

# Trade Theory

## ECON4001

ECON4001 Trade Theory  
Autumn 2024  
Class: Monday 678 (13:20-16:20)  
Location: College of Social Sciences Bldg. **Rm 303 (Not 503)**

Ziho Park  
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(Please write [Trade theory] as the header of your email title so that I can easily spot your email)

Teaching Assistant  
TBA

## 1 Overview

This year, I will de-emphasize mathematical models, but instead emphasize more basic analysis and empirical exercises using data while motivating the empirics using theory. No part of the exams and homeworks will be about solving mathematical models. Solving math was already a minor portion of the exam in previous years, but it will be even less portion this year.

This course studies the issues in international trade, or any trade in general.

I start by discussing the two concepts that underlie trades between any individuals or groups of individuals, not just international trade: Division of labor and comparative advantage from Adam Smith and David Ricardo.<sup>1</sup> We will obtain the fundamental insight that trade enables the division of labor, which leads to productivity increase and prosperity.

Then this class will study the empirics and theories that are more specific to trade between countries. Empirically, gravity equations will be introduced. I will show you where to obtain important international trade data. You will perform simple exercises of using these data either in class or as homework. I will also review empirical international trade literature. Theoretically, I will introduce simple versions of key models in the modern trade literature. For each theoretical model, I will provide empirical motivations. As you can see, empirics and theory are closely intertwined in this class.

## 2 Homeworks and Exams

### Homeworks

- There will be occasional Stata homeworks. I will often just give you the entire code which you will be required to slightly edit. You can use Stata at the computing lab or the BDSRC computer lab at the Social Science building.
- There might be occasional additional homeworks.

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<sup>1</sup>The first three chapters of The Wealth of Nations by Adam Smith are devoted to the discussion of the division of labor.

- Chapter 1: “On the division of labour”
- Chapter 2: “On the principle which gives occasion to the division of labour”
- Chapter 3: “That the division of labour is limited by the extent of the market”

## Exams

- This year, no part of the exams and homeworks will be about solving mathematical models.
- But it is still important to remember and understand the models covered in the class.
- Instead, I will ask more about economics. For example,
  - Here is the model. What is an economic interpretation of assumption 1 and equation 3?
  - A politician says XXX. Criticize it from the perspective of Ricardian model.
  - What empirical facts motivated this model?
  - Which of the following is true about NAFTA?
  - Which assumption was introduced to replicate those empirical facts?
  - What predictions do you expect this model to make?
  - You want to verify XXX. Which organization's website has the data you need?
  - What policy recommendation does model X make? What assumptions led to the conclusion?
  - What theory did this empirical paper use to rationalize their finding?

## 3 Grading

Requirement	% of Grade
1. Midterm exam	30%
2. Final exam	50%
3. Homeworks	20%

## 4 Prerequisites

- No prior knowledge of statistical software is required, although it will be useful.
- No prior math knowledge beyond high school math is needed.
- No calculus will be required for homeworks and exams.

## 5 Health and Accommodations

- If you have physical disabilities, feel free to tell me how I can help.

## 6 Topics Covered (tentative)

- Division of labor and trade
- Comparative advantage and trade
- Increasing returns to scale and trade
- Trade data, concepts, and measurement
- Simple Ricardian and Heckscher-Ohlin model

- Impact of trade with China on the US economy
- Offshoring
- Trade policies
- Political economy of trade policy
- Controversies in trade policy