ECONOMICS 660: INTERNATIONAL TRADE & WELFARE

TIME AND PLACE:
- Tuesdays and Thursdays, 3:00-4:15pm, SAKAM (Sakamaki Hall) A102

CONTACT INFORMATION AND OFFICE HOURS:
- **Office**: Saunders Hall 531  **Phone**: 808-956-7296  **E-mail**: baybars@hawaii.edu
- **Office Hours**: Tuesdays 9:50-11:50am and by appointment

COURSE DESCRIPTION:
In this course we aim to gain a solid background in the theory of international trade along with an understanding of trade policy issues faced by nations today. The course is intended to be rigorous both analytically and quantitatively. However, considering the different backgrounds and interests of students, it is flexible enough to let students choose how deeply they will analyze each topic beyond a certain common denominator. Our coverage intensity will differ across topics and will be very brief at times.

First, we start out with the main trade theories (both classical and new ones) and their principal results to qualify determinants of why nations trade, what they trade, and the gains from trade. We extensively rely on graphical and mathematical methods for our analysis. We also discuss the empirical tests of each of these theories. Second, we analyze trade policy instruments and effects, political economy of trade policy, and preferential and multilateral trade agreements. Finally, additional selected topics may be covered depending on student interest and time constraints.

**Prerequisites:** ECON 606 Microeconomic Theory I or consent.

STUDENT LEARNING OUTCOMES:
- Gain a solid background in international trade theory
- Have a general understanding of the empirical tests of main theories
- Build on and better understand graduate microeconomic theory through applications
- Improve analytical problem solving skills and analyze technical papers in detail
- Connect theory with real world policy through rigorous coverage of various trade policy topics
- Improve empirical analysis skills through hands-on exercises using the Econometrics/Statistical Analysis software STATA.

COURSE REQUIREMENTS:
1) **Problem Sets (30%)**: We cannot and should not cover everything in class and these exercises will let you work out the details of the models, enhance your understanding of the lectures, and actively participate in the learning process.

You may not be able to solve each problem to the full extent which is perfectly normal. What I am looking for is an honest effort. Do not leave the answer to any question blank. You may collaborate with your classmates but you must submit your individual and original answers. The grading will be based on completeness only (i.e. not accuracy) but be prepared to discuss solutions in class.
2) **Empirical Exercise Sets (30%)**: There will be a number of empirical exercise sets in connection with the lectures. You will get a chance to learn/improve using the Econometrics/Statistical Analysis software STATA through these exercises and enhance your understanding of the topics covered.

3) **Exams (40%)**: There will be one midterm and one non-cumulative final exam based solely on lectures and problem sets. The lowest exam will be dropped for your convenience.

**Midterm Exam Date**: March 1, 2016, 3:00-4:15pm (same room, Sakamaki A102).

**Final Exam Date**: May 12, 2016, Thursday, 2:15-4:15pm (same room, Sakamaki A102)

**GRADING SUMMARY**:

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<tr>
<th>Component</th>
<th>Percentage</th>
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<tr>
<td>Problem Sets</td>
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<td>Empirical Exercise Sets</td>
<td>30%</td>
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<td>Exams</td>
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<td><strong>Total</strong></td>
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Final grades will include the +/- designation.

**COURSE MATERIALS ONLINE: LAULIMA**

Here is a list of the things that you can find on [https://laulima.hawaii.edu/portal](https://laulima.hawaii.edu/portal):

- A copy of the most updated syllabus; important announcements; problem sets, due dates, and solutions; empirical exercise sets, related files, due dates; handouts on the material covered or to be covered in class (please print these and bring to class); most of the papers from the reading list.

**OFFICE HOURS**:

You are encouraged to utilize my office time. Please do not hesitate to see me for any questions you have in the posted hours or by arranging an appointment with me if these hours do not work for you. I am here to help, not judge you so feel free to come by when you need.

**TEXTBOOKS**:

**Required textbook**:


You are expected to read the relevant sections of the textbook (Feenstra) as pointed out in the reading list below before each lecture.

**Other classic textbooks**:

TENTATIVE COURSE OUTLINE:

I. Trade Theory and Evidence
   1. Ricardian Model
      1.1. Theory
      1.2. Evidence
   2. Heckscher-Ohlin Model
      2.1. Theory
      2.2. Evidence
   3. Specific Factors (Ricardo-Viner) Model
   4. Economies of Scale and Monopolistic Competition - Theory
   5. Monopolistic Competition - Evidence and Gravity Model
   6. Firm Heterogeneity
      6.1. Theory
      6.2. Evidence

II. Trade Policy
   1. Trade Policy under Perfect Competition: Welfare and Price Effects
      1.1. Import Tariffs
      1.2. Import Quotas
      1.3. Export Subsidies
      1.4. Other Trade Policy Instruments
      1.5. General Equilibrium
   2. Trade Policy under Imperfect Competition and Strategic Trade Policy
      2.1. Foreign Monopoly
      2.2. Cournot Duopoly
      2.3. Bertrand Duopoly
   3. Political Economy of Trade Policy
      3.1. Median Voter Model
      3.2. Protection for Sale Model
   4. Multilateral and Preferential Trade Agreements
      4.1. GATT/WTO System
      4.2. Welfare Effects of Regional Trade Agreements
      4.3. Multilateral vs. Preferential Trade Liberalization
READING LIST (TENTATIVE AND SUBJECT TO CHANGE):

Notes:
1. Disclaimer: This list is subject to change as we progress through the semester.
2. “***” designated articles/book chapters are required readings and will be covered in detail in class.

I. Trade Theory and Evidence

1. Ricardian Model

1.1. Theory

**Feenstra: Chapter 1 (pp. 1-3), Chapter 3 (pp. 70-72).


1.2. Empirical Evidence


2. Heckscher-Ohlin Model

2.1. Theory

**Feenstra: Chapter 1 (pp. 4-23), Chapter 2 (pp. 25-28), Chapter 3 (pp. 51-57, 67-70, 75-77).


2.2. Empirical Evidence

**Feenstra: Chapter 2 (pp. 28-49), Chapter 3 (pp. 78-79).


### 3. Specific Factors (Ricardo-Viner) Model

**Feenstra: Chapter 3 (pp. 57-60).**


### 4. Economies of Scale and Monopolistic Competition - Theory

**Feenstra: Chapter 5 (pp. 119-123).**


### 5. Monopolistic Competition - Evidence and Gravity Model

**Feenstra: Chapter 5 (pp. 123-147).**


6. Firm Heterogeneity

6.1. Theory

**Feenstra: Chapter 6


6.2. Empirical Evidence


II. Trade Policy

1. Trade Policy under Perfect Competition: Welfare and Price Effects

**Feenstra: Chapter 8, Chapter 9


2. Trade Policy under Imperfect Competition and Strategic Trade Policy

**Feenstra: Chapter 8, Chapter 9


3. Political Economy of Trade Policy

**Feenstra: Chapter 10


4. Multilateral and Preferential Trade Agreements

**Feenstra:** Chapter 7, Chapter 10


