

**WWS 301/ECO 352
INTERNATIONAL TRADE
SYLLABUS**

- Lectures: Tuesdays and Thursdays, 10 a.m. – 10:50 a.m., 023 Robertson
- Precepts: Tuesdays, 11 a.m. – 11:50 a.m., TBA
Tuesdays, 12:30 a.m. – 1:20 p.m., TBA
- Professor: Silvia Weyerbrock, office: 227 Julis Romo Rabinowitz Building, extension: 258-0178
Email: sweyerbr@princeton.edu (please use E-mail whenever possible)
Office hours: Tuesdays, 3-5 pm
Please sign up on WASS.
- Preceptor: Federico Huneeus, office hours: A74 Julis Romo Rabinowitz Building
Email: fhuneeus@princeton.edu
Office hours: Wednesdays, 4-6 pm (starting February 15)

Course Description:

This course concerns the microeconomics and political economy of international trade and foreign direct investment. The first part of the course focuses on trade theory. We explore why countries trade, what they trade, and who gains and who loses from trade. Topics include trade and growth, trade and income inequality, but also labor migration as well as FDI, offshoring and outsourcing. The second part of the course focuses on trade policy. We study the motives, both economic and political, for countries or organizations to restrict or regulate international trade and study the effects of such policies on economic welfare. The third part of the course will focus on issues such as multilateral trade negotiations, regional economic integration, trade policies in developing countries, and the current trade debate. We will ask, among others: Is there any point to the WTO? Do regional trade deals such as NAFTA and TPP hurt the U.S.? What are the trade and investment effects of Brexit? Should governments use trade and industrial policies to promote domestic firms and “pick winners”?

Course Prerequisites:

MAT 103 and intermediate microeconomics (WWS 300, ECO 300 or ECO 310). We will rely on economic modeling to understand past and current trade-related events. We will use basic algebra and calculus and intermediate micro tools; it is important that you are familiar with these tools and know how to use them.

Readings:

Required for purchase:

Krugman, Paul R., Maurice Obstfeld and Marc J. Melitz (2014) *International Economics: Theory and Policy*. Ninth Edition. Addison Wesley [KOM]. Available at the Princeton University Store.

Recommended for purchase:

Irwin, Douglas (2015) *Free Trade under Fire*. Fourth Edition. Princeton University Press. (Up-to-date, non-technical assessment of trade debate).

Required readings:

The tentative course schedule includes specific information on required readings. Chapters from Krugman/Obstfeld/Melitz and Irwin and articles from the Economist are always required. I will indicate in class whether a journal article is required or recommended. All journal articles will be on electronic reserve.

Students should also keep up with international economic news. Excellent sources are the Economist and newspapers such as the Financial Times, the Wall Street Journal, or the New York Times.

Recommended readings:

In addition to recommended journal articles, students may find it useful to consult other books to reinforce the material or to get a different perspective on trade theory and policy. These books will be on reserve in Stokes Library.

Shambaugh, Jay C., Linda S. Goldberg and Michael W. Klein (2008) *Study Guide to Accompany International Economics: Theory and Policy*, 8th Edition. Addison-Wesley. (This study guide includes chapter summaries and practice problems for an older edition of the textbook).

Feenstra, Robert C., and Alan M. Taylor (2014) *International Trade*, 3rd Edition. New York: Worth Publishers. (Alternative undergraduate textbook).

Helpman, Elhanan (2011) *Understanding Global Trade*. Harvard University Press. (Non-technical intro to international trade and the organization of production across boundaries).

Problem sets and exams will be based on “required” material, whether or not this material gets covered in lectures or precepts. “Recommended” readings help you to get a more comprehensive understanding of trade.

Information on the web:

The Blackboard site for this course will include the syllabus, a course calendar, problem sets and answer keys, and links to electronic reserves and some interesting sites on the web. Slides will be posted after the lectures under course materials.

Course Requirements:

The grade for this course will be based on problem sets, a midterm, a final exam and participation in class and precepts.

There will be five problem sets (see the schedule below). Each problem set will be posted on the course web page one week before its due date. Problem sets will be due *in class* on the day specified. We are not responsible for problem sets left in our mailboxes and do not accept E-mail or fax submissions. Please

note that we will not accept late problem sets; instead we will use the points from your best four problem sets to calculate your course grade. Therefore, you may miss one problem set without any penalty; this is intended to cover all reasons including sickness and other work.

Group work on problem sets is permitted and even encouraged. All I ask is that your individual problem set submission reflects your genuine understanding and not merely what a fellow student told you. You may also use office hours for the preceptor or me for your difficulties concerning problem sets. Please come prepared.

The midterm will be a 50-minute, in-class exam on Thursday, March 16. The final will be a three-hour exam during the exam period. Both exams are closed book and under the University's Honor Code. I will hand out study guides for both exams. Practice problems for the midterms will be discussed in the precepts during the 6th week of classes. There will be a review for the final exam during the reading period in May.

Assignment	Date posted	Date due	Percent in final grade
Problem set #1	Thursday, February 9	Thursday, February 16	*
Problem set #2	Thursday, February 23	Thursday, March 2	*
Midterm	--	Thursday, March 16	25
Problem set #3	Thursday, March 30	Thursday, April 6	*
Problem set #4	Thursday, April 13	Thursday, April 20	*
Problem set #5	Thursday, April 27	Thursday, May 4	*
Final	--	TBA	45
Participation	--	--	5

*25% weight for problem sets; best four problem sets used for calculation of overall course grade.

The above table shows how final grades will be calculated. There will be no extra-credit assignments. Any re-grading requests for problem sets and exams must be made within two weeks from the date the graded answers are made available. Please contact the preceptor first. If you cannot resolve the grading issue with the preceptor please send me an email detailing how your work has been mis-graded. I will then (irreversibly) re-grade the *entire* assignment in question.

Lectures and Precepts:

The precepts will be complementary to the lectures. For roughly the first half of the term, the precepts will be more technical, giving details of the ideas developed in the lectures. During the second half, precepts will focus on specific issues related to trade policy or trade relations. Precepts may also be used to discuss problem set solutions and to prepare for exams. Lectures and precepts are NOT substitutes for required readings. Often the two are complements. There will be no precepts during the first and last week of classes. There will be a review session during reading period (in place of precepts during the last week of classes).

Course Topics and Readings

Additional Economist articles on current trade events may be added throughout semester.

Updated readings may be found under Course Materials on Blackboard.

1. Introduction

KOM, chapters 1 and 2

Irwin, chapter 1 (The United States in the Global Economy?)

Krugman, Paul (1993) "What Do Undergrads Need to Know about Trade?" *American Economic Review* 83 (2): 23-26.

Hanson, Gordon H. (2012) "The Rise of the Middle Kingdoms: Emerging Economies in Global Trade." *Journal of Economic Perspectives*, 26(2): 41-64.

Economist, "Briefing - Donald Trump's trade bluster: Dealing with Donald." December 16th, 2016.

Economist, "Free exchange: the humble hero." May 18th, 2013.

2. Labor Productivity and Comparative Advantage: The Ricardian Model

KOM, chapter 3, chapter 12: 280-282

Irwin, chapter 2 (The Case for Free Trade: Old Theories, New Evidence)

Krugman, Paul "Ricardo's difficult idea." <http://web.mit.edu/krugman/www/ricardo.htm>

Eaton, Jonathan and Samuel Kortum (2012) "Putting Ricardo to Work." *Journal of Economic Perspectives*, 26(2): 65-90.

Economist, "Schools brief: The miracle of trade." January 6th, 1996.

3. Specific Factors and Income Distribution: The Ricardo-Viner Model

KOM, chapter 4: 50-68

4. Resources and Trade: The Heckscher-Ohlin Model (Including Trade and Wages)

KOM, chapter 5, chapter 12: 299-302

Irwin, chapter 4 (Trade, Jobs and Income Distribution)

Freeman, Richard (1995) "Are Your Wages Set in Beijing?" *Journal of Economic Perspectives*, 9(3): 15-32.

Autor, David H., David Dorn, and Gordon H. Hanson (2016) "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade." NBER Working Paper Series 21906. <http://www.nber.org/papers/w21906>

Economist, "Economics brief – Six big ideas: An inconvenient iota of truth." August 6th, 2016.

Economist, "Economic focus: Trade and wages." December 6th, 1996

Economist, "Economic focus: Krugman's conundrum." April 19th, 2008.

Economist, "Free exchange: Trade in the balance." February 6th, 2016.

5. The Standard Trade Model: Welfare Effects of TOT Changes and Economic Growth

KOM, chapter 6

Krugman, Paul "Does Third World Growth Hurt First World Prosperity?" *Harvard Business Review* (July-August 1994): 113-121.

6. Economies of Scale and International Trade

External Economies of Scale and the International Location of Production
Internal Economies of Scale and Trade (Monopolistic Competition and Oligopoly)
Dumping, Reciprocal Dumping and Antidumping

KOM, chapters 7 and 8, postscript to chapter 8

Irwin, chapter 5 (Antidumping and the Escape Clause)

Helpman, chapters 4 and 5 (Scale and Scope and Across Firms within Industries)

Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding and Peter K. Schott (2007) "Firms in International Trade." *Journal of Economic Perspectives*, 21(3): 105-130.

Melitz, Marc J. and Daniel Trefler (2012) "Gains from Trade When Firms Matter." *Journal of Economic Perspectives*, 26(2): 91-118.

Economist, "Free exchange: Dumping and tub-thumping." April 9th, 2016.

7. Labor Migration

KOM, chapter 4: 70-76

Peri, Giovanni (2016) "Immigrants, Productivity, and Labor Markets." *Journal of Economic Perspectives*, 30(4): 3-30.

Gibson, John and David McKenzie (2011) "Eight Questions about Brain Drain." *Journal of Economic Perspectives*, 25(3): 107-128.

Economist, "Special report: The world economy – Migration: Needed but not wanted." October 1st, 2016.

Economist, "Poor-world migration: The beautiful south." December 24th, 2016.

Economist, "Economic focus: Drain or gain?" May 28th, 2011.

8. Foreign Direct Investment and Outsourcing

KOM, chapter 8: 190-200

Helpman, chapter 6 (Offshoring and Outsourcing)

Bhagwati, Jagdish, Arvind Panagariya, and T.N. Srinivasan (2004) "The Muddles over Outsourcing." *Journal of Economic Perspectives*, 18(4): 93-104.

Timmer, Marcel P., Abdul Asees Erumban, Bart Los, Robert Stehrer, and Gaaitzen J. de Vries (2014) "Slicing Up Global Value Chains." *Journal of Economic Perspectives*, 28(2): 99-118.

Economist, "Briefing – Multinationals: The retreat of the global company." January 28th, 2017.

9. Instruments of Trade Policy

Tariffs and Import Quotas

Export Subsidies and Voluntary Export Restraint Agreements

Regulations and Standards (Technical Barriers to Trade, Labor Standards)

KOM, chapter 9 (including appendix), chapter 12: 302-303

Golub, Stephen S. (1997) "Are International Labor Standards Needed to Prevent Social Dumping?" *Finance and Development*, December: 20-23.

<http://www.swarthmore.edu/SocSci/sgolub1/golub.pdf>

Tokarick, Stephen (2008) "Dispelling Some Misconceptions about Agricultural Trade Liberalization." *Journal of Economic Perspectives*, 22(1): 199-216.

10. Political Economy of Trade Policy

KOM, chapter 10: 237-251

Irwin, chapter 3 (Protectionism: Economic Costs, Political Benefits?)
 Krugman, Paul R. (1987) "Is Free Trade Passé?" *Journal of Economic Perspectives*, 1(2): 131-144.
 Economist, "Briefing - The global revival of industrial policy: Picking winners, saving losers." August 7th, 2010.
 Economist, "Economic focus: Tinker, tailor." October 1st, 2011.
 Economist, "Briefing – Globalization and politics: Drawbridges up." July 30th, 2016.
 Economist, "Special report: The world economy – Free trade: Coming and going." October 1st, 2016.

11. Multilateral Trade Negotiations and the WTO

KOM, chapter 10: 252-263; KOM, chapter 12: 303-304
 Irwin, chapter 7: 239-281 (The World Trading System)
 WTO, *Understanding the WTO*, http://www.wto.org/english/thewto_e/whatis_e/tif_e/tif_e.htm
 Baldwin, Richard (2016) "The World Trade Organization and the Future of Multilateralism." *Journal of Economic Perspectives*, 30(1): 95-116.
 Economist, "Economic focus: Is there any point to the WTO?" August 6th, 2005.
 Economist, "Economic focus: The Doha dilemma." May 31st, 2008.

12. Regional Economic Integration

KOM, chapter 10: 263-267
 Irwin, chapter 7: 281-294 (The World Trading System)
 Krueger, Anne O. (1999) "Are Preferential Trading Arrangements Trade-Liberalizing or Protectionist?" *Journal of Economic Perspectives*, 13(4): 105-124.
 Krishna, Pravin (2012) Preferential Trade Agreements and the World Trade System: A Multilateral View. NBER Working Paper Series, Working Paper 17840, <http://www.nber.org/papers/w17840>
 Economist, "Free exchange: Building blocks." December 22nd, 2012.
 Economist, "Free exchange: Game of zones." March 21st, 2015.
 Economist, "The collapse of TPP: Trading down." November 19th, 2016.
 Economist, "Sino-American trade: Rules of engagement." January 28th, 2017.
 Economist, "Brexit brief: The economic consequences." April 9th, 2016.
 Economist, "Trade within Africa: Tear down these walls." February 27th, 2016.

13. Trade and Development (depending on student interest)

KOM, chapter 11
 Irwin, chapter 6 (Developing Countries and Open Markets)

14. Trade and Environment (depending on student interest)

KOM, chapter 12: 305-310
 Irwin, chapter 2: 63-74, chapter 7: 269-281

15. Strategic Trade Policy (depending on student interests)

KOM: chapter 12: 290-298