

Georgetown University
ECON 243-10: International Trade
Summer — 2020

Instructor Information

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Office Hours: Friday 9am-11am

Class Information

Dates: June 1 2020 to July 3 2020,
Time: MTWTh, 10:45am-12:45pm
Classroom: Zoom meetings through Canvas

Honor Code

A student found in violation of the Georgetown Honor Code will receive an F for the course, in addition to any penalties imposed by the Honor Council.

1 Course Description and Objectives¹

The levels of international trade, migration and foreign direct investment have been increasing during the last century. All these flows of goods, services, people and capital affect in a important manner the welfare of nations. In spite that clear theoretical and empirical arguments suggest that globalization may help economic growth and reduce poverty some developed nations have set a backlash against globalization and international trade, implementing protectionist policies: while UK has voted to exit the EU, U.S have started a trade war with China and also threatened historical trade agreements like NAFTA.

This course will teach a theoretical framework to think about international trade and also how it can be related to migration and flow of investment. The course starts with an overview of the effect of free-trade on welfare and income distribution in standard trade models (Ricardian model, Specific-Factors model, Heckscher-Ohlin model). The second part will teach recent models based on increasing returns and imperfect competition. The third part will explore the effects of trade policy (tariffs, quotas, export subsidies, etc.) which leads to an inquiry into the political processes by which trade policies are formed. This will lead us to study and understand the political economy of international trade, we will elaborate also on studying how this framework can be used to understand migration as well.

The main objective of the course is to provide tools to the student to frame a problem in terms of benefits and cost of any trade-related issue. This main objective will help to understand better the current political backlash to international trade and to propose creative solutions that go beyond to just closing the borders and come back to autarky.

¹This course relies on lecture notes of Professor Rodney D. Ludema for sections 3.1, 3.2 and 3.3, Profesor Bob Cumby for section 3.4 and Professor Ana Maria Mayda for section 3.5

2 Assessment

You will be evaluated through short take home quizzes (40%), presentations (20%) and a final cumulative exam (40%)

Quizzes: Every Thursday we will have a quiz to evaluate the content of the week. Each quiz worth 10% of the grade, for a total of 40%. This a chance for you to see if you are mastering the course material. Start preparing for quizzes before they arrive!. No make-up quizzes will be given. For a missed quiz with a valid excuse (documented by a note from a doctor or the Dean's Office), performance on the corresponding part of the cumulative final exam will replace the missing grade. Quizzes will be closed book and closed notes.

Class Presentation: During the course you will make two 15 minutes presentations. Each of you will teamup with other classmate and give an in-class presentation—using PowerPoint/beamer —on a paper of your choice among those denoted ** in the reading list. The class presentation will include both a description and a critical evaluation of the paper, as well as ideas for extensions of the paper. Each overall presentation should not exceed 20 minutes in length. The quality of the presentation and the slides defines the grade of them. Both presentations will worth 20% of the grade.

Final: The final exam is cumulative and is worth 40% of your grade. It will be during the last day of the class. There is not excused that allow you to take the final, therefore if you can not make it to this date, please abstain to take this course.

3 Course Outline

REQUIRED TEXT Krugman, Paul, Maurice Obstfeld and Marc Melitz, International Economics: Theory and Policy, 11th Edition, Addison-Wesley. (KOM) [9th and 10th Editions are OK, but page numbers may not match]

3.1 Introduction and the Theory of Comparative Advantage

The Fundamentals of International Trade—6/01.

- Why international trade? KOM Introduction
- Partial Equilibrium. KOM, Chapter 9, pp. 215-218, 221 –223.
- General Equilibrium. KOM, Chapter 6, pp. 123–137

Ricardo and the comparative advantage—6/02. KOM, Ch. 3

- Cumby (2019) Lecture Notes, Section 1
- Economist, “Donaldson’s Difficult Idea,” April 22, 2017

3.2 Trade models with two production factors

Specific factors—6/03. KOM, Ch, 4.

- Cumby (2019) Lecture Notes, Section 2

- Economist, “Trade in the Balance,” February 6, 2016.

Mobile factors—6/04. KOM, Ch. 5, 6, Lecture Notes, Sections 3.

Heckscher-Ohlin-Samuelson Model—6/08 KOM, Ch. 5, 6.

- Cumby (2019) Lecture Notes, Section 3
- Economist, “The Great Unbundling,” January 20, 2007 Economist, “Here, There, and Everywhere,” January 19, 2013

What have we learned about these trade models through the data?—6/09 .

3.3 Increasing Returns and International Trade

Economies of scale—6/10 . KOM, Ch. 7

Firms, Multinationals and Offshoring—6/11. KOM, Ch. 8

3.4 International Trade policy

Trade policy and institutions—6/15. KOM, Ch. 10

Tariffs and Quotas—6/16. KOM, Ch. 9

Subsidies—6/17 KOM, Ch. 9

Trade policy with imperfectly competitive markets—6/17 KOM, Ch. 9

3.5 Political Economy of International Trade and Migration

Welfare Analysis of trade policy—6/18 KOM, Ch. 10

Politics of trade policy—6/22 KOM, Ch. 10

Politics of migration policy—6/23. KOM, Ch. 9

Evidence of political economy of international trade and migration—6/24. KOM, Ch. 9

Current trade policy issues—6/25

- Resurgent Protection (NAFTA renegotiation)
- Trade and the Environment
- Climate Change: A Cross Border Externality

3.6 Final preparation

Solutions of quizzes 1 to 4—7/6

Review—7/7

Final—7/8