

ECON 5613 – Graduate International Trade
Department of Economics - University of Oklahoma

Spring, 2017

Course Description:

This class aims to give a survey of some (though not all) the main topics in the current Trade literature. Of course time will not allow to cover every topic, nor can we even master any one topic. But it will give you the basis through which you can then delve deeper into the question you find most interesting.

Although I hope this course ultimately provides you with the knowledge to go after an empirical question, notice that we cannot escape the very important theoretical work that dominates this literature. Therefore, the class is a mix of theoretical foundations while trying to provide the empirical assessments that have been conducted using theory as its foundation. The beginning of the class especially will be more focused on theory as we cover the fundamental models that underlie all papers in the literature. To do this, the Feenstra textbook is essential reading and so we will use this a lot at the beginning. The class will seem more like a first-year class for these topics and I will assign problems from the textbook. As we advance to topics that are derivatives of the core models we will rely more on reading published articles (mostly newer ones from the past 10 years or so). More of these papers will be presented by the students.

Course Objectives:

The objective is to give you a foundation for what are the core models used in trade and how those are used in the most recent literature. There is not enough time to get into great detail on any one topic, but if you capture the math and intuition of the core models and get a good idea of what questions are being asked in the most recent literature, that should provide you a starting point to go out and become an expert on one topic that you find the most fruitful for your dissertation.

Within the course, the most important aspect is that you put in the time before each lecture to do the required readings. There will be *a lot* of reading (as is probably the case in most of your 2nd/3rd year courses). I will announce which reading is necessary for the next lecture, and I expect you to have done that before class. It is just not possible in the graduate class to talk about a topic if the student has not done the reading before hand because the lecture will not make sense. And because this will allow for in-class discussion, think of each students' reading as a positive externality for the whole class by stimulating discussion. If everyone shirks and does not cooperate the class is dull and everyone learns less.

Textbook Information:

Main Textbook: *Advanced International Trade: Theory and Evidence, 2nd Edition* by Robert C. Feenstra.

Links to additional readings will be available through the class website or I will expect you to find the papers online.

Other Useful Books:

- *Discrete Choice Theory and Product Differentiation*, Anderson, De Palma and Thisse.
- *Theory of International Trade: A Dual, General Equilibrium Approach*, Dixit and Norman.

Course Website:

The Canvas site will be used mostly to upload files (papers etc.) used in class.

Grading:

Your grade will consist of the following assignments:

- A few problem sets on the theory covered in class. (20%)
- Presentations of papers. Throughout the class I will have you present many of the papers instead of me lecturing on them (each presentation being 20-30 min). Each student will end up presenting at least 3-4 times. (30%)
- One referee report of a paper of your choosing (but you will have to get it approved by me beforehand). This paper must be unpublished, so I want you to use the working paper series at www.nber.org (must be under the category of ITI which are trade papers, although ITI might be only one of the fields since most papers have multiple fields). (20%)
- Research proposal (7-10 pages) of a topic for a paper that you can start immediately following the class in the next summer. You should identify not only your idea, but how you can carry the idea forth (method, theory, data, etc.) (30%)

Class Schedule and Topics (preliminary and subject to change):

Part I: Trade and Reallocation

1. Gains from Trade and the Ricardian Model (Week 1 and 2)
 - Feenstra, Ch. 1.
 - *Bernhofen and Brown (2004): "A Direct Test of the Theory of Comparative Advantage: The Case of Japan."
 - *Bernhofen and Brown (2005): "An Empirical Assessment of the Comparative Advantage Gains from Trade: Evidence from Japan."
2. Heckscher-Ohlin, Factor Proportions, Ricardo-Viner, and Empirical Tests of HOV Theory. (Week 3)
 - Feenstra, Ch. 2 and 3.
 - *Davis and Weinstein (2001 AER): "An Account of Global Factor Trade."

- Trefler (1995)
 - Harrigan (1997 AER): "Technology, Factor Supplies, and International Specialization: Estimating the Neoclassical Model."
 - Choi and Krishna (2004 JPE) "The Factor Content of Bilateral Trade: An Empirical Test."
 - Schott (2004 QJE) "Across-Product Versus Within-Product Specialization in International Trade."
 - *Eaton and Kortum (2002 AER): "Geography, Technology, and Trade." [Cover the comparative advantage with heterogeneity part; Gravity Model in Section 5.]
 - - Dornbusch, Fischer, and Samuelson (1977 and 1980): "HO Trade Theory in a Ricardian Model with a Continuum of Goods."
3. Monopolistic Competition and the Gravity Equation (Week 4 and 5)
- Feenstra, Ch.5
 - Dixit and Stiglitz (1977)
 - Krugman (1980)
 - *Anderson, J. and E. van Wincoop (2003 AER), "Gravity with Gravitas: A Solution to the Border Puzzle."
 - Anderson and Van Wincoop (2004 JEL): "Trade Costs."
 - Head and Mayer (2013 Handbook of Economics): "Gravity Models – Workhorse, Toolkit and Cookbook." [Also covers some of Topics 4 and 5].
 - *Santos and Tenreyro. (2008 RESTAT) ``The Log of Gravity"
 - Helpman, Melitz, and Rubinstein (2008 QJE). "Estimating Trade Flows: Trading Partners and Trading Volumes."
 - Broda and Weinstein (2006 QJE): "Globalization and the Gains from Variety."
4. Heterogeneous Firms: (Week 6)
- Feenstra, Ch. 6
 - Bernard, Jensen, Redding and Schott (2007): "Firms in International Trade."
 - *Trefler (2004 AER): "Long and Short of CUSFTA"
 - *Melitz (2003 Econometrica): "The Impact of Trade on Intra-industry Reallocations and Aggregate Productivity."
 - Chaney (2008 AER): "Distorted Gravity: The Intensive and Extensive Margins of International Trade."
 - Bernard, Redding, and Schott (2007 Restud): "Comparative Advantage and Heterogeneous Firms."
 - Melitz and Redding (2013 Handbook of Economics): "Heterogeneous Firms and Trade."
5. Gravity Models with Heterogeneous Firms and Gains from Trade (Week 7)
- Costinot, Donaldson, and Komunjer (2012 Restud): "What Goods Do Countries Trade? A Quantitative Exploration of Ricardo's Ideas."
 - Caliendo and Parro (2015): "Estimates of the Trade and Welfare Effects of NAFTA."
 - *Arkolakis, Costinot, and Rodriguez-Clare (2012 AER). "New Trade Models, Same Old Gains?"
 - *Chen and Novy (2012 JIE): "Gravity Trade Integration and Heterogeneity Across Industries."

- *Costinot and Rodriguez-Clare (2013 Handbook of Economics): "Trade Theory with Numbers."
 - Simonovska and Waugh (2015): Trade Models, Trade Elasticities and the Gains from Trade."
 - Bas, Mayer and Thoenig (2014): "From Micro to Macro: Demand and Supply-side Determinants of the Trade Elasticity."
6. Firm-level Analysis: Productivity Estimation and Calibration (Week 8 (before Spring break))
- De Loecker (2011)
 - *Pavcnik (2002 Restud). "Trade Liberalization, Exit, and Productivity Improvements: Evidence from Chilean Plants."
 - Topalova and Khandelwal (2011 RESTAT): "Trade Liberalization and Firm Productivity: The Case of India."
 - Roberts and Tybout (1997 AER): "The Decision to Export in Colombia: An Empirical Model of Entry with Fixed Costs."
 - Foster, Haltiwanger and Syverson (2008 AER): "Reallocation, Firm Turnover and Efficiency: Selection on Productivity or Profitability?"

Part II: Trade taking *within-firm* adjustments seriously.

- 7. Extensions to the Literature on Firm Heterogeneity and Gains from Trade (week 10 and 11)
 - a. Non-homothetic models and variable markups.
 - Feenstra Ch. 8
 - *Melitz and Ottaviano (2008 Restud): Market Size, Trade, and Productivity
 - *Epifani and Gancia (2011 JIE) "Trade, Markup Heterogeneity and Misallocations."
 - *De Loecker and Warzynski (2012 AER) + De Loecker, Goldberg, Khandelwal and Pavcnik (2015 Econometrica) – Estimating Markups.
 - Feenstra and Weinstein (2014): "Globalization, Markups and US Welfare."
 - Dhingra and Morrow (2015): "Monopolistic Competition and Optimum Product Diversity under Heterogeneous Firms." [sub category of IO papers (Basu and Fernald 2002; Petrin and Levinsohn 2012; Mankiw and Whinston 1986].
 - *Berman, Martin, and Mayer (2012 QJE): "How do Different Exporters React to Different Exchange Rate Changes?"
 - *Amiti, Itskhoki, and Konings (2016): "International Shocks and Domestic Firms"
 - Edmund, Midrigan and Xu (2015): "Competition, Markups, and the Gains from Trade."
 - b. Multi-product Firms
 - Mayer, Melitz and Ottaviano (2014 AER): "Market Size, Competition, and the Product Mix of Exporters."
- 8. Offshoring, Multinationals, and Wage Inequality (week 12 and 13)
 - a. Multinationals and Supply Chains: What Does Offshoring Look Like/Measures of Offshoring
 - Feenstra, Ch.4

- Feenstra and Hanson (1999) [Undergraduate lecture slides].
- Lectures: Heiwei Tang and Pol Antras.
- *Bernard, Jensen, Redding and Schott (2016 JEL): "Global Firms."
- *Johnson and Noguera (2012 JIE): "Accounting for Intermediates: Production Sharing and Trade in Value Added."
- *Tang and Kee (2016 AER): "Domestic Value Added in Exports: Theory and Evidence from China."
- Feenstra (2017 NBER): "Statistics to Measure Offshoring and its Impact?"
- Yi (2003 JPE): "Can Vertical Specialization Explain the Growth in World Trade?"
- Helpman, Melitz and Yeaple (2004)
- Antras (2004 JPE): "Global Sourcing."
- Antras and Rossi-Hansberg (2009): "Organizations and Trade" or Grossman and Rossi-Hansberg (2008): "A Simple Theory of Offshoring."

b. Importing Intermediate Inputs and Productivity

- *Amiti and Konings (2007 AER): "Trade Liberalization, Intermediate Inputs, and Productivity."
- *Goldberg, Khandelwal, Pavcnik and Topalova (2010 QJE): "IMPORTED INTERMEDIATE INPUTS AND DOMESTIC PRODUCT GROWTH: EVIDENCE FROM INDIA."
- *Hummels, Jorgensen, Munch, and Xiang (2014 AER) "The Wage and Employment Effects of Outsourcing: Evidence from Danish Matched Worker Firm Data.".
- Amiti and Wei (2009 WE): "Service Offshoring and Productivity: Evidence from the US."
- Boehm, Flaaen, and Pandalai-Nayar (2016)
- Blaum, Lelarge and Peters (2016): "Gains from Input Trade."
- Gopinath and Neiman (2014 AER): "Trade Adjustment and Productivity In Large Crisis."

c. Wage Inequality

- Goldberg and Pavcnik (2007 JEL), "Distributional Effects of Globalization in Developing Countries".
- *Verhoogen (2008 QJE): "Trade, Quality Upgrading and Wage Inequality in the Mexican Manufacturing Sector."
- *Fieler, Eslava, and Xu (2016): "Trade, Quality Upgrading, and Input Linkages: Theory and Evidence from Colombia."
- Bustos (2011 AER): "Trade Liberalization, Exports, and Technology Upgrading: Evidence on the Impact of MERCOSUR on Argentinian Firms."
- Bustein and Vogel (2016 JPE): Globalization, Technology and the Skill Premium: A Quantifying Analysis.
- Thomas Sampson (2014 AEJ): "Selection Into Trade and Wage Inequality."
- Fajgelbaum and Khandelwal (2015 QJE): "Measuring the Unequal Gains From Trade.".

9. Vertical Product Differentiation (week 14)

- Feenstra, Appendix B and Textbook by Anderson, De Palma and Thisse (1992)
- *Hallak (2006): "Product Quality and the Direction of Trade"
- Khandelwal (2010 Restud): "The Long and Short of Quality Ladders."
- Di Comite, Thisse, Vanderbussche (2014)

- Fajgelbaum, Grossman and Helpman (2013)
- *Dingel (2016) – “The Determinants of Quality Specialization.”
- Fenstra and Romalis (2014)

Other: Labor Topics (Regional Variation)

10. Other Labor and Distributional Effects of Trade (week 15)
 - *Autor, Dorn and Hanson (2013 AER): “The China Syndrome: Local Labor Market Effects of Import Competition in the US.”
 - Acemoglu, Autor, Dorn and Hanson (2016 JLE): “Import Competition and the Great US Employment Sag of the 2000s.”
 - Pierce and Schott (2016): “The Surprisingly Swift Decline of US Manufacturing Employment.”

Extra Topics: Most Likely Not Covered

11. Import Tariffs and Dumping (week 15)
 - Feenstra Chs. 8 and 9
 - Chad Bown data on anti-dumping
 - *Konings and Vandenbussche (2013 RWE): Anti dumping Hurts Exporters: Firm-level Evidence.”
 - Broda, C, N Limao and D. Weinstein (2008 AER), “Optimal Tariffs and Market Power: The Evidence”
 - G., Grossman, and E. Helpman. "Protection for Sale." *American Economic Review* 84, no. 4 (1994): 833–50.
 - Ossa, R. "A 'New Trade' Theory of GATT/WTO Negotiations."
12. Economic Geography
 - Redding and Sturm (2007 AER)
 - Greenstone, Hornbeck and Moretti (2010 JPE)
 - Textbook by Fujita, Masahisa, Krugman, and Venables (1999): “The Spatial Economy: Cities Regions and International Trade.”
 - Caliendo, Parro, Rossi-Hansberg, and Sartre (2016) “The Impact of Regional and Sectoral Productivity Differences on the US Economy.”
13. Credit Constraints and Trade
 - Manova (2012 Restud)
 - Finance and Misallocation

Papers to be presented by students (most dates TBA depending on our progress):

Bernhofen and Brown (2004): “A Direct Test of the Theory of Comparative Advantage: The Case of Japan.” Combine this with the 2005 paper.

Davis and Weinstein (2001): “An Account of Global Factor Trade.”

Santos and Tenreyro (2008)

Trefler (2004)

Chen and Novy (2012)

Pavcnik (2002)

Epifani and Gancia (2011)

De Loecker and Warzynski (2012)

Berman, Martin and Mayer (2012)

Tang and Kee (2016) or Johnson and Noguera (2012)

Amiti and Konings (2007)

Goldberg, Khandelwal, Pavcnik and Topalova (2010 QJE)

Hummels, Jorgensen, Munch, and Xiang (2014)

Verhoogen (2008)

Hallak (2006): "Product Quality and the Direction of Trade"

Autor, Dorn and Hanson + Acemoglu, Autor, Dorn and Hanson.

Konings and Vandenbussche (2013)