**Econ 5560: Advanced International Trade and Investment**  
Hong Kong University of Science and Technology  
School of Business and Management  
Department of Economics  
Spring 2017

Lecture Classroom and time: G001, CYT Bldg (Cheng Yu Tung Building) ; Tu 16:30-20:20  
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**Course Description and Objectives**

This is an advanced course on the economics of international trade and foreign direct investment (FDI). In this course, students learn to analyze the causes and consequences of international trade and foreign direct investment. Topics include the sources of gains from trade, the determinants of trade pattern, offshoring, multinational production, geography & trade, and implications of trade policies. We shall discuss models of comparative advantage and models of increasing returns to scale, both without and with heterogeneous firms. Various new trade models are discussed and compared. The importance of innovation and technology diffusion in global trade is explored.

This is a 4-credit course for PhD students, but it is open to MSc students (who will be assessed with lower standards). MSc students who take this course and are willing to be assessed with the same standards as the PhD students can have the credits transferred to our PhD program in the future if he/she joins our PhD program. MSc students who do not plan to transfer their credits to our PhD program in the future are held to lower standards: 1. we only count the best 4 out of 5 problem sets; 2. we only count the best 5 out of 6 questions in the final exam; 3. marks in the class presentation will be increased by 20%.

**Learning Outcome**

Upon completing the course, students should be able to:  
1. know the different theories that seek to explain the causes of trade, gains from trade and pattern of trade flows;  
2. analyze the impact of trade on individual economies and to the world, including the aspects of welfare, growth and resource allocation;  
3. analyze the causes and consequences of trade protection;  
4. explain the gap between the theory and observed facts about international trade;  
5. know the economics of the world trading system.

**Teaching Approach**

This course is primarily delivered through lectures, class discussion, class presentation and homework.
Homework assignments: Practice problem solving, apply models to analyze current economic issues

Grading:
Based on performance in problem sets (25%), class presentation (20%), final examination (50%) and participation (5%).

Class presentation:
Each student has to choose a paper, preferably in the course outline (agreed by the instructor) and present the paper in class. The presentation is one hour 30 minutes long, followed by 15 minutes of discussion. If the paper is too long, you may just present part of it with the permission of the instructor.

Problem sets:
There will be about five problem sets given to you as the course proceeds. The TA will grade them and answer keys will be distributed. The problem sets are good guidelines for preparing for the examination(s). Therefore, you should take them seriously.

The following may or may not be implemented, depending on the number of students in the class: To facilitate learning, students are requested to present the answers in the class by the time the homework is due. Students are requested to make a photo copy of their homework answers and submit the original to the instructor. Then the presentation begins after all answers are submitted. The answer key will be distributed after the presentations. Performance in problem set presentation count towards participation.

Final exam:
It will cover all the material taught in the class.

Required texts:
Robert C. Feenstra, Advanced International Trade, Princeton University Press (abbreviated as F)

Recommended texts:
Paul Krugman, Maurice Obstfeld and Marc Melitz, International Economics: Theory and Policy, ninth/tenth edition (abbreviated as KO)


Varian, Hal, Microeconomic Analysis, W. W. Norton, third edition

General References
AK. Dixit and V. Norman, Theory of International Trade, 1980, Cambridge University Press. (abbreviated as DN)

Ronald Jones and Peter Kenen (eds.), Handbook of International Economics, vol.1, Elsevier-North Holland (abbreviated as JK)

Gene Grossman and Elhanan Helpman, Innovation and Growth in the Global Economy, MIT Press (abbreviated as GH)

Elhanan Helpman and Paul Krugman, Market Structure and Foreign Trade, MIT Press, 1985. (abbreviated as HK)


**Course Outline**

Papers with an asterisk (*) are ones students can choose to present in class to satisfy part of the course requirements.

Items in bold type will be covered in depth in class. Items italic type should be read by PhD students in order to gain sufficient understanding of the whole picture.

1. Comparative advantage, gains from trade and Ricardian model

KO ch. 3;
F pp.1-4
Notes


Jones and Neary, “*The Positive Theory of International Trade*,” chapter 1 in JK.


2. Factor-Proportions model (Heckscher-Ohlin model) and its implications

KO ch. 5 (and appendix)
F pp.4-35
Notes

3. Heckscher-Ohlin model: empirical evidence

F pp.35-61
Notes

Leamer, Edward 1984, Sources of Comparative Advantage, MIT Press


4. Many goods and factors: theory

1. KO ch 4, or chapter on Specific Factors Model in older edition
2. F pp.64-75, 88-93
3. Notes


5. Many goods and factors: empirical evidence

F pp.93-97
Notes


6. External economies and trade

KO ch. 7
Helpman in Handbook (JK) pp.337-348
HK, Ch 3, especially pp.51-55
Notes


7. Internal economies, imperfect competition and trade, with homogeneous firms
F pp.137-146, 165-169
KO Ch. 8
Notes


P. Krugman, “Increasing returns and theory of International Trade,” in ch.5 of K


8. Internal economies, imperfect competition and trade, with heterogeneous firms

KO Ch. 8
Notes


FAN, Haichao; Edwin LAI and Han QI, “Global Gains from Reduction of Trade Costs,” manuscript, 2016.

9. The gravity equation

F pp.146-153 (general), 161-163 (using fixed effects)
KO ch. 2
Notes


10. Fragmentation of production


11. Trade and Geography
12. Trade, innovation, imitation and growth

GH Ch. 9, 11, 12
F pp. 348-363, 366-367


13. Multinationals

F 371-386, 387-390 (ignore technical detail), 396-399, 406-407


*Melitz, Marc, Elhanan Helpman and Stephen Yeaple, “Export Versus FDI with Heterogeneous Firms” AER (Mar 2004).