Economics 464 – Fall 2016: International Trade and Finance

Professor: L. Kamran Bilir
Office: Economics 7432
Office hours: Wednesdays 3:15-5pm
Email: kbilir@ssc.wisc.edu (please put Econ 464 in the subject line)

Teaching Assistant: Junhyong Kim
Office hours: TBA
Email: jkim666@wisc.edu

Lecture: Tuesdays and Thursdays 11:00am-12:15pm in Van Vleck B130

Webpage: Learn@UW

Course Description
This course investigates the causes and consequences of international trade and investment, and explores the importance of international capital flows. We will consider why nations trade, what they trade, and who gains from international trade. We will explore the effects of trade on economic growth and wage inequality, and discuss the role of multinational corporations, foreign direct investment and international migration. Finally, we will study countries' motives for regulating international trade and the effects of trade policy on economic welfare. The aim of the class is to give students the tools necessary to read critically and understand discussions of past and current events in the world economy found in popular media. To that end, we will study selected basic models in international trade, discuss their practical relevance, and apply them to questions of current interest to policy makers, business leaders and the general public.

Course Prerequisites
Economics 301 is a prerequisite for the course. We will rely on tools and models from microeconomics in this class and so it is important that you are comfortable using these. If you decide to take this class, I will assume you have taken 301 and are also familiar with basic algebra and calculus.

Grading Policy
Grades will be based on class participation (25%), problem sets (15%), and three in-class exams (20% each). Six problem sets will be distributed over the semester, of which only your best 5 scores will contribute to the final grade. Problem sets will be collected at the end of class, and may alternatively be submitted by 12:30pm in my mailbox on the day they are due. Class participation includes attendance, regular participation through questions and comments during lecture, and occasional quizzes.

Midterm Exam 1: Tuesday, October 4th, 11:00am-12:15pm
Midterm Exam 2: Tuesday, November 8th, 11:00am-12:15pm
Final Exam: Thursday, December 15th, 11:00am-12:15pm
Recommended Text

**Note:** The textbook is recommended. It provides a very useful reference treatment of the material we will cover in class. Other editions of the book will contain very similar material but the syllabus below lists page references for the 10th edition.

**Frequently asked questions**

*When will lecture notes be posted?* In general, I will aim to post lecture notes online the night before class. You may bring print-outs to class and take notes on them, though it can also be valuable to take your own notes separately. My slides will provide a good outline of what is covered in each class.

*Can my friends and I work together on the problem sets?* Yes. The problem sets are intended to be learning experiences and you are encouraged to work with your classmates. However, you must submit your own problem set solutions. You may find it useful to attempt the problems on your own before working with others, as working on the problem sets is the best way for you to prepare for your exams. If you draw on another student's work without fully understanding the material, your exam performance may tend to suffer. If you have questions on lecture material, problem sets, or exams, please come and ask either me or the TA.

*How are the problem sets graded?* The problem sets are graded on a detailed numerical scale. Problem set solutions will be posted on the course web page after they are collected.

*What material will be covered on the exams?* Each exam will cover material reviewed in class to date. Recently-reviewed material will receive a larger weight on each respective exam. Exams will cover all lecture material, including in-class discussions and any extensions covered in class or in section. The specific readings that will be required for each exam will be announced well ahead of each exam date.

*What do I do if a mistake was made in grading my exam?* After the exam is returned, please submit a written account of your grading concern to the TA within two weeks.
Course Outline and Reading List

All required readings will be available online on the class webpage. Recommended readings in the textbook are abbreviated as "K-O-M".

If you are particularly interested in a topic, you are invited to explore the other recommended readings. Some of them come from *Pop Internationalism* by Paul Krugman, *Free Trade Under Fire* (2nd edition) by Douglas Irwin, *International Trade* by Robert Feenstra and Alan Taylor, and *Intermediate Microeconomics* by Hal Varian. You can find these books in the library. Other recommended readings will be made available through links on the class webpage. The textbook by James Markusen et al. *International Trade* is out of print but is available online at [http://spot.colorado.edu/~markusen/textbook.html](http://spot.colorado.edu/~markusen/textbook.html).

**Tuesday, September 6. Lecture 1: Introduction**

Recommeded reading:
- K-O-M Chapter 1

**Thursday September 8. Lecture 2: Endowment Economies I**

Recommeded reading:
- K-O-M Chapter 2

**Tuesday, September 13. Lecture 3: Endowment Economies II**

Recommeded reading:
- K-O-M Chapter 2
- R. A. Radford (1945), "The Economic Organization of a P.O.W. Camp," *Economica*

**Thursday, September 15. Lecture 4: Ricardo I**

Problem Set 1 due
Recommeded reading:
- K-O-M Chapter 3
- Mary Amiti and Shang-Jin Wei (2004), "Demystifying Outsourcing," *Finance and Development*

**Tuesday, September 20. Lecture 5: Ricardo II**

Recommeded reading:
- K-O-M Chapter 3
Thursday, September 22. Lecture 6: Ricardo III
Recommended reading:
- K-O-M Chapter 3

Tuesday, September 27. Lecture 7: The Specific Factors Model I
Recommended reading:
- Paul Krugman and Robert Lawrence: "Trade, Jobs, and Wages," *Scientific American*
- K-O-M Chapter 4

Thursday, September 29. Lecture 8: Specific Factors Model II
Problem Set 2 due
Recommended reading:
- K-O-M Chapter 4

Tuesday, October 4. Midterm Exam 1
Recommended reading:
- K-O-M Chapter 5

Thursday, October 6. Lecture 9: Hecksher-Ohlin Model I
Recommended reading:
- K-O-M Chapter 5

Tuesday, October 11. Lecture 10: Hecksher-Ohlin Model II
Recommended reading:
- K-O-M Chapter 5

Thursday, October 13. Lecture 11: Hecksher-Ohlin Model III
Recommended reading:
- K-O-M Chapter 5

Tuesday, October 18. Lecture 12: The Standard Trade Model I
Problem Set 3 due
Recommended reading:
- K-O-M Chapter 6

Thursday, October 20. Lecture 13: The Standard Trade Model II
Recommended reading:
- K-O-M Chapter 6
- Robert Jensen (2007), “To Do With the Price of Fish,” The Economist

Tuesday, October 25. Lecture 14: Increasing Returns I
Recommended reading:
- K-O-M Chapter 7
- Paul Krugman (1980), "Scale Economies, Product Differentiation, and the Pattern of Trade,” American Economic Review

Thursday, October 27. Lecture 15: Increasing Returns II
Recommended reading:
- K-O-M Chapter 7

Tuesday, November 1. Lecture 16: Increasing Returns III
Recommended reading:
- K-O-M Chapter 7

Thursday, November 3. Lecture 17: Trade and Migration
Problem Set 4 due
Recommended reading:
- K-O-M Chapter 8

Tuesday, November 8. Midterm Exam 2

Thursday, November 10. Lecture 18: Multinational Firms and FDI I
Recommended reading:
- K-O-M Chapter 8

Tuesday, November 15. Lecture 19: Multinational Firms and FDI II
Recommended reading:
- K-O-M Chapter 8

Thursday, November 17. Lecture 20: Multinational Firms and FDI III
Recommended reading:
- K-O-M Chapter 8

**Tuesday, November 22. Lecture 21: Trade Policy I**

**Problem Set 5 due**

**Recommended reading:**
- K-O-M Chapter 9
- Robert Feenstra (1992), "How Costly is Protectionism?" *Journal of Economic Perspectives*
- Paul Krugman (1987), "Is Free Trade Passé?" *Journal of Economic Perspectives*

**Tuesday, November 29. Lecture 22: Trade Policy II**

**Recommended reading:**
- K-O-M Chapter 10
- Douglas Irwin: *Free Trade Under Fire*, Chapters 5 and 6
- Alan Deardorff and Robert Stern (2000), "What the Public Should Know about Globalization and the World Trade Organization"
- Paul Krugman (1993), "The Uncomfortable Truth About NAFTA," *Foreign Affairs*

**Thursday, December 1. Lecture 23: Trade Policy III**

**Recommended reading:**
- K-O-M Chapter 11
- Douglas Irwin (2000), "Did Late Nineteenth-Century U.S. Tariffs Promote Infant Industries?" *Journal of Economic History*
- Jeffrey Frankel and David Romer (1993), "Does Trade Cause Growth?" *American Economic Review*

**Tuesday, December 6. Lecture 24: Trade Policy IV**

**Recommended reading:**
- K-O-M Chapter 12

**Thursday, December 8. Lecture 25: Multilateral Trade Agreements**

**Recommended reading:**
- K-O-M Chapter 19

**Tuesday, December 13. Course Review**

**Problem Set 6 due**

**Thursday, December 15. Final Exam**