VNIVERSITAT ⅅ VALÈNCIA

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Facultat d'Economia

GUÍA DOCENTE
Syllabus
Course 2022-23

Subject:

International Trade

I.- COURSE INFORMATION

Title:	International Trade
Compulsory/optional:	Optional
Degree:	Grado de Economía
Department:	Estructura Económica
Lecturer:	Francisco Requena Silvente Facultad de Economía Ed. Departamental Oriental Office 4F04 francisco.requena@uv.es Skype: **franresil** Office hours: Monday and Thursday 9.30 - 12.00

II.- AIM OF THE COURSE

This course will analyse the causes and consequences of international trade, investment and migration. In particular, we will study why nations trade, what they trade and the gains from trade. Firm decision to export and/or to invest abroad will also be examined. The course will use extensively micro-economic tools. Topics covered include main models of international trade and its extensions, the study of multinationals, offshoring, global value chains and some trade policy tools.

III.- COURSE OUTLINE

SUMMARY

Topic 1.-	Basic facts and issues in international trade. Gains from trade.
Topic 2.-	Trade, technology and wages. The Ricardo model.
Topic 3.-	Trade and income distribution. The factor-specific model.
Topic 4.-	Trade and factor abundance. The Heckscher-Ohlin model.
Topic 5.-	International movement of factors: migration and foreign direct investment.

Topic 6.-   Imperfect competition, scale economies and product differentiation in international trade.

Topic 7.-   Multinationals, offshoring, global value chains.

Topic 8.-   Trade policy

IV.- COMPETENCES

At the end of the course the student will:

1. Become familiar with the use of international databases.

2. Evaluate the way of measuring the international trade variables.

3. Identify through the theoretical models discussed, the benefits that international trade provides to countries through specialization.

4. Evaluate the role played by the different international institutions on trade regulation and the effects of the applied trade policy.

5. Assess the impact of trade liberalization on the well-being of countries.

V.- SOCIAL SKILLS

The development of the International Trade course must:

1. Provide students with the logical and cognitive instruments necessary to develop their critical capacity when dealing with current economic problems and debates.

2. Develop the ability to present conceptual arguments and information of interest to defend their positions on issues of relevance in the economic debate.

3. To familiarize students with the characteristics of current International Trade, whose essential features will form part of their cultural baggage and will substantially influence their professional career.

VI.- CONTENTS AND TIMETABLE

[What follows is a tentative schedule for the course, which might be subject to change]

CONTENTS

Topic 1.- MAIN QUESTIONS IN INTERNATIONAL TRADE.

SUMMARY:

The aim of this topic is to introduce the student to the subject, explaining its importance and the interest that its study has to know the implications that trade (movement of goods, services, people and capital) has on countries´ and citizens´ welfare. The main issues to highlight are those related to the nature of trade relations in the 21st century compared to the last century, which justify the need for new economic models that help us understand the pattern of trade and the gains from trade.

CONTENTS:

1.1.- Why study international trade?

1.2.- Important questions: trade pattern, trade profits, distributive effects, business policy

1.3.- Stylized facts of international trade.

BASIC READING:

Feenstra & Taylor (2021), chap. 1.

OTHER READING:

Frédéric Bastiat: "Petition of the Candle Makers" , Economic Sophism, 1845 (https://www.youtube.com/watch?v=LCMlcC98cgA)

CONTINUOUS EVALUATION

Exercises topic 1

Exercise on group: Use of databases and indicators of international trade. Chapter 1, Analyzing trade flows, in "A practical guide to trade policy analysis", https://vi.unctad.org/tpa/

Topic 2.- TRADE, TECHNOLOGY AND WAGES. THE RICARDO MODEL.

SUMMARY:

We focus on the concept of comparative advantage and use the Ricardo model of trade to explain the gains from trade.

CONTENTS:

2.1.- The concept of comparative advantage

2.2.- Ricardo's model.

2.2.1.- The hypotheses.

2.2.2.- Production possibilities.

2.2.3.- Prices in autarky

2.2.4.- Determination of prices in free trade

2.2.5.- Trade pattern and trade profits

2.3.- Empirical evidence of Ricardo's Theory.

BASIC READING:

Feenstra, R. & Taylor, A. (2021): chap. 2.

OTHER READING:

Bernhofen, Daniel M. and John C. Brown, "Gains from trade: evidence from nineteenth century Japan" Microeconomic Insights August 31, 2017

CONTINUOUS EVALUATION

Test online and exercises topic 2

Topic3.- TRADE AND INCOME DISTRIBUTION. THE SPECIFIC-FACTOR MODEL (MODELO RICARDO-VINER)

SUMMARY:

This topic studies a trade model based on the factor endowment of the countries, with the characteristic that one of the two factors can be transferred between sectors, while the other cannot, as it is specifically assigned to one of the productive sectors. . The SF model serves to identify the winners and losers of trade in the short term and illustrates the strong uneven distribution of trade gains within countries.

CONTENTS:

3.1.- The SF model.

3.1.1.- The hypotheses.

3.1.2.- Production Possibility Frontier.

3.1.3.- Equilibrium under autarky.

3.2.- Equilibrium under free trade.

3.2.1.- Terms of trade.

3.2.2.- Gains from trade.

3.2.3.- Remuneration of factors and income distribution.

3.3.- Empirical evidence.

BASIC READING:

Feenstra, R. & Taylor, A. (2021): chap. 3.

OTHER READING:

Freeman, Richard (1995), "Are Your Wages Set in Beijing?" Journal of Economic Perspectives, 9: 15-32

CONTINUOUS EVALUATION

Test online and exercises topic 3

Topic 4.- TRADE AND FACTOR ABUNDANCE. THE HECKSCHER-OHLIN MODEL.

SUMMARY:

Heckscher-Ohlin was the predominant model in the theory of international trade until the Second World War. The basis of trade is the difference in factor endowments across countries. In this chapter we explain how it works and discuss its four cornerstone theorems: HO, SS, R and IPF. In the last section, we examine the empirical evidence using the HOV model.

CONTENTS:

4.1.- The Heckscher-Ohlin Theory.

4.1.1.- The hypotheses.

4.1.2.- Intensity and abundance.

4.1.3.- Production possibility frontier.

4.1.4.- Determination of the balance without and with free trade.

4.2.- The Heckscher-Ohlin Theorem Theorems.

4.2.1.- The Heckscher-Ohlin Theorem.

4.2.2.- The Stolper-Samuelson Theorem.

4.2.3.- The Factor Price Equalization Theorem.

4.4.- Contrasting the Heckscher-Ohlin model.

4.4.1.- Leontief's paradox.

4.4.2.- Response to Leontief's work.

4.4.3.- The factor content of trade model (H-O-V model)

4.4.4.- Attempts to reconcile the theory with the paradox de Leontief: Trefler´s contributions

BASIC READING:

Feenstra, R. y Taylor, A. (2021): cap. 4.

ADDITIONAL READING:

Hanson, G. (2012). "The Rise of Middle Kingdoms: Emerging Economies in Global Trade," Journal of Economic Perspectives, 26(2), 41-64

CONTINUOUS EVALUATION

Test online and exercises topic 4

Topic 5.-INTERNATIONAL MOVEMENT OF FACTORS: MIGRATION AND FDI.

SUMMARY:

We use the trade models to study the short run (SF) and long-run effects of international movements of workers and capital for production purposes. We also examine the empirical evidence that examines the impact of migration on the host economies, with special attention to labour markets.

CONTENT:

5.1.- International migration

5.1.1.- Determinants.

5.1.2.- Gains from trade and distributive effects worldwide.

5.1.3.- Trade gains and distributive effects at the issuing country level.

5.1.4.- Trade gains and distributive effects at the recipient country level.

5.2.- Foreign direct investment.

5.2.1.- Multinationals and IDE.

5.2.2.- Trade gains and distributive effects worldwide.

5.2.3.- Trade gains and distributive effects at the issuing country level.

5.2.4.- Trade gains and distributive effects at the recipient country level.

5.3.- Empirical evidence on the impact of migration on labour markets.

BASIC READING:

Feenstra y Taylor (2021): cap. 5

ADDITIONAL READING:

Economist, "Immigration Economics: The Wages of Mariel," The Economist, July 23, 2016

CONTINUOUS EVALUATION

Test online and exercises topic 5

Topic 6.- TRADE IN THE PRESENCE OF IMPERFECT COMPETITION, ECONOMIES OF SCALE AND PRODUCT DIFFERENTIATION.

SUMMARY:

Here begins the study of the modern theory of international trade, so called new trade theories and new-new trade theories. Next, three important changes are introduced in the hypotheses of the explanatory models of trade, such as the replacement of perfect competition, constant return to scale and homogeneous products. We also examine the implication of firm heterogeneity in trade. Finally, we present the gravity of model of trade as an empirical tool to examine the impact of trade costs on bilateral trade.

CONTENT:

6.1. The reciprocal dumping model (duopoly and homogeneous products)

6.2.- The Krugman model (monopolistic competition, economies of scale, product differentiation)

6.3. The Melitz model. Heterogeneity of companies in international trade

6.4. The gravity model of trade

BASIC READING:

Krugman, Obstfeld & Melitz (2016), chap 7 & 8

Feenstra & Taylor (2021), chap 6

ADDITIONAL READING

Bernard, A., Jensen, J. B., Redding, S. and Schott, P. (2007): Firms in international trade, Journal of Economic Perspectives, 21(3): 105-130

Melitz, M. J. and Trefler, D. (2012), "Gains from trade when firms matter", Journal of Economic Perspectives, 26: 91-118

CONTINUOUS EVALUATION

Test online and exercises topic 6

Exercise on group: Analyzing bilateral trade using the gravity equation. Chapter 3, Analyzing bilateral trade using the gravity equation, in "A practical guide to trade policy analysis", https://vi.unctad.org/tpa/

Topic 7.- Multinationals, offshoring and global value chains.

SUMMARY

International outsourcing is a type of international trade different from that analysed in the models belonging to classical and neoclassical theory, in which final goods are exchanged. Outsourcing is a relatively new facet of trade, it is the result of the production of various parts of the production of a good and / or the provision of a service, in different countries. By applying the same ideas developed for the trade of final goods. In this topic, a theoretical model of outsourcing is presented that, through the variation of the relative wages of labour, predicts an increase in the relative demand for skilled labour in both countries and earnings from trade.

CONTENT:

7.1.- An outsourcing model.

7.1.1.- Value chain of activities.

7.1.2.- Changes in trade costs

7.2.- The profits from outsourcing.

7.2.1.- Simplified outsourcing model

7.2.1.- Production in the absence of outsourcing

BASIC READING:

Feenstra, R. & Taylor, A. (2011): cap. 7.

ADDITIONAL READING:

"Welcome home: Offshoring," The Economist, January 19, 2013

CONTINUOUS EVALUATION

Test online and exercises topic 7

Topic 8.- TRADE POLICY.

SUMMARY:

This topic studies the impact of the intervention in the markets, starting with a classification of the instruments of trade policy, being the tariff and its economic effects the objective of the first part of this topic. Next we address other protection instruments such as import quota, voluntary export restrictions, export subsidies and other non-tariff barriers.

CONTENT:

8.1.- The instruments of trade policy: classification of trade controls, concepts.

8.2.- Tariffs and their economic effects.

8.3.- Quotas and their economic effects

8.4.- Export subsidies.

8.5.- Other non-tariff protection instruments.

BASIC READING:

Feenstra & Taylor (2021), cap 8, 9, 10, 11

ADDITIONAL READING:

"The trouble with putting tariffs on Chinese goods", The Economist, May 2019

CONTINUOUS EVALUATION

Test online and exercises topic 8

Work in group. Measuring proteccionism and its impact on, Chapter 4, Partial-equilibrium trade policy simulation, in "A practical guide to trade policy analysis", https://vi.unctad.org/tpa/

CHRONOGRAM International trade.

WEEK	THEORY	PRACTICE
1ª:	. Topic 1.	Making groups
2ª:	Topic 2.	Work in Group 1
3ª:	Topic 2.	Exercises T 1.
4ª:	Topic 3.	Exercises T 2.
5ª:	Topic 3 y 4.	Exercises T 3.
6ª:	Topic 4.	Exercises T 3.
7ª:	Topic 4 y 5	Exercises T 4
8ª:	Topic 5.	Work in Group 2
9ª:	Topic 6.	Exercises T 5.
10ª:	Topic 6.	Exercises T 6.
11ª:	Topic 7.	Exercises T 6.
12ª:	Topic 7 y 8	Exercises T 7.
13ª:	Topic 8.	Work in Group 3
14ª:	Topic 8.	Exercisess T 8.
15ª:	Topic 8.	Exercisess T.8.

VII.-BASIC READING

Feenstra, R. & Taylor, A. (2021): International Trade, Mc Millan Learning, 5th edition. (Any past edition is ok).

Krugman, P.K., Obstfeld, M. & Melitz, M.J. (2016): International Economics, Pearson.

VIII.- METODOLOGÍA

The development of the subject is structured around four elements:

1. Face-to-face lectures (if COVID19 allows) where the teacher will explain the different topics of the program, indicating, where appropriate, the sources in which to expand the different perspectives introduced.
2. Face-to-face classes (if COVID19 allows) that complement the contents covered in the theoretical sessions. During the classes the students will be assessed using online tests so computer or mobile phone is required.
3. In the Aula Virtual the teacher will publish all the materials that facilitates the monitoring of the subject, as well as the exercises and online tests.
4. Tutorials on line and office hours to solve doubts.

IX.- COURSE EVALUATION

The final grade of the course will be the result of the combination of the following two elements:

1. Continuous evaluation (50% of final grade). There will be exercises and tests online after each topic. There will be also tasks to be solved in groups. The participation in class also will be taken into account. Some but not all continuous assessment activities are recoverable.

2. A written exam (50% of final grade). It covers all the contents of the course.

The final grade will be placed on a scale from 0 to 10 and will result from the sum of the marks in the continuous evaluation and the written exam. It is required to pass the written exam to pass the course.

X.- ADDENDA TO COVID 19

The format of the lectures and classes will follow the recommendations and requirements of the University of Valencia.
The format of the continuous evaluation and the written exam may also suffer changes due to Covid19.