

ECON 513 International Trade

Course Syllabus

Semester: Fall 2022

Meeting Times: Tuesdays and Thursdays, 11:00 AM – 12:20, DKH 215B

Instructor: Professor Andrew Garin

Email: agarin@illinois.edu

Office Location: DKH 101D

Office Drop-in Hours: Mondays 4:00-5:00 PM

Changes to office hours will be announced to students during the class meeting time before, by email, and/or on the course website. It is always a good idea to indicate via email or in-person your intention to visit office hours as I may have appointments with other students during that time. If your class schedule does not allow you visit office hours during this time, please discuss with me as we may schedule another time to meet. I reserve the right to change the office hours schedule if there is sufficient demand, and this will be announced to students.

Course Description

This course will examine the causes and consequences of international trade. We will combine microeconomic models and empirical methods to understand the reasons nations trade, who gains from trade, and how firm and consumer-level behavior impact overall patterns of trade. Building on these frameworks, we will study how trade flows are impacted by changes in policy (e.g. tariffs and other institutions), technology, and economic development, and assess what the welfare implications of these changes are.

Prerequisites

First-year MSPE core or equivalent (Calculus-based microeconomics, econometrics).

Course Goals

- **Familiarize students with core concepts in economics of international trade and trade policy**
- **Model-based reasoning:** Students will learn how to use formal models to understand patterns in the data and policy effects and develop understanding of how results depend on underlying assumptions.
- **Data-driven analysis:** Students will develop skills analyzing and presenting trade-related datasets. Specifically, students will gain experience using economy theory to guide empirical analysis, and using data to assess economic theories.
- **Provide opportunity to develop presentation and exposition skills**

Course Structure:

The course will be a lecture, combined with activities and discussion. A small number of lectures will be virtual on Zoom and/or asynchronous. Discussion will be encouraged in class. Students are expected to attend all meetings. Each week, students will be required to submit responses to brief discussion questions about required reading. Classes will involve interactive “clicker” polls using apps. Phones should not be out during class except during activities involving apps.

Student Code pertaining to student attendance: http://studentcode.illinois.edu/article1_part5_1-501.html
Office of the Dean of Students helps to assist students navigate the Student Code and course policies. If students will be absent for an extended period of time, they should discuss with this office:
<http://odos.illinois.edu/>

Website

We will use the course space on Illinois Canvas: <https://canvas.illinois.edu>

Textbook/Other Required Materials

The course will follow the *International Economics: Theory and Policy* textbook by Krugman, Obstfeld, and Melitz, 11th edition, Addison Wesley. The textbook is required reading for the class.

Buying new is expensive, so students are encouraged to use the ebook:

https://www.pearson.com/store/p/international-economics-theory-and-policy/P100000922429/9780136879039?creative=455509276265&keyword=&matchtype=&network=g&device=c&gclid=Cj0KCQjwv5BRDkARIsAGD9vIJ6cdS0oMhtGkmfg8D5K205oohueNYDiviDLrHzzx9Wk6fUfK-lpf0aAijzEALw_wcB

Cheap international editions are available online as well. There is an older 10th edition that is similar, but with somewhat outdated case studies in some parts.

There will be also be required articles to read for each week, usually pieces that review of the literature or non-technical overviews of topics. All readings will be posted online on the course Canvas website.

Required Assignments

- **Problem Sets:** There will be five problem sets assigned during the semester. These will include analytics exercises, hands-on empirical exercises using STATA, and expository writing exercises. Problem sets will vary in length and grading weight.
- **Weekly Discussion Questions:** Before each Tuesday lecture, students are required to submit responses to discussion questions on course blog about required reading to ensure preparation for discussion in class.
- **Midterm: Will be held in class on October 13**
- **Final Exam: Date TBD.** Half of the exam will be about material covered since midterm, the other half of the exam will review course material as a whole.

Assessment Policies:

Problem sets are to be turned in at the beginning of the class in which they are due, and discussion questions answers must be submitted online 1 hour before lecture begins. Late assignments receive *no* credit without an instructor approved excuse. Acceptable excuses include physical and mental illness, and personal or family emergencies. A written request for an extension must be submitted at least 48 hours in advance.

Assignments should be submitted through the course Canvas site as a single file digital attachment (a scan or a document file). You are encouraged to work as a group with your classmates on problems sets, although you have to hand in your own solutions.

Note that we cannot grade assignments that we cannot read. Consequently, please be careful to make all assignments legible.

Exam Policy:

In the event that a student misses one of the exams, the instructor reserves the right to give the student a zero on that exam. There are no make-up exams without an instructor approved excuse. Instructor approved excuses

include 1) medical reasons, in which case you should bring a letter from a medical professional describing your reason for missing the exam, 2) death or serious illness of an immediate family member or close friend (documentation required), or 3) conflict with a religious holiday. Requests for exam make-ups should be made as far in advance as possible.

We will follow the University guidelines on student conflicts with final exams. For this year's student code, see *Student Code Evening/Midterm/Hourly Exams*: http://studentcode.illinois.edu/article3_part2_3-202.html
Student Code Final Exams: http://studentcode.illinois.edu/article3_part2_3-201.html

Regrades:

All regrade requests must be submitted in writing no more than one week after the assignment or exam is returned. The request must be written and include a detailed summary of why the student believes the grade they received was incorrect. I generally regrade the entire exam or assignment, so the grade may go up or down. Consequently, students should only request a regrade if they are very confident that the original grade they received was incorrect.

Grading

Grades will be on a +/- letter scale and will follow a light curve.

Exams will be scored on the full 0–100 scale, not a truncated 60–100 or some such scale. So do not panic if your numerical score is low.

Problem sets will be graded by the problem (which may have many parts), not the entire problem set—each individual problem will be on a 10-point scale. Longer problems may carry double weight (or more) if noted. Discussion questions will be factored into the participation grade. I will check whether students give reasonably thoughtful answers but provide no grades otherwise. If a student's answers demonstrate insufficient effort or understanding to warrant credit, I will notify that student accordingly,

Semester grades will be based on the following:

- Midterm—20%
- Final Exam—35%
- Reading Response—10%
- Problem Sets—25%
- Participation—10%

Academic Assistance

Students are encouraged to utilize the many resources we have throughout campus to assist with academics. We recommend that you seek them out starting early in the semester, not just in times of academic need, in order to develop good study habits and submit work which represents your full academic potential. Many resources may be located on the Economics Website, including information about the Economics Tutoring Center, other tutoring centers, : <http://www.economics.illinois.edu/undergrad/resources/accassistance/>

Academic Integrity

According to the Student Code, 'It is the responsibility of each student to refrain from infractions of academic integrity, from conduct that may lead to suspicion of such infractions, and from conduct that aids others in such infractions.' Please know that it is my responsibility as an instructor to uphold the academic integrity policy of the University, which can be found here: http://studentcode.illinois.edu/article1_part4_1-401.html

Academic dishonesty may result in a failing grade. Every student is expected to review and abide by the Academic Integrity Policies. Ignorance is not an excuse for any academic dishonesty. It is your responsibility to read this policy to avoid any misunderstanding. Do not hesitate to ask the instructor(s) if you are ever in doubt about what constitutes plagiarism, cheating, or any other breach of academic integrity.

Read the full Student Code at the following URL: <http://studentcode.illinois.edu/>

Students with Disabilities

To obtain disability-related academic adjustments and/or auxiliary aids, students with disabilities must contact the course instructor and the Disability Resources and Educational Services (DRES) as soon as possible. To contact DRES you may visit 1207 S. Oak St., Champaign, call 333-4603 (V/TTY), or e-mail a message to disability@illinois.edu DRES Website: www.disability.illinois.edu/

Emergency Response Recommendations

Emergency response recommendations can be found at the following website: <http://police.illinois.edu/emergency-preparedness/>. I encourage you to review this website and the campus building floor plans website within the first 10 days of class. <http://police.illinois.edu/emergency-preparedness/building-emergency-actionplans/>.

Family Educational Rights and Privacy Act (FERPA)

Any student who has suppressed their directory information pursuant to Family Educational Rights and Privacy Act (FERPA) should self-identify to the instructor to ensure protection of the privacy of their attendance in this course. See <http://registrar.illinois.edu/ferpa> for more information on FERPA. Student information and records will not be released to anyone other than the student, unless the student has provided written approval or as required by law. More information may be found here: http://studentcode.illinois.edu/article3_part6_3-602.html.

Sexual Misconduct Reporting Obligation

The University of Illinois is committed to combating sexual misconduct. Faculty and staff members are required to report any instances of sexual misconduct to the University's Title IX and Disability Office. In turn, an individual with the Title IX and Disability Office will provide information about rights and options, including accommodations, support services, the campus disciplinary process, and law enforcement options. A list of the designated University employees who, as counselors, confidential advisors, and medical professionals, do not have this reporting responsibility and can maintain confidentiality, can be found here: <http://www.wecare.illinois.edu/resources/students/#confidential>.

Other information about resources and reporting is available here: <http://wecare.illinois.edu/>.

Student Support

The Counseling Center is committed to providing a range of services intended to help students develop improved coping skills in order to address emotional, interpersonal, and academic concerns. Please visit their website to find valuable resources and services: <https://counselingcenter.illinois.edu/>.

Counseling Center Information: 217-333-3704

Location: Room 206, Student Services Building 610 East John Street, Champaign, IL

Appointment: Scheduled for same day, recommend calling at 7:50 a.m.

McKinley Mental Health Information: 217-333-2705

Location: 3rd Floor McKinley Health Center 1109 South Lincoln, Urbana, IL

Hours: 8 a.m. – 5 p.m., Monday through Friday Appointment: Scheduled in advance.

Emergency Dean: The Emergency Dean may be reached at (217) 333-0050 and supports students who are experiencing an emergency situation after 5 pm, in which an immediate University response is needed and which cannot wait until the next business day. The Emergency Dean is not a substitute for trained emergency personnel such as 911, Police or Fire. If you are experiencing a life threatening emergency, call 911. Please review the Emergency Dean procedures: <http://odos.illinois.edu/emergency/>

Academic Dates and Deadlines

Students should make note of important academic dates for making changes to their courses (add, drop, credit/no-credit, grade replacement, etc.). <https://registrar.illinois.edu/academic-calendars>
Please check with your academic department regarding specific procedures and policies.

Course Schedule (Tentative)

The following outline is what we plan to cover in class during the different class meetings, as well as all assignments and exams required. The outline is subject to change at the Instructor's discretion, and information on these changes will be provided in class.

Weeks 1-2: Introduction, facts and fundamentals of trade***Required Reading for 8/30***

KOM Chapters 2, 6

Bernhofen, D. M., & Brown, J. C. (2004). A direct test of the theory of comparative advantage: the case of Japan. *Journal of Political Economy*, 112(1), 48-67.

Reference readings:

Deardorff, A. V. (1980). The General Validity of the Law of Comparative Advantage. *The Journal of Political Economy*, 88(5), 941-957.

Bernhofen, D. M., & Brown, J. C. (2005). An empirical assessment of the comparative advantage gains from trade: evidence from Japan. *American Economic Review*, 95(1), 208-225.

Week 3: Ricardian model of technology and trade***Required Reading for 9/6***

KOM Chapter 3

Eaton, J., & Kortum, S. (2012). Putting Ricardo to work. *Journal of Economic Perspectives*, 26(2), 65-90.

Reference readings:

Dornbusch, R., Fischer, S., & Samuelson, P. A. (1977). Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods. *The American Economic Review*, 67(5), 823-839.

Eaton, J., & Kortum, S. (2002). Technology, geography, and trade. *Econometrica*, 70(5), 1741-1779.

Weeks 4-5: Factor-based trade I: Specific factors model**Problem Set 1 due at start of class 9/15*****Required Reading for 9/13***

KOM Chapter 4

Reference readings:

Kovak, B. K. (2013). Regional effects of trade reform: What is the correct measure of liberalization?. *American Economic Review*, 103(5), 1960-76.

Mussa, M. (1974). Tariffs and the distribution of income: The importance of factor specificity, substitutability, and intensity in the short and long run. *Journal of Political Economy*, 82(6), 1191-1203.

Week 6: Factor-based trade II: Heckscher-Ohlin factor proportions model

Required Reading for 9/27

KOM Chapter 5

Helpman, E. (1999). The Structure of Foreign Trade. *The Journal of Economic Perspectives*, 13(2), 121-144.

Reference readings:

Leamer, E. E. (1995). The Heckscher-Ohlin model in theory and practice.

Trefler, D., & Zhu, S. C. (2010). The structure of factor content predictions. *Journal of International Economics*, 82(2), 195-207.

Week 7: Factor-based trade III: Gainers and losers from trade
Problem Set 2 due at start of class 10/6**Required Reading for 10/4**

Autor, D. H., Dorn, D., & Hanson, G. H. (2016). The china shock: Learning from labor-market adjustment to large changes in trade. *Annual Review of Economics*, 8, 205-240.

Grossman, G. M., & Rossi-Hansberg, E. (2006). The rise of offshoring: it's not wine for cloth anymore. *The new economic geography: effects and policy implications*, 59-102.

Reference readings:

Autor, D., Dorn, D., & Hanson, G. H. (2013). The China syndrome: Local labor market effects of import competition in the United States. *American Economic Review*, 103(6), 2121-68.

Pierce, J. R., & Schott, P. K. (2016). The surprisingly swift decline of US manufacturing employment. *American Economic Review*, 106(7), 1632-62.

Haskel, J., Lawrence, R. Z., Leamer, E. E., & Slaughter, M. J. (2012). Globalization and US wages: Modifying classic theory to explain recent facts. *Journal of Economic Perspectives*, 26(2), 119-40.

Grossman, Gene M., and Esteban Rossi-Hansberg. "Trading tasks: A simple theory of offshoring." *American Economic Review* 98.5 (2008): 1978-97.

Week 8: Catch-up, Review, and FIRST MIDTERM**MIDTERM OCTOBER 13****Weeks 9: Introduction to New Trade Theory****Required Reading for 10/18**

KOM Chapter 8 (Up to "Firm Responses....")

Melitz, M. J., & Trefler, D. (2012). Gains from trade when firms matter. *Journal of Economic Perspectives*, 26(2), 91-118. **(Read through Page 97)**

Reference readings:

Feenstra, R. C. (2018). Alternative sources of the gains from international trade: variety, creative destruction, and markups. *Journal of Economic Perspectives*, 32(2), 25-46.

Costinot, A., Donaldson, D., Kyle, M. and Williams, H., 2019. The more we die, the more we sell? a simple test of the home-market effect. *The Quarterly Journal of Economics*, 134(2), pp.843-894.

Krugman, Paul. "Scale economies, product differentiation, and the pattern of trade." *The American Economic Review* 70.5 (1980): 950-959.

Week 10: Which firms export, and why does it matter?

Required Reading for 10/25

KOM Chapter 8 (Remainder)

Melitz, M. J., & Trefler, D. (2012). Gains from trade when firms matter. *Journal of Economic Perspectives*, 26(2), 91-118. **(Read remainder)**

Reference readings:

Bernard, A. B., Jensen, J. B., Redding, S. J., & Schott, P. K. (2007). Firms in international trade. *Journal of Economic Perspectives*, 21(3), 105-130.

Melitz, M. J. (2003). The impact of trade on intra-industry reallocations and aggregate industry productivity. *Econometrica*, 71(6), 1695.

Bernard, A. B., Jensen, J. B., Redding, S. J., & Schott, P. K. (2012). The empirics of firm heterogeneity and international trade. *Annu. Rev. Econ.*, 4(1), 283-313.

Bernard, A. B., Redding, S. J., & Schott, P. K. (2007). Comparative advantage and heterogeneous firms. *The Review of Economic Studies*, 74(1), 31-66.

Weeks 11-12: Firms and the pattern of trade: global production, sourcing decisions, and multinationals

Problem Set 3 due at start of class 11/3

Required Reading for 11/1

Yeaple, S. R. (2013). The multinational firm. *Annu. Rev. Econ.*, 5(1), 193-217.

Feenstra, R. C. (1998). Integration of Trade and Disintegration of Production in the Global Economy. *Journal of Economic Perspectives*, 12(4), 31-50.

Reference readings:

Antràs, P., & Rossi-Hansberg, E. (2009). Organizations and trade. *Annu. Rev. Econ.*, 1(1), 43-64.

Antràs, P., & Yeaple, S. R. (2014). Multinational firms and the structure of international trade. In *Handbook of international economics* (Vol. 4, pp. 55-130). Elsevier.

Timmer, M. P., Erumban, A. A., Los, B., Stehrer, R., & de Vries, G. J. (2014). Slicing Up Global Value Chains. *The Journal of Economic Perspectives*, 28(2), 99-118.

Week 13: Economic geography: the role of place, space, and the costs of trade

Problem Set 4 due at start of class 11/17

Required Reading for 11/15

Allen, T. and Arkolakis, C., 2018. 13 Modern spatial economics: a primer. *World Trade Evolution: Growth, Productivity and Employment*, p.435.

KOM Chapter 7

Reference readings:

Hummels, David. "Transportation costs and international trade in the second era of globalization." *Journal of Economic Perspectives* 21.3 (2007): 131-154.

Donaldson, Dave, and Richard Hornbeck. "Railroads and American economic growth: A "market access" approach." *The Quarterly Journal of Economics* 131.2 (2016): 799-858.

Allen, Treb. *Notes on Modern Spatial Economics*

Redding, Stephen J., and Matthew A. Turner. "Transportation costs and the spatial organization of economic activity." *Handbook of regional and urban economics*. Vol. 5. Elsevier, 2015. 1339-1398.

Krugman, P. (1991). Increasing returns and economic geography. *Journal of Political Economy*, 99(3), 483-499

Week of 11/22: Thanksgiving, No Class

Week 14: Trade Policy and Protectionism

Required Reading for 11/29

KOM Chapters 9-10

Feenstra, Robert C. "How costly is protectionism?." *Journal of Economic Perspectives* 6.3 (1992): 159-178.

Reference readings:

Rodrik, D. (1995). Political economy of trade policy. *Handbook of international economics*, 3, 1457-1494.

Krugman, P. R. (1987). Is free trade passé?. *Journal of Economic Perspectives*, 1(2), 131-144.

Grossman, G. M., & Helpman, E. (1995). The politics of free-trade agreements. *The American Economic Review*, 85(4), 667.

Goldberg, Pinelopi Koujianou, and Giovanni Maggi. "Protection for sale: An empirical investigation." *American Economic Review* 89.5 (1999): 1135-1155.

Week 15: Free-trade agreements
Problem Set 5 due at start of class 12/6

Required Reading for 12/6

KOM Chapter 12

Rodrik, D. (2018). What do trade agreements really do?. *Journal of economic perspectives*, 32(2), 73-90.

Reference readings:

Bagwell, K., & Staiger, R. W. (2010). *The world trade organization: Theory and practice*.