

International Trade Theory
Undergraduate Level
Tuesday 2:20 - 5:20 PM

Instructor: Professor Tsechien Hsu

Office Hours: M 10:00-11:00 AM and by appointment

Textbook: Paul R. Krugman and Maurice Obstfeld, International Economics: Theory and Policy, Seventh Edition, Addison Wesley, 2006.

Robert C. Feenstra and Alan M. Taylor, International Economics, Worth Publishers 2007.

Markusen, Melvin, Kaempfer and Maskus, "International Trade: Theory and Evidence".

Prerequisites: Having taken "Principle of Economics" or "Intermediate Microeconomics"*

Purpose of the Course:

The theory of international trade born with economics is the oldest field of this discipline, and perhaps the one that most old theories still can be applied in this era with rapid growth and prevalence of globalization. In this semester we will appreciate the beauty of those theories, look through the history of their development, apply them to explain the trade issues happening and debated in our daily life and most importantly create the ability to tell truth or lies told by famous columnist in newspaper or on TV.

Course Outline:

1. The Facts

- Trade Volume, trade structure and distribution of trade volume in the second wave of globalization.
- Gravity model, a simple model explaining trade volume.

2. Traditional Trade Theory

- Comparative Advantage and Ricardian Model
 - Simple 1X2X2 Ricardian Model
 - Welfare Implications of Ricardian Model
 - Ricardian Model with many countries
 - Ricardian Model with many goods
 - Empirical Evidence on Ricardian Theory
- General Equilibrium Model
 - A simple 2X2 model
 - * Edgeworth-Bowley box and production frontier
 - * Relative demand and relative supply functions
 - * General equilibrium in the closed economy
 - General Equilibrium in a 2X2X2 economy
- Proportion Theory of Trade
 - The Stolper-Samuelson theorem
 - The Rybczynski Theorem
 - The Heckscher-Ohlin Theorem

- Welfare Implications of proportion theory
 - The Factor Price Equalization Theorem
 - Specific Factor Model
 - Empirical Evidence on proportion Theory
 - Government Policies as Determinants of Trade
 - Effects of Terms of Trade on Welfare
 - Effects of growth on welfare in the open economy
 - Effects of transfer on welfare in the open economy
 - Effects of tariff on welfare
 - Effects of subsidy on welfare
3. Increasing Return and Imperfect Competition
- External Economies as a Determinant of Trade
 - Concepts of external and internal economies of scale
 - History matters and the welfare implications of external economies in the open economy
 - Imperfect Competition as a Determinant of Trade
 - Internal Economies of Scale and Pro-Competitive Gains
 - Intra-Industry Trade and Increasing Return and Preference of Diversification
 - Inter-Industry Trade and Intra-Industry Trade
 - Halpman and Krugman model
 - A unification of the comparative advantage theory with the increasing return model
4. Tastes, Per Capita Income, and Technology Change as Determinants of Trade
- Preference and Trade
 - The Linder Hypothesis
 - Theories of Trade Based on Dynamic Cycles
 - A unification model once again
5. Factor Movements
- Trade in Factors of Production
 - Simple model of international labor and capital movements
 - Factor flow and commodity trade volume
 - International borrowing and lending

Grade Policy: Midterm 40% and Final 60%

Additional Remarks:

Cheating will not be tolerated and may result in severe academic sanctions. Disruptive talking in class will not be tolerated. On the other hand, asking and responding to questions in class is strongly encouraged.