

AGRICULTURAL, ENVIRONMENTAL, AND DEVELOPMENT ECONOMICS 734
INTERNATIONAL AGRICULTURAL TRADE POLICY

Instructor: Professor Ian Sheldon

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Class Location: Agricultural Administration, Rm. 246

Time: Monday/Wednesday, 8.00 a.m.-10.00 a.m.

AED 734 is an intermediate, four-credit hour course that focuses on international trade theory and its application to trade and policy issues in the food and agricultural sector. The course will expose students both to traditional economic analysis relevant to understanding issues relating to trade in agricultural commodities and also to new trade theories and their application to trade issues in the processed food sector.

Course Objectives/Description:

- to understand the gains from and causes of trade in agricultural commodities;
- to analyze the linkages between agricultural commodity programs and trade policies;
- to examine the welfare implications of agricultural and trade policies for the U.S. and other countries in an interdependent world;
- to understand the role of imperfect competition in explaining trade patterns;
- to analyze the effects of trade policies when markets are imperfectly competitive.

Prerequisites:

Economics 501 and 502 or equivalent

Course Organization:

The course is organized into two 2-hour lectures per week. The course grade will be assigned on the basis of an article review, a mid-term examination (Nov.2, in class) and a final examination (Dec. 10, 7.30-9.18 am), with weights of 30%, 35% and 35% respectively. The journal article review, based on a published journal article of your choice, should be 5 double-spaced pages, the only constraint being that the journal article should relate to some topic in international economics. The article review is due Friday, December 4.

Academic Misconduct:

Plagiarism and other forms of cheating will not be tolerated. University rules provide severe penalties for academic misconduct, ranging from course failure to dismissal from the university. University rules are found in the handbook used in all survey courses: "University Survey-A Guidebook and Readings for New Students."

Disability:

Students with disabilities that have been certified by the Office for Disabilities Services will be appropriately accommodated, and should inform the instructor as soon as possible of their needs.

Text:

The basic text for the course is: J.R. Markusen, J.R. Melvin, W.H. Kaempfer, and K.E. Maskus (1995). International Trade: Theory and Evidence, which can be downloaded from my web-page. In addition, the following is regarded as an important background text.

Bhagwati, J.N., Panagariya, A., and Srinivisan, T.N. (1998). Lectures on International Trade, MIT Press.

Journal Articles:

Some of the assigned reading will come from selected journals, most articles being available electronically.

AED 734 COURSE OUTLINE:

Part 1: Trade and Trade Policy in Agricultural Commodities

I. Neoclassical Trade Theory

(i) Basic Background:

- (a) General Equilibrium in Open and Closed Economies
- (b) The Gains from Trade

Reading:

Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapters 2-5.

(ii) The Causes of Trade:

- (a) Ricardian Theory
- (b) Heckscher-Ohlin-Samuelson Model
- (c) The Specific-Factors Model

Reading:

Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapters 6-9.

Bhagwati, J.N., Panagariya, A., and Srinivisan, T.N. (1998). Lectures on International Trade, Chapters 2,3 and 4.

Bhagwati, J. (1964). "The Pure Theory of International Trade: A Survey", Economic Journal, 74, pp.1-26.

Dornbusch, R., Fischer, S. and Samuelson, P.A. (1977). "Comparative Advantage, Trade, and Payments in Ricardian Model with a Continuum of Goods", American Economic Review, 67, 823-839.

Jones, R.W and Neary, J.P. (1984). "The Positive Theory of International Trade", in Handbook of International Economics, pp.1-21.

II. Agricultural Trade and Trade Policy

(i) Agricultural and Food Trade

(a) Patterns of Food and Agricultural Trade

(b) Nature of Distortionary Policies in Agricultural Trade

Reading:

Anderson, K. and Martin, W. (2005). "Agricultural Trade Reform and the Doha Development Agenda", World Economy, 28, 1301-1327.

(ii) Analysis of Agricultural Trade Policy

(a) Tariffs and Export Subsidies

(b) Tariffs and Distortions

(c) Optimal Tariffs and Monopoly

(d) Quotas and Non-Tariff Barriers

(e) Immiserizing Growth

(f) Political Economy of Tariffs

Reading:

Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapters 15 and 16.

Bhagwati, J.N., Panagariya, A., and Srinivisan, T.N. (1998). Lectures on International Trade, Chapters 12, 13, 14, 21, 29 and 34.

Grossman, G.M. and Helpman, E. (1994). "Protection for Sale", American Economic Review, 84, 833-850.

(iii) The GATT/WTO and Agriculture

(a) The Economics of GATT

(b) The Uruguay Round of GATT and Agriculture

(c) Tariffication and Tariff-Rate Quotas

(d) Agricultural Issues in the WTO

(e) Development and Globalization

Reading:

Bhagwati, J. Free Trade Today.

Irwin, D.A. Free Trade Under Fire.

Stiglitz, J.E. Globalization and Its Discontents.

Tweeten, L. (1992). Agricultural Trade: Principles and Policies, Chapter 9.

Anderson, K. (1994). "Multilateral Trade Negotiations, European Integration, and Farm Policy Reform", Economic Policy, 18, 13-52.

Moschini, G. (1991). "Economic Issues in Tariffication: An Overview", Agricultural Economics, 5, 101-120.

Abbott, P.C. and Paarlberg, P.L. (1998). "Tariff Rate Quotas: Structural and Stability Impacts in Growing Markets", Agricultural Economics, 19, 257-267.

Boughner, D.S., de Gorter, H., and Sheldon, I.M. (2000). "The Economics of Two-Tier Tariff-Rate Import Quotas", Agricultural and Resource Economics Review, 29, 58-69.

Bagwell, K. and Staiger, R.W. (1999). "An Economic Theory of GATT", American Economic Review, 89, 215-248.

Bagwell, K. and Staiger, R.W. (2001). “The WTO as a Mechanism for Securing Market Access Property Rights: Implications for Global Labor and Environmental Issues”, Journal of Economic Perspectives, 15, 69-88.

Anderson, K. and Martin, W. (2005). “Agricultural Trade Reform and the Doha Development Agenda”, World Economy, 28, 1301-1327.

(iv) Regionalism vs. Multilateralism

(a) Preferential Trading Arrangements

(b) Spaghetti Bowls and Trade

Reading:

Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapter 18.

Bhagwati, J. Free Trade Today. Lecture 3.

Panagariya, A. (2000). “Preferential Trade Liberalization: The Traditional Theory and New Developments”, Journal of Economic Literature, 38, 287-331.

Baldwin, R.E. (2006). “Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade”, World Economy, 29, 287-331.

Part 2: Trade and Imperfect Competition

I. Imperfect Competition and Trade

(a) Imperfect Competition and Gains from Trade

(b) Economies of Scale

(c) Intra-Industry Trade

Reading:

Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapters 11-13.

Hirschberg, J.G., Sheldon, I.M. and Dayton, J.R. (1994). "An Analysis of Bilateral Intra-Industry Trade in the Food Processing Sector", Applied Economics, 26, 159-167.

McCorrison, S. and Sheldon, I.M. (1991). "Intra-Industry Trade and Specialization in Processed Agricultural Products: The Case of the US and EC", Review of Agricultural Economics, 13, 173-184.

Markusen, J.R. (1995). "The Boundaries of Multinational Firms and the Theory of Trade", Journal of Economic Perspectives, 9, 169-189.

Krugman, P.R. (1995). "Increasing Returns, Imperfect Competition and the Positive Theory of International Trade", in Handbook of International Economics.

Sheldon, I. (2006). "Monopolistic Competition and Trade: Does the Theory Carry any Empirical Weight?" Journal of International Agricultural Trade and Development, 2, 1-32.

II. Imperfect Competition and Trade Policy/Other Policy Issues

(i) Strategic Trade Theory

(a) Export Subsidies and Oligopoly

(b) Import Tariffs and Oligopoly

Reading:

Markusen, J.R., Melvin, J.R., Kaempfer, W.H. and Maskus, K.E. (1995). International Trade: Theory and Evidence, Chapter 17.

Bhagwati, J. (1989). "Is Free Trade Passé After All?", Weltwirtschaftliches Archiv, 125, 17-44.

Grossman, G. (1988). "Strategic Export Promotion: A Critique", in Strategic Trade Policy and the New International Economics, edited by P.R. Krugman.

Krishna, K. and Thursby, M. (1990). "Trade Policy with Imperfect Competition: A Selective Survey", in Carter, C., McCalla, A. and Sharples, J. (eds) Imperfect Competition and Political Economy: The New Trade Theory in Agricultural Trade Research. Westview Press.

Krugman, P.R. (1987). "Is Free Trade Passé?", Journal of Economic Perspectives, 1, 131-144.

Thursby, M. (1988). "Strategic Models, Market Structure and State Trading: An Application To Agriculture" in Trade Policy Issues and Empirical Analysis edited by R.E. Baldwin, NBER, University of Chicago Press: Chicago.

McCorrison, S. and Sheldon, I.M. (1993). "Optimal Trade Policies: An Application to the UK Fertilizer Market", Oxford Economic Papers, 45, 118-129.

Brander, J.A. and Spencer, B.J. (1985). "Export Subsidies and International Market Rivalry", Journal of International Economics, 2, 83-100.

Sheldon, I.M., Pick, D.H., and McCorrison, S. (2001). "Export Subsidies and Profit-Shifting in Vertical Markets", Journal of Agricultural and Resource Economics, 26, 125-141.

(ii) Trade and the Environment

Reading:

Anderson, K. and Blackhurst, R. (1992). The Greening of World Trade Issues, Chapter 2.

Copeland, B.R. and Taylor, M. Scott. (1994). "North-South Trade and the Environment", Quarterly Journal of Economics, 109, 755-787.

Antweiler, W., Copeland, B.R., and Taylor, M. Scott. (2001). "Is Free Trade Good for the Environment?" American Economic Review, 91, 877-908.

McCorrison, S. and Sheldon, I.M. (2005). "Market Access and WTO Border Tax Adjustments for Environmental Taxes under Imperfect Competition", Journal of Public Economic Theory, 7, 579-592.

Sheldon, I.M. (2006) "Trade and Environmental Policy: A Race to the Bottom?" Journal of Agricultural Economics, 57, 365-392.

(iii) Outsourcing

Reading:

Bhagwati, J., Panagariya, A. and Srinivasan, T.N. (2005). "The Muddles over Outsourcing." Journal of Economic Perspectives, 18, 93-114.

Amiti, M. and Wei, S-J. (2005). "Fear of Service Outsourcing: Is it Justified?" Economic Policy, 309-347.

Grossman, G.M. and Rossi-Hansberg, E. (2008). "Trading Tasks: A Simple Theory of Offshoring." American Economic Review, 98, 1978-1997.

Leamer, E. E. (2007). "A Flat World, a Level Playing Field, a Small World After All, or None of the Above? A Review of Thomas L. Friedman's *The World is Flat*." Journal of Economic Literature, XLV, 83-126.