HIGHER SCHOOL OF ECONOMICS
DEPARTMENT OF ECONOMICS

INTERNATIONAL TRADE

Fall, 2017
Syllabus

Lectures and seminars: 13.40-16.30
Room: 2206
Professor: Alexander Tarasov
Office: Shabolovka Campus, building 1, room 1218
E-mail: atarasov@hse.ru
Office Hours: Wednesday, 16:00 – 17:30, room 1218 (by appointment via e-mail)

COURSE DESCRIPTION

The purpose of this course is to introduce students into the classical and modern theories of international trade. In particular, I am going to address three main questions: (i) What are the patterns of trade we observe in the real world (who sells what to whom?) and how can we explain them? (ii) If international trade is welfare improving, can we say something about the magnitude of these gains from trade? (iii) What is the effect of different trade policies on country's welfare? The course will be divided into five parts. In the first part, we will study the classical trade theories based on the principle of a comparative advantage, which is originated to Ricardo. In the second part, we will talk about the, so called, new trade theory that was developed by Paul Krugman (he won a Nobel Prize for this theory) and, then, Elhanan Helpman among others. The third part will be devoted to the analysis of various instruments of trade policy under different assumptions for the market structure. We will try to understand which policy is beneficial for country's welfare and in which cases. In the fourth part, we will try to understand the magnitude of the welfare gains. This part of the course will be based on recent seminal trade papers. Specifically, we will focus on the quantitative macro approach to understanding the size of the gains from trade. In addition, we consider a study based on a trade natural experiment. Finally, if we have time, we will discuss some assorted topics in trade. To complement the lectures, throughout the course, I will be assigning supplementary readings that will present important findings on the topics covered by the lectures. The only pre-requisite for this course is intermediate level microeconomics.

ASSESSMENT

The final grade is cumulative and based on two elements: a mid-term test and a final test. The weight of the mid-term is 45% and of the final test is 55%. The mid-term test will be administered towards the end of 1st module and the final one at the end of the semester. The final test will be cumulative (that is, it will cover all the material). There will be no make-up for the mid-term test. If a student misses it without an official excuse, s/he will get zero. With an official excuse (e.g. illness with a valid medical proof), her or his final test score will account for 100% of the course grade. Since the final test is expected to be more difficult (as it covers all the topics taught in the class) than the mid-term test, I strongly urge you not to miss the mid-term test. Make-up for the final test will be administered only in case of illness and only if a valid medical report is presented.

READINGS AND RESOURCES

1. **Main textbooks:**
   Feenstra, Robert: *Advanced International Trade*, Princeton University Press, 2004 (or the 2016 edition)
   International Economics: Theory and Policy, 9th edition (Paul Krugman, Maurice Obstfeld and Marc J. Melitz).
2. **Other suggested textbooks:**
   McLaren, John: *International Trade*, Wiley, 2012.
3. Supplementary readings will be posted on the course webpage.

COURSE OUTLINE (subject to changes during the course)

PART 1: Comparative Advantage and Trade

Role of differences in productivity: The Ricardian model

- The concept of comparative advantage
- Effects of international trade in the Ricardian model with two goods
- The extension of the framework with two goods to the world with a continuum products, the role of trade costs

Role of differences in factor endowments: The Heckscher–Ohlin model

- An equilibrium in a small open economy (a partial equilibrium approach)
- Factor-price equalization
- Effects of international trade in the general equilibrium setup
- The gains from trade and the distributional consequences of trade
- Empirical evidence on the Heckscher-Ohlin model (the Heckscher-Ohlin-Vanek model)

PART 2: Increasing Returns to Scale (Economies of Scale) and Trade

- The CES consumer preferences
- The theory of monopolistic competition with homogenous firms
- The equilibrium in the model of trade with CES preferences and monopolistic competition
- The gains from trade
- The home market effect (brief discussion)
- The role of firm heterogeneity in determining the gains from trade

PART 3: The Magnitude of the Gains from Trade

- The gravity equation: theory and empirics
- The magnitude of the gains from trade: the ACR formula
- Measuring the gains from trade: a natural experiment approach

PART 4: International Trade Policy

- Trade policy under perfect competition
- Trade liberalization and economic development (growth, poverty, etc.)

PART 5: Assorted Topics (if we have time, will be decided later)

- The effects of offshoring
- Firm boundaries: outsourcing vs. offshoring
- Internal firm organization and globalization
- Political economy of trade: lobbying tariffs, trade and military conflicts
- Trade and labor (capital) market imperfections