Preliminary Syllabus

Econ 5560: Advanced International Trade and Investment
Hong Kong University of Science and Technology
School of Business and Management
Department of Economics
Spring 2018

Lecture Classroom and time:
Instructor: Prof. Edwin LAI, Department of Economics
Office: LSK Room 6079; Office Hours: TBA
Office Phone: 2358-7611; E-mail: elai@ust.hk

Teaching Assistant: TBA
Office: TBA
Office hours: TBA
E-mail: TBA

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: The total marks 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.

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<th>Teaching and Learning Activities</th>
<th>Roles in the Course</th>
<th>Course Learning Outcome addressed</th>
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<td>Lectures with in-class discussions</td>
<td>Explain key concepts and models to students</td>
<td>1, 2, 3, 4, 5</td>
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Homework assignments | Practice problem solving, apply models to analyze current economic issues | 1, 2, 3, 5

Grading:
Based on performance in problem sets (25%), final examination (3 hour 30 minutes; 45%) and participation (5%). In addition, there would be a midterm exam (two hour) or class presentation, which would account for 25% of the marks. I shall decide in the first class session whether a midterm exam or a class presentation is to be adopted through consultation with the students.

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.

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)

Paul Krugman, Rethinking International Trade, MIT Press, 1990 (abbreviated as K)


Course Outline
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

*P. Krugman and J. Brander, “*A reciprocal dumping model of international trade,*” Journal of International Economics, 1983, pp.313-321 (also in ch.4 of K)

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

KO Ch. 8

Notes


Dai, Mi; Madhura Maitra and Miaojie Yu, “*Unexceptional Exporter Performance in China? The Role of Processing Trade,*” working paper, Columbia University.

*Arkalogis, Costas; Costinot Arnaut and Rodriguez-Clare Andres, “*New Trade Models, Same Old Gains,*” AER, 2012.


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).

Dave Donaldson, Bates Clark Medal recipient 2017:

https://www.aeaweb.org/about-aea/honors-awards/bates-clark/david-donaldson