ECON 871 – Advanced International Economics
Fall Term 2013

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Lectures: Mondays and Wednesdays 11:00 am – 12:50 pm, Education L177

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Course Description

This course takes a theoretical and empirical approach to the study of international trade and investment. The class is structured around research papers, primarily recent contributions to the frontier of international trade research. We will first discuss core trade theories and empirical applications based on these theories. Next, we will turn to more recent theories that focus on the firm’s decision to export, investigating the role of heterogeneity in firm productivity on patterns of trade. This will be followed by an exploration of multinational activity and investment abroad, including different types of foreign direct investment. We will also examine recent developments at the intersection of the theory of international trade and the theory of the firm, and analyze multinational and multiproduct firms. The last part of the course will focus on institutional frictions and their effects on patterns of trade and investment.

This course is targeted at second-year (and higher) Ph.D. students in economics. Students are expected to have completed first-year micro and macro theory courses.

Requirements

This course is meant to bring students up to date with current work in international trade and to prepare you for doing research in this or other related fields. The course assignments have accordingly been designed to help you learn to read papers critically, as well as to develop and execute your own independent research ideas. There will be no midterm or final exam.

1. Two referee reports, due October 9th and October 30th, 30% of final grade

You must write two referee reports on papers from the syllabus that we have not discussed at great length in class. Please let me know at least a week in advance which paper you have chosen to write about. If you feel strongly about a paper that falls into the topics covered in class but is not on the reading list, you may write a report on that paper with my prior approval.

Each referee report should be 3-4 pages double spaced. The first 1-2 paragraphs should summarize the paper for the editor and describe the main features of the paper and its contribution to the existing or subsequent literatures. The report should discuss the strengths and weaknesses of the paper, contrasting it to others in the literature as necessary. You should
describe how the authors could address the weaknesses (if possible) and give your recommendations for changes that would strengthen or enhance the paper.

2. Class participation, 30% of final grade
You are expected to participate in class discussions and should read the paper(s) we will be discussing before coming to class. You don't have to have understood the paper in its entirety but should be familiar with its key elements and ideas. Once or twice during the semester you will also be asked to present a paper from the syllabus in class.

3. Written project proposal (due December 11th), 40% of final grade
You must prepare a written proposal of a new project related to the topics in the course. You are by no means expected to present a finished draft, but rather an idea and a brief outline of how that idea could be worked out. Project proposals are due December 11th.

NOTE: If you are taking this class for credit/no credit, you have to complete either the two referee reports or the written project proposal. You are of course strongly encouraged to complete all assigned work, and are still expected to read assigned papers and actively participate in class discussions.

NOTE: This class meets in two-hour sessions for ten weeks (September 4th – November 13th).
NOTE: There will be no class on Wednesday, October 16th or during the week of November 4th.
Tentative Schedule

Trade Theories and Evidence

1. September 4: Introduction

Firm Heterogeneity and Trade


Foreign Direct Investment and Multinational Corporations

15. October 28: Vertical FDI. Yeaple (2003a,b), Hanson, Mataloni and Slaughter (2005)
Reading List

Recommended textbooks:


Starred articles (*) will be covered at length.

1. Comparative Advantage, Gains from Trade, International Equilibrium and Ricardo

Dixit, Avinash and Victor Norman, Ch. 1, p. 1-8, Ch. 3, p. 65-85, Ch. 4, p. 93-96
* Feenstra, Robert, Ch. 1, p. 1-4

2. Factor Endowment Models

A. Heckscher-Ohlin
Dixit, Avinash and Victor Norman, Ch. 1, p. 8-19, Ch. 2, Ch. 4 p. 96-102, 106-122
* Feenstra, Robert, Ch. 1-4
B. Ricardo-Viner
Dixit, Avinash and Victor Norman, Ch. 4, p. 102-106, 122-125
* Feenstra, Robert, p. 72-75

C. Variations

3. Monopolistic Competition and Trade

* Helpman, Elhanan and Paul Krugman, Ch. 6-11
Krugman, Paul, “Increasing Returns, Imperfect Competition and the Positive Theory of International Trade,” in Grossman and Rogoff, Ch. 24

4. Firms and the Decision to Export: Theoretical Models with Firm Heterogeneity

5. Empirical Evidence on Firm Heterogeneity


6. Trade Liberalization and Wage Inequality

7. The Relevance of Sunk Costs


8. Multi-Product Firms


9. Trade and Imperfect Contract Enforceability


10. Trade and Labor Market Frictions


11. Horizontal FDI and the Proximity-Concentration Hypothesis

* Helpman, Elhanan and Paul Krugman, Ch. 12-14
Ramondo, Natalia (2007). "Size, Geography, and Multinational Production," University of Texas at Austin mimeo

12. Vertical FDI


13. The Boundaries of the Multinational Firm


15. Trade, FDI, and Capital Market Frictions


16. Organization of Production Within Firms


17. Trade and Productivity

De Loecker, Jan, Penny Goldberg, and Amit Khandelwal (2012). “Prices, Markups, and Trade Reform,” Yale University mimeo.