International Trade Theory

Instructor: Rahul Giri
Lecture Location: Rio Hondo, Salon 107
Day/Time: Monday & Wednesday – 4:00pm to 5:30pm
Office Hours: Monday & Wednesday - 2:00pm to 3:00pm in Santa Teresa, or by appointment.
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Objective
The objective of this course is to introduce you to the theory of international trade. There are two main questions we want to answer –
1. Why do countries trade? OR Are their gains from trade?
2. Who exports (imports) what to (from) whom? OR How can we explain the pattern of international trade?

We will start by understanding why countries gain from international trade, and then move onto discuss different models of trade, where each model will predict a certain pattern of trade based on key assumptions. We will evaluate whether a model does a good job of explaining the data by comparing the predicted pattern of trade with the pattern of trade observed in the data. Having achieved a thorough understanding of the models we will discuss some interesting issues in the area of international trade.

Resources
I will follow two textbooks for this course:
1. **Primary textbook**: *International Trade: Theory and Evidence, International ed. (1995)* by James R. Markusen, James R. Melvin, William H. Kaempfer and Keith E. Maskus.
2. **Secondary textbook**: *International Trade,* by Robert C. Feenstra and Alan M. Taylor, second edition.

I will also post my lecture notes on each topic we cover in the class.

Grading
Final – 40%
Midterm – 40%
Homework – 20%

Homeworks will have to be submitted in class in person, and will be graded only for completion, i.e. whether you attempted (seriously!) to answer all questions. An incomplete homework will give you zero points. If you do not submit homework without my prior permission then you will lose all points for that homework. Lastly, the final exam will be based on material that is covered after the midterm.

Prior knowledge/skills required
This course requires you to be comfortable with some basic concepts in economics and their mathematical formulations and analysis. Two crucial concepts that you must understand are utility maximization by consumers and profit maximization by firms. You should be comfortable with the mathematical formulations of these concepts and their mathematical analysis. You should have a good understanding of utility functions and production functions – properties like degree of homogeneity, homotheticity, returns of to scale, concavity, convexity, etc. To do all this you should have done at least a basic course in differential calculus.

<u>Syllabus</u>

Topic 1: Looking at the Bigger Picture
1.1: How Important is Trade or Why Should We Care about International Trade?
1.2: Gains from Trade

Topic 2: Models of Trade with Perfect Competition
2.1: Differences in Technology - The Ricardian Trade Model
2.2: Differences in Endowments - The Heckscher-Ohlin Model
2.3: Differences in Endowments with Specific Factors - The Specific Factors Model

MIDTERM

Topic 3: Models of Trade with Imperfect Competition
3.1: Imperfect Competition as a Determinant of Trade
3.2: Increasing Returns to Scale and Monopolistic Competition as a Determinant of Trade

Topic 4: Going Beyond the Basic Models
4.1: Gravity Equation
4.2: Trade in Factors of Production

FINAL EXAM