

ECO 395L COURSE SYLLABUS

INTERNATIONAL TRADE (34015, 34020, 34025)

Instructor

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Lecture: TTH 2:00 – 3:30, BRB 2.136

Course objectives

This course should enhance the student's ability to make informed decisions involving international economic issues. Lectures will emphasize the main theoretical models in international trade with frequent applications to the current international economic environment.

We will first look at the main theories that explain international trade in goods and services as well as the movement of factors of production (labor and capital) across borders. We then look at the various instruments governments have available to limit movements of goods and services across borders and analyze the objectives and consequences of using these policies. We also study the roles of trade blocs such as the European Union and international organizations such as the World Trade Organization.

Key issues in the course will be:

- The Gains from Trade
- Explanations of the Pattern of Trade and Factor Movement
- Trade Policy and Protectionism
- Globalization: Winners and Losers

Prerequisite: Graduate standing is required for this course. Knowledge of multivariable calculus is assumed.

Required textbook

The required textbook for the course is International Trade, 4th edition, by Robert C. Feenstra and Alan M. Taylor. This is an excellent undergraduate textbook which we will supplement with notes and other readings.

Additional Reading

Another excellent undergraduate text is International Trade: Theory and Policy, 10th edition, Paul R. Krugman, Maurice Obstfeld, and Marc Melitz (KOM). Pearson Publishers.

Any other additional readings, which may include scholarly articles or current news publications, will be provided on Canvas.

Grading

Your overall course score will be a weighted average of the percentage scores you receive on each of the graded components of work, with the following weights:

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| • Midterm (Tuesday October 22) | 25% |
| • Final (cumulative) * | 35% |
| • Problem Sets | 40% |

*Official final exam times and locations will be announced later in the semester.

Lecture slides and other posted material

Lecture slides for each topic will be posted on Canvas before we start the topic. Lecture slides include power point outlines of concepts, graphical analysis, equations, and graphs of data.

Schedule of Topics

1. Trade in the Global Economy (F&T Chapter 1)

Basics of trade models and measurement of trade. Historical trends in international trade, reasons for trade, and barriers to trade. Trends in labor migration and foreign direct investment.

2. Ricardian Model of Trade (F&T Chapter 2)

Comparative advantage, absolute advantage, gains from trade. PPFs and Indifference Curves. Autarky (no trade) equilibrium. International trade equilibrium. Gains from trade seen with real wages, indifference curves, terms of trade. Home export supply curve, foreign import demand curve, and international trade equilibrium prices. Multi-good Ricardian model with trade costs.

3. The Specific Factors Model (F&T Chapter 3)

Technology assumptions of the Specific Factor Model, gains from trade and distributions of gains from trade.

4. Trade and Resources: The Heckscher-Ohlin Model (F&T Chapter 4)

Factor intensity, factor abundance and the Heckscher-Ohlin (HO) Theorem. Gains from trade, distribution of the gains from trade, and the Stolper-Samuelson Theorem. Factor Price Equalization. Testing the HO Model and the Leontief Paradox. Attitudes towards trade. Skilled biased technological change. Extensions.

5. Factor Migration (F&T Chapter 5)

Effects of immigration and FDI in the short and long run on real factor prices. Gains from factor migration. Firm decisions regarding FDI.

6. Increasing Returns to Scale (F&T Chapter 6, KOM Chapter 8)

Monopoly, monopolistic competition, increasing returns to scale, and love of variety review. The increasing returns to scale equilibrium in autarky and trade. Gains from trade in the monopolistic competition model. Intra-industry trade, and firm heterogeneity.

7. Import Tariffs and Quotas under Perfect Competition (F&T, Ch. 8)

World Trade Organization (WTO) and General Agreement of Trade and Tariffs (GATT) provisions and history. Consumer, producer surplus and welfare. Effect of import tariffs on small and large countries. Effects of import quotas on a small country.

8. Import Tariffs and Quotas under Imperfect Competition (F&T, Ch. 9)

Tariffs and quotas under home monopoly and under foreign monopoly. Dumping and policy responses to dumping. Infant industry protection.

9. International Agreements: Multilateral versus Regional Trade Agreements, International Agreements on Labor and the Environment (F&T, Ch 11)

Multilateral trade agreements, regional trade agreements, trade creation and trade diversion. Trade and labor right. Trade and the environment: pollution haven hypothesis and evidence of impact of environmental regulation on firm location.