining Multinationals

FDI in the US



VI. Trade Policy

KO: chapter 8

TARIFFS

Large v. Small Countries

Nominal v. Effective Rate of Protection

Costs and Benefits of a Tariff

EXPORT SUBSIDY

Costs and Benefits of a Subsidy

EU's Common Agricultural Policy

QUOTAS

Effects of Quotas; Tariff Equivalent of a Quota

US Sugar Industry

OTHER: Voluntary Export Restraint (VER), Local Content Requirements



VII. The Politics of Trade Policy

THE CASE FOR FREE TRADE

Efficiency, Dynamic Efficiency

THE CASE FOR PROTECTION

Terms-of-Trade Argument: Optimum Tariff

Domestic Market Failure Argument

DOMESTIC POLITICAL CONSIDERATIONS

The Median Voter Model

Collective Action

KO: chapter 9

PP.207-222

VIII. Economic Integration

INTERNATIONAL TRADE RELATIONS

Negotiations: Prisoner's Dilemma

GATT and WTO

PREFERENTIAL TRADE RELATIONS

Free Trade Areas

Customs Unions

KO: chapter 9

PP.223-237



IX. Trade Policy in Developing Countries

IMPORT SUBSTITUTION

Import Substitution and Industrialization

Problems with Import Substitution Policies

TRADE LIBERALIZATION

Export Led Industrialization

KO: chapter 10