

ECO-13101-002 International Trade
Spring 2016 ◇ Mondays/Wednesdays 19:00-22.00 PM ◇ Room: 210RH

Professor: Tiago Tavares

- Office hours: Friday 15.00-17.00 in Santa Teresa - CIE building
- Email: tiago.gomes@itam.mx

Course Webpage: The course webpage is <http://www.tgstavares.com>). Announcements, homework assignments, and course materials will be posted online. If you cannot access the site or the materials, please let me know.

Course Description: This course will cover the basic theory that explains international transactions, that is, flows of goods and services or flows of factors of production (migration, foreign direct investment) across countries. Typical questions answered studied include: why nations trade, which (if any) agents gain from trade, what they trade, which of those are likely to trade. Additionally, topics related with international trade will be explored. Important concepts such as gains from trade, absolute and comparative advances, factor proportions, increasing returns to scale, imperfect competition, gravity equations, outsourcing and multinationals firms will be introduced and critically accessed by comparing its predictions against what we observe in the data.

By the end of this course, students should be equipped with a basic set of tools that allows them to critically engage in current discussions of the world economy such as: the debate on globalization, free trade agreements, protectionist policies, and WTO negotiations.

Prerequisite: This course requires some knowledge of introductory microeconomics, macroeconomics, and calculus.

Textbook: Lectures for this course will follow loosely the chapters in the textbooks *International Economics: Theory and Policy; Krugman, Obstfeld, and Melitz (2012), 9nd edition (KOM2012).* and *Advanced International Trade: Theory and Evidence; Feenstra, Robert (2003), Princeton University Press (F2003)* Any later of previous edition is also admissible. Additional reading materials may be given to you from other sources.

Assessment: Course grades will be based on the following (deadline dates of the assignments will be announced later).

- 2 exams: One midterm weighted at 40% of the final grade, and a cumulative final exam weighted at 50%
 - all are closed book and individual
- 2 assignments: each assignment weights 5% to a total of 10% of the final grade

- students are encouraged to form groups of up to 4 elements (only one copy needs to be handed in with the names of all group members)

- Class attendance/participation: These are not mandatory but are recommended for the own benefit

Additional information: The examinations will cover all materials thought up until the immediately preceding lecture, unless other information is provided.

- If you will be absent from the midterm, you must contact me by e-mail before noon on the date of the exam.
- If you skip an exam, midterm or assignment, your grade on that element will be zero.

Course Roadmap: The planned course roadmap is shown below. Recommended readings for each lecture will be uploaded into the webpage before the class. During the course of the semester this structure may suffer some mild changes.

Lecture 1 (January 11) Introduction; Static optimization

- ◊KOM2012 - chp 1 and 2
- ◊Paul Krugman: "What do Undergrads Need to Know about Trade?" American Economic Review
- ◊The Economist: "When did globalization start?", September 23rd 2013

Lecture 2 (January 18) Simple trade model and the Ricardian Model

- ◊KOM2012 - chp 3
- ◊Krugman, Paul. 1998: "Ricardo's difficult idea: Why intellectuals don't understand comparative advantage"

Lecture 3 (January 25) Extensions to Ricardian Model;

- ◊KOM2012 - chp 3
- ◊F2003 - chp 1
- ◊Daniel Bernhofen and John Brown (2004), "A Direct Test of the Theory of Comparative Advantage: The Case of Japan," Journal of Political Economy 112 (1), p.48-67

Lecture 4 (February 8) The specific factors model; Globalization and inequality

- ◊KOM2012 - chp 4
- ◊F2003 - chp 3
- ◊Paul Krugman: "Does Third World Growth Hurt First World Prosperity?" Harvard Business Review, July-August 1994 (also in Pop Internationalism)
- ◊The Economist: "Migration and Development: The Aid Workers Who really Help," October 2009

Lecture 5 (February 15) Trade and Resources: The Heckscher-Ohlin Model

- ◊KOM2012 - chp 5
- ◊F2003 - chp 2
- ◊Frédéric Bastiat: "Petition of the Candle Makers," Economic Sophisms, 1845
- ◊Paul Krugman: "In Praise of Cheap Labor," Slate, March 1997

Lecture 6 (February 22) The Standard Trade Model;

◊KOM2012 - chp 6

◊Alan Deardorff: "Benefits and Costs of Following Comparative Advantage

◊The Economist: "When did globalization start?", September 23rd 2013

Lecture 7 (February 29) The Armington model and gravity equations

◊KOM2012 - chp 2

◊F2003 - chp 5

Lecture 8 (March 7) Midterm

Lecture 9 (March 14) Midterm Solution; Increasing Returns and the Krugman Model

◊KOM Chapter 7

◊F2003 - chp 5

Lecture 10 (April 4/March 30) Increasing Returns and the Krugman Model

◊KOM Chapter 7

◊F2003 - chp 5

◊Paul Krugman's Nobel Prize Lecture

Lecture 11 (April 11) Increasing Returns and the Melitz Model (cont)

◊KOM2012 - chp 7/8

◊Reason.tv: "Mexicans and Machines: Why It's Time to Lay Off NAFTA"

◊NPR podcast: "Mexico Looks to U.S. to Fuel Economic Recovery", October 2009

Lecture 12 (April 18) Increasing Returns and the Melitz Model (cont)

◊KOM2012 - chp 7/8

Lecture 13 (April 25) Empirical evidence on the Krugman and Melitz model

◊KOM2012 - chp 8

Lecture 14 (May 2) International trade policy and Dumping and Antidumping Policies;

◊KOM2012 - chp 9/10

◊F2003 - chp 7

◊The Economist: "Sweet land of subsidy"

◊The New York Times: "China moves to retaliate against US tire tariff". September 13th 2009.

◊The Economist: "Small Island for Sale: Foreign Takeovers in Britain," March 2010

Lecture 15 (May 9) Introduction to International Macroeconomics, Inter-temporal trade and the current account; Current account adjustment and real exchange rates

◊KOM2012 - chp 13,17

◊Blanchard, Olivier, Francesco Giavazzi, and Filipa Sa. "The U.S. Current Account and the Dollar." MIT Department of Economics Working Paper No. 05-02, January 26, 2005.

The Economist: "When did globalization start?", September 23rd 2013

Lecture 16 (May 11) Taking Stock - Revisions for the Final