

Topics in Trade and Development

Roman Zakharenko

ICEF, Spring 2016

Syllabus

Course description

The aim of the course is to introduce students to various aspects of modern theories of trade and development, with a focus on a formal theoretical and empirical analysis. The course is divided into two major parts, Trade and Development.

In the Trade part of the course, we will first review recent developments in the classical theories of trade based on comparative advantage of countries. Then, we will go over theories of trade with monopolistic competition and increasing returns to scale. Finally, we will discuss other recent research in international trade, such as theories of offshoring and multinational corporations, the effects of international ethnic networks on trade, the effects of trade on hostility between countries, and some others.

The Development part of the course focuses on the study of effects of institutions and culture on economic development. There will be two segments in this section: the empirical and theoretical sections. Different approaches to understanding and modeling culture will be discussed.

Grade determination The final grade consists of the following elements:

- Two homeworks - 10% of final grade each;
- Paper presentation - 15%;
- In-class quizzes - 5%;
- Final exam - 60%

You are encouraged to work together on homework assignments, but you *must write up the assignment individually*. Self-study is an extremely important element of the course. The paper presentation can be based on a paper listed in the course syllabus but

not discussed in class; alternatively, the presenter can make a selection on his/her own, with prior negotiation with the lecturer.

Prerequisites One important prerequisite is a thorough knowledge of calculus. A knowledge of trade theories at undergraduate level is also a plus, but is not essential. The working language in the course is English.

Changes to the Syllabus Any changes to this syllabus will be announced in class.

Lecturer's office hours Mondays, 15:00 - 16:00, office 3433.

Tentative course outline

Papers marked by “■” will be discussed in class.

1 Trade

1.1 Comparative Advantage and Trade

■ R. Dornbusch, S. Fischer, and P. A. Samuelson. Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods. *The American Economic Review*, 67(5):823–839, 1977

Rudiger Dornbusch, Stanley Fischer, and Paul A. Samuelson. Heckscher-Ohlin Trade Theory with a Continuum of Goods. *The Quarterly Journal of Economics*, 95(2):203–224, 1980

Robert C. Feenstra and Gordon H. Hanson. Globalization, Outsourcing, and Wage Inequality. *The American Economic Review*, 86(2):240–245, 1996

Arnaud Costinot. An elementary theory of comparative advantage. *Econometrica*, 77(4):1165–1192, 07 2009

■ Arnaud Costinot. On the origins of comparative advantage. *Journal of International Economics*, 77(2):255 – 264, 2009

Arnaud Costinot and Jon Vogel. Matching and Inequality in the World Economy. *SSRN eLibrary*, 2009

Jonathan Eaton and Samuel Kortum. Technology, geography, and trade. *Econometrica*, 70(5):1741–1779, 2002

■ Nathan Nunn. Relationship-specificity, incomplete contracts, and the pattern of trade. *Quarterly Journal of Economics*, 122(2):569–600, 2007

1.2 Monopolistic Competition and Trade

- Paul Krugman. Scale Economies, Product Differentiation, and the Pattern of Trade. *The American Economic Review*, 70(5):950–959, 1980
- Marc J. Melitz. The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity. *Econometrica*, 71(6):1695–1725, 2003
- Elhanan Helpman, Oleg Itskhoki, and Stephen Redding. Inequality and Unemployment in a Global Economy. *Econometrica*, 78(4):1239–1283, 2010
- Andrew B. Bernard, Stephen J. Redding, and Peter K. Schott. Comparative Advantage and Heterogeneous Firms. *Review of Economic Studies*, 74(1):31–66, 2007
- Marc J. Melitz and Gianmarco I.P. Ottaviano. Market Size, Trade, and Productivity. (11393), June 2005
- Elhanan Helpman, Marc J. Melitz, and Stephen R. Yeaple. Export versus FDI with Heterogeneous Firms. *The American Economic Review*, 94(1):300–316, 2004

1.3 Other Topics in Trade

- Luis Garicano and Esteban Rossi-Hansberg. Organization and Inequality in a Knowledge Economy. *Quarterly Journal of Economics*, 121(4):1383–1435, 2006
- Pol Antras, Luis Garicano, and Esteban Rossi-Hansberg. Offshoring in a Knowledge Economy. *Quarterly Journal of Economics*, 121(1):31–77, 2006
 - James E. Rauch. Networks versus markets in international trade. *Journal of International Economics*, 48(1):7 – 35, 1999
- James E. Rauch and Vitor Trindade. Ethnic Chinese Networks in International Trade. *Review of Economics and Statistics*, 84(1):116–130, 2002
- Philippe Martin, Thierry Mayer, and Mathias Thoenig. Make Trade Not War? *Review of Economic Studies*, 75(3):865–900, 2008
- Philippe Martin, Thierry Mayer, and Mathias Thoenig. Civil Wars and International Trade. *Journal of the European Economic Association*, 6(2-3):541–550, 2008
- James Feyrer. Distance, Trade, and Income - The 1967 to 1975 Closing of the Suez Canal as a Natural Experiment. Working Paper 15557, National Bureau of Economic Research, December 2009

2 Development

2.1 Empirical Research in Development

Daron Acemoglu, Simon Johnson, and James A. Robinson. The colonial origins of comparative development: An empirical investigation. *The American Economic Review*, 91(5):1369–1401, 2001

Daron Acemoglu, Simon Johnson, and James A. Robinson. Reversal of fortune: Geography and institutions in the making of the modern world income distribution. *The Quarterly Journal of Economics*, 117(4):1231–1294, 2002

■ Guido Tabellini. Culture and institutions: Economic development in the regions of europe. *Journal of the European Economic Association*, 8(4):677–716, 2010

Nathan Nunn. The long-term effects of africa’s slave trades*. *Quarterly Journal of Economics*, 123(1):139–176, 2008

Nathan Nunn and Leonard Wantchekon. The Slave Trade and the Origins of Mistrust in Africa. *SSRN eLibrary*, 2009

Luigi Guiso, Paola Sapienza, and Luigi Zingales. Long term persistence. Working Paper 14278, National Bureau of Economic Research, August 2008

Lorraine Uhlener and Roy Thurik. Postmaterialism influencing total entrepreneurial activity across nations. *Journal of Evolutionary Economics*, 17:161–185, 2007. 10.1007/s00191-006-0046-0

■ Wolfgang Keller. Geographic localization of international technology diffusion. *The American Economic Review*, 92(1):120–142, 2002

Enrico Spolaore and Romain Wacziarg. The diffusion of development. *The Quarterly Journal of Economics*, 124(2):469–529, 2009

2.2 Theoretical Research in Development

Alberto Bisin and Thierry Verdier. On the cultural transmission of preferences for social status. *Journal of Public Economics*, 70(1):75 – 97, 1998

Alberto Bisin and Thierry Verdier. The economics of cultural transmission and the dynamics of preferences. *Journal of Economic Theory*, 97(2):298 – 319, 2001

■ Oded Galor and Omer Moav. Natural selection and the origin of economic growth. *Quarterly Journal of Economics*, 117(4):1133 – 1191, 2002

- Oded Galor and Stelios Michalopoulos. The Evolution of Entrepreneurial Spirit and the Process of Development. *SSRN eLibrary*, 2006
- Alberto Bisin, Ulrich Horst, and Onur Ozgur. Rational expectations equilibria of economies with local interactions. *Journal of Economic Theory*, 127(1):74 – 116, 2006
- Guido Tabellini. The scope of cooperation: Values and incentives. *Quarterly Journal of Economics*, 123(3):905–950, 2008
- Harold L. Cole, George J. Mailath, and Andrew Postlewaite. Social norms, savings behavior, and growth. *Journal of Political Economy*, 100(6):1092, 1992
- Arthur J. Robson. Status, the distribution of wealth, private and social attitudes to risk. *Econometrica*, 60(4):837–857, 1992
- Roland Benabou and Jean Tirole. Incentives and prosocial behavior. *The American Economic Review*, 96(5):1652–1678, 2006
- Roland Benabou and Jean Tirole. Belief in a just world and redistributive politics. *Quarterly Journal of Economics*, 121(2):699–746, 2006
- Ingela Alger and Jorgen W. Weibull. Kinship, incentives, and evolution. *The American Economic Review*, 100(4):1725–1758, 2010