

**AED ECONOMICS 6200**  
**INTERNATIONAL ECONOMICS AND POLICY**

**Autumn 2019**

**Instructor: Professor Ian Sheldon**  
**Location: Rm. 221. Agricultural Administration**

**Voice-Mail #: 292-2194**  
**e-mail #: [sheldon.1@osu.edu](mailto:sheldon.1@osu.edu)**  
**web-page: <http://aede.osu.edu/programs-and-research/andersons-program/teaching>**

**Class Location: Agricultural Administration, 246**  
**Time: Monday/Wednesday, 11.10 a.m.-12.30 p.m.**

AEDE 6200 is an MAE/MS-level, three-credit hour course that focuses on international trade theory and its application to trade and policy issues. The course will expose students both to traditional economic analysis relevant to understanding issues relating to trade in commodities, new trade theories and their application, and other trade policy issues.

***Course Objectives/Description:***

- to understand the causes and gains from trade;
- to understand the role of imperfect competition in explaining trade patterns;
- to analyze trade at the firm level;
- to examine the welfare implications of trade policies;
- to understand the political economy of trade policy;
- how the GATT/WTO functions;
- to examine interaction between trade and other policies

***Course Organization:***

The course is organized into two 1-hour/20 minute lectures per week. The course grade will be assigned on the basis of (a) two article reviews, (b) discussion of an article in class, (c) mid-term examination 1 (Oct. 7, in class), and (d) mid-term examination 2 (Dec. 4, in class), with weights of 30%, 10%, 30% and 30% respectively. The journal article reviews, based on published journal articles of your choice (excluding articles presented in class) should each be 5 double-spaced pages, the only constraint being that the journal articles should relate to some topic in international economics. The article reviews are due Friday, November 29.

***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 Canvas.

***Journal Articles:***

Other assigned reading will come from selected journals and book chapters, copies of which will be placed on Carmen.

## ***COURSE OUTLINE:***

### **I. Orthodox 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 and Effects of Trade:**

(a) Heckscher-Ohlin-Samuelson Model

(b) Ricardian Theory

#### *Reading:*

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

Acemoglu, D., Autor, D., Dorn, D., Hanson, G.H., and Price, B. (2016). "Import Competition and the Great Unemployment Sag of the 2000s", *Journal of Labor Economics*, 34, 141-198.

Autor, D.H., Dorn, D., and Hanson, G.H. (2013). "The China Syndrome: Local Labor Market Effects of Import Competition in the United States", *American Economic Review*, 103, 2121-2168.

Autor, D.H., Dorn, D., and Hanson, G.H. (2015). "Untangling Trade and Technology: Evidence from Local Labor Markets", *The Economic Journal*, 125, 621-646.

- Chor, D. (2010). "Unpacking Sources of Comparative Advantage", *Journal of International Economics*, 82, 152-167.
- Dornbusch, R., Fischer, S. and Samuelson, P.A. (1977). "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods", *American Economic Review*, 67, 823-839.
- Eaton, J. and Kortum, S. (2002). "Technology, Geography, and Trade", *Econometrica*, 70, 1741-1779.
- Eaton, J. and Kortum, S. (2012). "Putting Ricardo to Work", *Journal of Economic Perspectives*, 26, 65-90.
- Feenstra, R.C. (2004). *Advanced International Trade: Theory and Evidence*, Chapters 1 and 2.
- Fieler, A.C. (2011). "Nonhomotheticity and Bilateral Trade: Evidence and a Quantitative Explanation", *Econometrica*, 79, 1069-1101.
- Hanson, G.H. (2012). "The Rise of Middle Kingdoms: Emerging Economies in Global Trade", *Journal of Economic Perspectives*, 26, 41-64.
- Haskel, J., Lawrence, R.Z., Leamer, E.E., and Slaughter, M.J. (2012). "Globalization and U.S. Wages: Modifying Classic Theory to Explain Recent Facts", *Journal of Economic Perspectives*, 26, 119-140.
- Partridge, M.D., Rickman, D.S., Olfert, M.R., and Tan, Y. (2016). "International Trade and Local Labor Markets: Do Foreign Firms and Domestic Shocks Affect Regions Differently?" *Journal of Economic Geography*, 17, 375-409.
- Reimer, J.J. and Li, M. (2010). "Trade Costs and the Gains from Trade in Crop Agriculture", *American Journal of Agricultural Economics*, 92, 1024-1039.

## **II. New(er) Trade Theory**

### **(i) Monopolistic Competition and Trade**

#### *Reading:*

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

Evenett, S.J. and W. Keller, "On Theories Explaining the Success of the Gravity Equation." *Journal of Political Economy*, 110, 181-316.

Feenstra, R.C. (2004). *Advanced International Trade: Theory and Evidence*, Chapter 5.

Sheldon, I.M. (2006). "Monopolistic Competition and Trade: Does the Theory Carry any Empirical 'Weight'?" *Journal of International Agricultural Trade and Development*, 2, 1-31.

## **(ii) Firms and Trade**

### *Reading:*

Bernard, A.B., Jensen, J.B., Redding, S.J., and Schott, P.K. (2007). "Firms in International Trade", *Journal of Economic Perspectives*, 21, 15-130.

Bernard, A.B., Jensen, J.B., Redding, S.J., and Schott, P.K. (2011). "The Empirics of Firm Heterogeneity in International Trade", *NBER Working Paper*.

Hasan, S. and Sheldon, I.M. (2016). "Credit Constraints, Technology Choice and Exports: A Firm Level Study for Latin American Countries", *Review of Development Economics*, 20, 547-560.

Helpman, E., Melitz, M.J., and Yeaple, S.R. (2004). "Export versus FDI with Heterogeneous Firms", *American Economic Review*, 94, 300-316.

Helpman, E. (2006). "Trade, FDI, and the Organization of Firms", *Journal of Economic Literature*, 44, 589-630.

Helpman, E., Melitz, M., and Rubinstein, Y. (2008). Estimating Trade Flows: Trading Partners and Trading Volumes", *Quarterly Journal of Economics*, 123, 441-487.

Melitz, M.J. and Trefler, D. (2012). "Gains from Trade where Firms Matter," *Journal of Economic Perspectives*, 26, 91-118.

### **(iii) Evaluating the Gains from Trade**

#### *Reading:*

Head, K. and Mayer, T. (2014). “Gravity Equations: Workhorse, Toolkit a, and Cookbook”, in Handbook of International Economics, Volume 4, G. Gopinath, E. Helpman, and K. Rogoff (eds.)

Cosinot, A. and Rodriguez-Clare, A. (2014) “Trade Theory with Numbers: Quantifying the Consequences of Globalization”, in in Handbook of International Economics, Volume 4, G. Gopinath, E. Helpman, and K. Rogoff (eds.)

Impullitti, G. and Licandro, O. (2018), “Trade, Firm Selection and Innovation: The Competition Channel”, *Economic Journal*, 128, 189-229.

### **(iv) Outsourcing/Offshoring**

#### *Reading:*

Antras, P. and Helpman, E. (2004). “Global Sourcing”, *Journal of Political Economy*, 112, 552-580.

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.

### **III. Trade Policy**

#### **(i) Analysis of Trade Policy:**

*Reading:*

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

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

Feenstra, R.C. (2004). *Advanced International Trade: Theory and Evidence*, Chapters 7 and 8.

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.

#### **(ii) Export Policies and Food Prices:**

*Reading:*

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

Anderson, K. (2010). "Krueger, Schiff and Valdes Revisited: Agricultural and Trade Policy Reform in Developing Countries since 1960", *Applied Economic Perspectives and Policy*, 32, 195-231.

Gouel, C. (2012). "Food Price Volatility and Domestic Stabilization Policies in Developing Countries", *World Bank Working Paper*.

Gouel, C. "Trade Policy Coordination and Food Price Volatility", *American Journal of Agricultural Economics*, 98, 1018-1037.

Martin, W. (2012). "Managing High and Volatile Food Prices", *World Bank Working Paper*.

#### **(iii) Imperfect Competition and Trade Policy**

##### **(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.

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

Brander, J.A. and Spencer, B.J. (1985). "Export Subsidies and International Market Rivalry." *Journal of International Economics*, 18, 83-100.

## (iv) Political Economy of Trade Policy

### *Reading:*

Feenstra, R.C. (2004). *Advanced International Trade: Theory and Evidence*, Chapter 9.

Freund, C. and Çağlar Ö. (2008). "Trade Policy and Loss Aversion", *American Economic Review*, 98, 1675-1691.

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

Grossman, G. and Helpman, E. (1994). "Trade Wars and Trade Talks", *Journal of Political Economy*, 103, 675-708.

Maggi, G. (2014). "International Trade Agreements", in *Handbook of International Economics*, Volume 4, G. Gopinath, E. Helpman, and K. Rogoff (eds.)

Grossman, G. and Helpman, E. (2108). "Identity Politics and Trade Policy", *NBER Working Paper*.

Autor, D.H., Dorn, D., Hanson, G.H., and Majlesi, K. (2017). "Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure", *NBER Working Paper*.



## **(v) Economics of the GATT/WTO**

### *Reading:*

Bagwell, K. and Staiger, R.W. “An Economic Theory of the GATT,” *American Economic Review* 89 (1999): 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.

Bagwell, K. and Staiger, R.W. (2011). “What Do Trade Negotiators Negotiate About? Empirical Evidence from the World Trade Organization”, *American Economic Review*, 101, 1238-1273.

Bagwell, K. and Staiger, R.W. “Can the Doha Round Be a Development Round? Setting a Place at the Table,” NBER Working Paper, 2012.

Zissimos, B. (2007). “The GATT and Gradualism”, *Journal of International Economics*, 71, 41-433.

Mattoo, A. and Staiger R.W. (2019). “Trade Wars: What Do They Mean? Why Are They Happening Now? What Are the Costs?”, *NBER Working Paper*.

## **(vi) Regionalism vs. Multilateralism**

(a) Preferential Trading Arrangements

(b) Spaghetti Bowls and Trade

### *Reading:*

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.

Baldwin, R. (2016). “The World Trade Organization and the Future of Multilateralism”, *Journal of Economic Perspectives*, 30, 95-116.

Aghion, P., Antràs, P, and Helpman, E. (2007). “Negotiating Free Trade Agreements”, *Journal of International Economics*, 73, 1-30.

#### **IV. Trade and the Environment**

##### *Reading:*

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.

McCorriston, 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.

Sheldon, I.M. (2011) “Is There Anything New About Border Tax Adjustments and Climate Policy?” *American Journal of Agricultural Economics*, 93, 553-557.

Sheldon, I.M. and McCorriston, (2017). “Climate Policy and Border Measures: The Case of the US Aluminum Industry”, *Applied Economic Perspectives and Policy*, 39, 242-258.