International Trade I - JEB039/JPB354/JEM328

Fall 2024

Instructor: **Vilém Semerák, Ph.D.** Teaching assistant: Tomáš Boukal

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Status of the course: Elective (optional) B.A. course

The first lecture and seminar will commence on **Friday, October** 4th.

The lectures and seminar sessions will be taught on-site (**room 314**, Opletalova) during the Fall 2024. As of now, no streaming or recording of lectures and seminar sessions is planned.

All participants who have either registered via the SIS or who are currently on the waiting list will receive a link and an access code to Moodle site of the course before the course starts.

Scheduling:

Lectures 11:00 – 12:20 p.m., seminars 12:30 – 1:50 p.m. (Fridays)

Office hours of V. Semerák: after the seminar session, i.e. on Friday 2:00-3:00 p.m. in room no. 311 or by appointment. Similarly, office hours can also be taking place online (Google Meet/Skype/Zoom).

Introduction:

This course covers, with a focus on both theory and empirics, basic topics in international (interregional) trade and trade policy analysis at the undergraduate level. The course does not deal with international business methods (logistics, use of letters of credits etc.); instead, it focuses on trade theory and trade policy analysis and attempts to provide some insight into the following questions:

- Why do countries (regions) trade?
- What determines which goods/services will be exported/imported by particular countries?
- How does trade influence welfare?
- How do trade policies influence the effects of trade on economies, can they improve the effects of trade on welfare?

In short, we will analyze the benefits of trading and the causes (and effects) of specialization and the development of theoretical opinions on these issues. Next, we will review the policy instruments (tariffs, quotas, subsidies, anti-dumping measures, as well as very popular schemes for preferential treatment, i.e. customs unions, free trade areas) and options available to those who would want to analyze the effects of trade policies.

While the course resembles standard courses in International Trade Theory as taught at many other undergraduate economic programs, we are trying to provide a bit deeper insight by including more recent advances in trade theory (models with heterogeneous firms or New Economic Geography) as well as emphasis on methods useable for empirical analysis (introduction into the correct use of gravity models, brief introduction into trade policy modelling, examples of application of network analysis).

Course objectives:

At the end of the course its students should:

(i) Understand main factors which determine trade flows and effects of trade on economic structures and welfare according to mainstream economic theories.
(ii) Understand traditional models describing effects of tariffs and quotas on national economies.
(iii) Gain at least basic insight into the logic of latest development in trade theory (heterogeneous firms).
(iv) Know basic methods of analysis of trade flows and trade policies

Pre-requisites:

The course was designed as a course that students should ideally take in their third or second year. The discussion of the models will require at least basic knowledge of microeconomics (i.e. you should have passed at least a good course in "Principles of Economics"). You should not be afraid of quantitative methods and of working with numbers.

Course contents:

1. Introduction. Trade data and their features relevant for empirical work. Trends in global trade. (October 4th)
2. Model of comparative advantage (Ricardo) and its extensions. (October 11th)
3. Neoclassical models - the role of differences in factor endowments. Specific factor model. (October 18th)
4. Holiday (October 25th)
5. Heckscher-Ohlin model: derivation of the Lerner diagram. Stolper-Samuelson theorem. Factor Price equalization. Rybczynski theorem. (November 1st)
6. Empirical tests of trade theory. Leontief paradox. Intra-industry trade. Alternative theories of international trade (Product cycles, Linder's overlapping demands). (November 8th)
7. New theory of international trade: Krugman model with monopolistic competition and increasing returns to scale. **Brief midterm**. (November 15th)
8. Introduction to the "New new" theory - models with heterogenous firms (Melitz). (November 22nd)
9. Introduction to the New Economic Geography (NEG). (November 29th)
10. Trade policy: basic instruments, partial equilibrium models. (December 6th)
11. Trade policy: general equilibrium, large country issues. (December 13th)
12. Economic integration: customs unions and free trade areas. Trade creation and trade diversion effects. (December 20th)
13. Reserved for a make-up session. Summary; interesting current issues in international trade. Possibly models with mobility of factors of production. (January 10th)

Grading and related issues:

Continuous work during the course, active and honest participation in the teamwork, and successful participation in both midterm and final exams are expected from all participants.

Evaluation will be based on a midterm and final exam (in traditional "on-site" written form), two team assignments and online Moodle quizzes. The final exam will include a short (on-site) essay.

The contribution of all the components to the final grade is as follows:

Midterm exam:	15 points
Final exam:	50 points
Team assignments:	20 points
Quizzes and in-class activities during the semester:	10 points
Participation in Moodle online quizzes:	5 points

Extra additional points for very active participation in discussion seminars: up to 5 points that can compensate for the points not obtained from quizzes and assignments.

The final grade

Grading scale (based on the weighted average score):

A … 91 – 100 points

B … 81 – 90 points

C … 71 – 80 points

D … 61 – 70 points

E … 51 – 60 points

F … 50 points and less

The final exam (compulsory for all enrolled) will be scheduled for January 2025 and February 2025 and they will be organized as traditional (on-site) exams.

Preliminary dates for the final exams in academic year 2024/25:

- January 17th
- January 24th
- February 14th

Additional options or early exams can be arranged upon request.

The exam will consist of a written test (sample questions are provided on Moodle website). The test will include a quiz (multiple choice questions) + solution of problem sets, mainly by means of models and graphs. It will also include a short (on-site) essay. The creative thinking and understanding of the problem (e.g. described by a model), will be graded higher than mere memorization of facts or formulas.

All papers/essays worked out in this course (by teams or individuals) must be original and subject to specific rules. Plagiarism will be severely punished.

Credits and their Explanation:

Number of credits: 8

The intensity of the course: 4 hours a week, i.e. 2 hours of lectures + 2 hours of seminar work in the period of October through the first week of January. Seminars require a regular participation and homework.

Expected average time load per student: 36 hours of classes, 68 hours of assignments, 60 hours final essay and 78 hours of learning for the tests. Definitely this will not be a leisure.

Note on seminar participation and workload:

Seminar sessions play a key role in this effort; many of the issues discussed during the seminar can be crucial for the successful completion of the assignments as well as for maximizing the chances of succeeding in the exam. Attendance is not strictly compulsory, but if you miss the seminar sessions during which quizzes or other evaluated in-class activities will take place, your chances for a better grade will worsen. Regular attendance of the seminar sessions is therefore strongly recommended.

The course workload corresponds to its weight (8 credits), which implies the calculated average time load to students of 242 hours (this includes lectures, seminars, work on assignments, and final team paper, as well as studying for the final exam).

Literature:

Course materials are available on a special Moodle website.

Main textbooks:

P. Krugman, M. Obstfeld, M. J. Melitz: International Trade, Theory & Policy. 9th edition or newer. Addison-Wesley (Pearson), 2012.

E. Helpman: Understanding Global Trade. Harvard University Press 2011.

Alternative texts:

D. Appleyard, A. Field, S. Cobb: International Economics, McGraw-Hill/Irwin, any recent edition

R.C. Feenstra, A.M. Taylor: International Trade, any recent addition

T. Pugel.: Int. Economics, 2009, part I & II., pp. 1-378 (available in the IES library)

Articles and papers, online resources:

P. Krugman: Ricardo's Difficult Idea. http://web.mit.edu/krugman/www/ricardo.htm

P. Krugman (1999): Was it All in Ohlin? http://web.mit.edu/krugman/www/ohlin.html

WTO & UNCTAD (2012): A Practical Guide to Trade Policy Analysis: https://vi.unctad.org/tpa/

Other sources (selected chapters/sections will be used):

W. J. Bernstein. A Splendid Exchange – How Trade Shaped the World. Atlantic Monthly Press, New York, 2008

S. Brakman, H. Garretsen, C. van Marrewijk. The New Introduction to Geographical Economics. 2nd edition, Cambridge University Press, 2009

R. Dornbusch, S. Fischer, P.A. Samuelson: Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods. The American Economic Review, Vol. 67, No. 5, (Dec., 1977), pp. 823-839

P.J. Kehoe & T.J. Kehoe: A Primer on Static Applied General Equilibrium Models. Federal Reserve Bank of Minneapolis Quarterly Review Spring 1994, Volume 18, No. 1

E.E. Leamer: The Heckscher-Ohlin Model in Theory and Practice. Princeton Studies in International Finance. No. 77, February 1995

J. R. Markusen, J.R. Melvin, W.M. Kaempfer and K. Maskus: International Trade: Theory and Evidence. McGraw-Hill/Irwin, 1994 – chapter 15 (tariffs).

J.P. Neary: Of Hype and Hyperbolas: Introducing the New Economic Geography. Journal of Economic Literature, Vol. 39, No. 2 (Jun., 2001), pp. 536-561

L. Vavrla & M. Rojíček: Process of the symmetric input-output table compilation