

International Trade M2

Syllabus: Winter 2023-2024

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Time and location: Thursday, 9:30 – 12h45.

Overview: The course introduces students to the theories of international trade. We will start by introducing the main facts about international trade and the empirical relationship known as the “gravity equation”. After the introduction, we will cover the traditional theories of international trade (factor endowments, comparative advantage, increasing returns), and explore their most recent developments, particularly focusing on explaining trade from the point of view of individual firms. From this perspective, we will first try and understand the determinants of the decision of firms to export or not, which foreign markets to enter, and more generally the role of firms’ heterogeneity in shaping export decisions. The last part of the course will cover empirical works related to the theoretical models developed in the first part.

Reading List

Starred papers (*) are to be considered fundamental materials.

There are no assigned textbook for this class. However, the following books may be useful:

- Feenstra, Robert, “Advanced International Trade: Theory and Evidence,” published by Princeton University Press, 2006. This book provides a very good overview of several of the topics that we will cover.
- Dixit, A. and V. Norman, Theory of International Trade, (Cambridge University Press), 1980.
- Helpman, E. and P. Krugman, “Market Structure and Foreign Trade,” (Cambridge, MA, and London, The MIT Press), 1985.
- Krugman, Obstfeld and Melitz, “International Economics” 9th edition, Pearson Edition, 2012.
- Markusen, J., Melvin, R., Kaempfer, W. H. and Maskus K. E., “International Trade: Theory and Evidence, International” ed. (1995). Access this textbook from Prof. Markusen’s site: [download it from here](#).

Course Outline (Tentative: may be subject to changes)

1. Introduction and Basic Facts

Some stylized facts about international trade

2. Basic Models of International Trade (Comparative Advantages)

Differences in Technology: Ricardo with n Goods and Ricardo Viner.

- Dornbush, Fisher and Samuelson (1977). Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods, *American Economic Review*, 67(5): 823-839.
- (*) Feenstra, R. (2006), *Advanced International Trade. Theory and Evidence*. Chapter 1.
- Krugman, P., Obstfeld and Melitz, (2012). *International Economics*, Chapter 3, Pearson Edition.
- Multi-country extensions: Eaton, J., and S. Kortum. 2012. "Putting Ricardo to Work" *Journal of Economic Perspective*.

Factor Endowment Differences: Heckscher-Ohlin Model

Factor Price Equalization, Stolper-Samuelson, Rybczynski. Leontief Paradox. Empirical test of Heckscher-Ohlin.

- (*) Feenstra, R. (2006), *Advanced International Trade. Theory and Evidence*. Chapters 1, 2, and 3.
- Jones, R. (1965), "The Structure of Simple General Equilibrium Models," *JPE*.
- Dixit, A. and V. Norman, *Theory of International Trade*, 1980.

3. Monopolistic Competition and Increasing Returns

- (*) Krugman, P. (1979), "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics* 9(4), 469-479.
- (*) Krugman, P. (1980), "Scale Economies, Product Differentiation and the Pattern of Trade," *AER* 70(5), 950-959.
- Dixit, Avinash and Joseph Stiglitz (1977), "Monopolistic Competition and Optimum Product Diversity." *American Economic Review* 67:297—308.
- Brander and Krugman (1983), "[A 'reciprocal dumping' model of international trade.](#)" *Journal of International Economics* 15, 313-321.

4. Firms Heterogeneity and International Trade

- (*) Melitz, Marc J. (2003), "The Impact of Trade on Intra- Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 71:6, pp. 1695-1725.
- (*) Chaney, Thomas (2008), "Distorted Gravity: Heterogeneous Firms, Market Structure and the Geography of International Trade," *American Economic Review*, September 2008, Vol. 98, No. 4.
- Eaton, J. and S. Kortum (2002), "Technology, Geography and Trade," *Econometrica*, September 2002, Vol. 70, No. 5, 1741- 1780.

5. Empirical Trade

- Some Econometric Tools: Cunningham S. “Causal Inference”

Trade and Productivity

- Pavcnik, Nina, 2002, “Trade liberalization, Exit and Productivity improvements: Evidence from Chilean Plants,” *Review of Economic Studies*, 69, 245-276.
- Amiti, M. and Konings, J. “Trade Liberalization, Intermediate Inputs, and Productivity”. *American Economic Review*, December vol. 97(05) December 2007, pp.1611-1638.

Trade and Labor Market

- McCaig, B., Pavcnik, N., 2018. Export Markets and Labor Allocation in a Poor Country. *American Economic Review*, July.
- Autor, D., Dorn, D., Hanson, G., 2013. “The China Syndrome: Local Labor Market Effects of Import Competition in the United States.” *American Economic Review*, 103(6), 2121-2168.
- Topalova, P., 2010. Factor Immobility and Regional Impacts of Trade Liberalization: Evidence on Poverty from India. *American Economic Journal: Applied Economics*, American Economic Association, 2(4), 1-41.

Gravity

- (*) Feenstra, R. (2006), *Advanced International Trade. Theory and Evidence*. Chapter 5
- Anderson, James E. "A Theoretical Foundation for the Gravity Equation." *American Economic Review*, March 1979, 69(1), pp. 106-16.
- Anderson, James E. and Eric van Wincoop "Gravity with Gravitas: A Solution to the Border Puzzle." *American Economic Review*, March 2003, 93(1), pp. 170-92.
- Deardorff, Alan V. "Determinants of Bilateral Trade: Does Gravity Work in a Neoclassical World?" in J. A. Frankel, ed., *The regionalization Regionalization of the world economy*. Chicago: University of Chicago Press, 1998, pp. 7-22.

Grading

The grade will be based on final exam (50%), three problem sets (30%) and an in-class presentation of a paper in the reading list (20%).

Useful DATA links

The [World Bank's World Development Indicators](#)

The [Penn World Tables](#)

[UNCTAD, Statistical Databases](#)

OECD, STAN [Structural ANalysis Database](#)

[BEA databases](#) on Activities of Foreign Affiliates of US multinational firms, and FDI

[U.S. Related-Party Trade Database](#) by Pol Antras

“Gravity” variables [CEPII](#)

[WITS WB](#): Trade, tariff and non-tariff measures (NTM) data

Other [data sources](#) for Gravity.