

**Department of Economics  
Colorado State University**

**Economics 440 – International Economics  
Fall 2005**

**TR 9:30-10:45  
243 Physiology**

**Professor: Dr. Elissa Braunstein  
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Office hours: T 1:30-3:30 (or by appointment)**

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### **Course Overview**

This course has a rather simple objective – to introduce students to the “real” (as opposed to financial) side of international economics – international trade. However, as will become apparent over the course of the semester, things are seldom that simple in the real world. For example, there is no single theory that entirely explains the occurrence and consequences of international trade. This means that we will have to work our way through several (sometimes conflicting, sometimes complementary) theories. Secondly, various theories differ not only in the sense that they attempt to capture and explain different aspects of international trade, but also in the sense that they originate from diverging perspectives and competing schools of thought. These varying theories also have important applications to the real world, and not all of them perform very well in terms of giving empirical guidance to policymakers. This makes a one-semester course in international trade somewhat of a balancing act, both between breadth of coverage and depth of exposure, and between the abstract world of trade theories and their real world policy applications. We will try to perform this balancing act in a way that helps us better understand today’s world, and stimulates intellectual interest in extending your knowledge of international trade-related issues.

This course is also being offered at an interesting time. Debates surrounding the processes of “globalization” have sparked much interest among academics and global citizens alike. The course will provide opportunities to discuss these issues, and to use simple theoretical tools to make sense of some of the main arguments involved. We will discuss issues such as: What determines the direction and nature of trade flows? What are the likely consequences of international trade policy on various income groups in the US and abroad? How do countries gain or lose from trade? How does trade impact economic development? How does gender interact with international trade? Is there a place for environmental or labor standards in international trade agreements? Class participation in the discussion of these issues will be sought and encouraged.

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### **Course Materials**

#### ***Required Text & Readings***

All required readings are listed below that day’s topic in bold italics. The majority of these required readings are from the textbook Caves, Frankel and Jones (CFJ). 2001. *World Trade and Payments: An Introduction, Ninth Edition*. Boston: Addison Wesley. Towards the end of the course, I have also assigned a few articles as required readings, indicated in the same manner as the CFJ readings – in bolds italics below that day’s topic.

#### ***Suggested Additional Readings***

There are a number of additional readings listed below for many topics; I encourage you to take a look at them. All of them are available on e-reserve at Morgan library, or directly through the internet as indicated

below. The only exception is the Rodrik book *Has Globalization Gone Too Far?* A hard copy of this short book is on reserve at the library.

### **Work Requirements and Grading**

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Problem Sets (3)	15%
Paper (6-8 pages)	25%
Midterm	30%
Final Exam	30%

The *problem sets* are designed to help you practice for the exams; they will be graded mostly for completeness and effort.

*The paper, which is due on Tuesday, Dec. 6*, is based on your choice of course-related policy issues. It should include some background research, as well as some of your own policy analysis. Students will be required to cite at least two of the non-CFJ readings on the syllabus. Further details about the paper will be announced later.

The *midterm* will be held during regular class hours on Thursday, October 13. It is your responsibility to discuss any schedule conflicts with me individually at least two weeks before the midterm exam. The *final exam* date is scheduled for Thursday, December 15. While the final exam will be cumulative, it will focus primarily on the second half of the course.

### **Lectures & Class Participation**

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Classes will be primarily lecture but also partly discussion of the readings on which the lecture is based. I expect you to read the assigned reading before coming to class, and encourage you to ask questions and give comments. While attendance to class is not mandatory, it is highly recommended, as some of the lectures will cover material in the suggested (non-required) readings. Where I have discussed a particular “suggested” article at some length, you may be tested on that material in an exam. I will be sure to identify these articles during exam reviews.

## Course Outline

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*Note: This tentative schedule is subject to adjustment as we proceed throughout the semester.*

- T 8/23                    **Introduction to the Course.**  
*CFJ chapter 1*
- Suggested additional reading(s):<sup>1</sup>  
Coughlin, Cletus C. "The Controversy Over Free Trade; The Gap between Economists and the General Public," Federal Reserve Bank of Saint Louis, 2002. Available at:  
[www.research.stlouisfed.org/publications/review/02/01/1-22Coughlin.pdf](http://www.research.stlouisfed.org/publications/review/02/01/1-22Coughlin.pdf)  
Chang, Ha-Joon, "Development: A Game of Ladder Kicking," in "Once Industrialised, Preach Free Trade," *South Bulletin* 40, July 30, 2002. Available at:  
[www.southcentre.org/info/southbulletin/bulletin40/bulletin40.pdf](http://www.southcentre.org/info/southbulletin/bulletin40/bulletin40.pdf)  
Scott, Bruce. "The Great Global Divide in the Global Village," *Foreign Affairs*, January/February 2001.
- R 8/25                    **An overview of some basic tools of analysis.**  
*CFJ Chapter 2*
- T 8/30                    **The basic neoclassical model**  
*CFJ Chapter 2*
- R 9/1                     **Gains from international trade: Implications of the basic model.**  
*CFJ Chapter 3*
- T 9/6                     **Applications and interpretations of the basic model.**  
*CFJ chapter 4*
- Suggested additional reading:  
Dornbusch, Rudiger. 1992. "The Case for Trade Liberalization in Developing Countries," *The Journal of Economic Perspectives*, 6(1): 69-85.
- R 9/8                     **Applications and interpretations of the basic model. A discussion of alternative perspectives.**
- Suggested additional reading:  
Hallak, J.C., and Levinsohn, J. "Fooling Ourselves: Evaluating the Globalization and Growth Debate," NBER working paper 10244. Available at: [www.nber.org/papers/w1044](http://www.nber.org/papers/w1044)  
Rodrik, Dani. 1997. *Has Globalization Gone Too Far?* Washington: Institute for International Economics.

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<sup>1</sup> Feel free to skip the mathematical parts of these readings.

- T 9/13                   **The Ricardian/classical model of trade: Comparative advantage, trade and technology.**  
***CFJ Chapter 5.***
- Suggested additional reading:  
Krugman, Paul, "Ricardo's Difficult Idea."  
web.mit.edu/krugman/www/ricardo.htm
- R 9/15                   **The Ricardian/classical model of trade. Implications.**  
***CFJ Chapter 5.***
- T 9/20                   **The Ricardian/classical model of trade. Applications and critiques.**
- Suggested additional readings:  
Prasch, Robert, "Reassessing the Theory of Comparative Advantage,"  
*Review of Political Economy* 8(1):  
Deardorff, Alan. 1979. "Weak Links in the Chain of Comparative Advantage." *Journal of International Economics* 9(2): 197-209.  
Maneschi, Andrea. 1992. "Ricardo's International Trade Theory: Beyond the Comparative Cost Example." *Cambridge Journal of Economics* 16: 421-437.  
Brewer, Anthony. 1985. "Trade with Fixed Real Wages and Mobile Capital." *Journal of International Economics* 18: 177-186.
- R 9/22                   **The Specific Factors Model, A Short-Run Neoclassical Model.**  
***CFJ Chapter 6.***
- Suggested additional reading:  
Neary, Peter. 1978. "Short-run Capital Specificity and the Pure Theory of International Trade." *Economic Journal* 88(351): 488-510.
- T 9/27                   **Specific Factors Model: Policy Implications and Applicability**
- R 9/29                   **The 2x2 Heckscher-Ohlin model: Comparative advantage, trade and factor endowments.**  
***CFJ Chapter 7.***
- Suggested additional reading:  
Samuelson, Paul. 1948. "International Trade and the Equalization of Factor Prices." *Economic Journal* 58(230): 163-184.  
Jones, R.W. 1956-57. "factor Proportions and Heckscher-Ohlin Theorem." *The Review of Economic Studies* 24(1): 1-10.  
Bhagwati, Jagdish. 1964. "The Pure Theory of International Trade." *Economic Journal* 74(293): 1-84.

T 10/4

**Policy implications and applicability I.**

Suggested additional reading:

Stolper, W., and Samuelson, P. 1941. "Protection and Real Wages." *Review of Economic Studies* 9(10): 58-73.

Subasat, Turan. 2003. "What does the Heckscher-Ohlin Model Contribute to International Trade Theory? A Critical Assessment." *Review of Radical Political Economics* 35(2): 148-165.

Hanson, Gordon and Anne Harrison. 1995. "Trade, Technology, and Wage Inequality." NBER working paper 5110.

R 10/6

**Policy implications and applicability II.**

Suggested additional reading:

Freeman, Richard. 2003. "Trade Wars: The Exaggerated Impact of Trade in Economic Debate." NBER working paper 10000.

Freeman, Richard. 1995. "Are Your Wages Set in Beijing?" *Journal of Economic Perspectives* 9(3): 15-32.

Wood, Adrian. 1995. "How Trade Hurt Unskilled Workers." *Journal of Economic Perspectives* 9(3): 57-80.

T 10/11

**Policy implications and applicability III.**

Suggested additional reading:

Pritchett, Lant. 1996. "Forget Convergence: Divergence past, Present, and Future." *Finance and Development* 33(2). Available at: [www.imf.org/external/pubs/ft/fandd/1996/06/pdf/pritchet.pdf](http://www.imf.org/external/pubs/ft/fandd/1996/06/pdf/pritchet.pdf)

Leamer, E. 1992. "Wage Effects of a US-Mexico Free Trade Agreement." NBER working paper 3991.

R 10/13

**Mid-term**

T 10/18

**New Trade Theories: Scale economies, intra-industry trade, and externalities I.**

*CFJ Chapter 8.*

Suggested additional reading:

Krugman, Paul. 1993. "What Do Undergrads Need to Know About Trade?" *American Economic Review* 83(2): 23-26.

R 10/20

**New Trade Theories: Scale economies, intra-industry trade, and externalities II.**

*CFJ Chapter 8.*

Suggested additional reading:

Deraniyagala, S., and Fine B. 2001. "New Trade Theory Versus Old Trade policy; A Continuing Enigma." *Cambridge Journal of Economics* 25: 809-825.

T 10/25

**Aspects of commercial policy. Trade and protectionism I.**  
***CFJ chapters 10 and 12.***

Suggested additional reading:

- Faux, J., R.E. Scott, C. Salas, and B. Campbell. 2001. "NAFTA At Seven: Its Impact on Workers in All Three Nations." Economic Policy Institute Briefing Paper. Available at: [www.epinet.org/briefingpapers/nafta01/nafta-at-7.pdf](http://www.epinet.org/briefingpapers/nafta01/nafta-at-7.pdf)
- Leamer, Edward. 1993. "US Manufacturing and an Emerging Mexico." *North American Journal of Economics & Finance* 4(1): 51-89.
- Tornell, A. Westermann,, F. and L. Martinez. 2004. "NAFTA and Mexico's Less Than Stellar Performance." NBER Working paper no. 10289.

R 10/27

**Aspects of commercial policy. Trade and protectionism II.**  
***CFJ chapters 10 and 12.***

Suggested additional reading:

- Shafaeddin, Mehdi. 1998. "How Did Developed Countries Industrialize? The History of Trade and Industrial Policy: The Cases of Great Britain and the USA." UNCTAD working paper 139. Available at: [www.unctad.org/en/docs/dp\\_139.en.pdf](http://www.unctad.org/en/docs/dp_139.en.pdf)
- Shaikh, Anwar. 2003. "Globalization and the Myth of Free Trade." available at: [homepage.newschool.edu/~AShaikh/globalizationmyths.pdf](http://homepage.newschool.edu/~AShaikh/globalizationmyths.pdf)
- Feenstra, Robert. 1992. "How Costly is Protectionism." *Journal of Economic Perspectives* 6(3): 159-178.

T 11/1

**Trade Controls in Practice.**  
***CFJ chapter 14.***

R 11/3

**The international policy environment in an era of trade liberalization.**

Suggested additional reading:

- Taylor, Lance. 2002. "External Liberalization in Asia, Post-Socialist Europe, and Brazil." Available at: [www.networkideas.org/feathm/dec2002/Lance\\_Paper.pdf](http://www.networkideas.org/feathm/dec2002/Lance_Paper.pdf)
- Harrison, Anne and Ana Revenga. 1995. "The Effects of Trade Policy Reform: What Do We Really Know?" NBER working paper 5225. Downloadable at: <http://ideas.repec.org/p/nbr/nberwo/5225.html>

T 11/8  
Problem set 3 due

**Unequal exchange? Aspects of international trade and development I.**

*Wade, Robert. 2003. "What Strategies are Viable for Developing Countries Today? the World Trade Organization and the Shrinking of Development Space." Review of International Political Economy 10(4): 621-644. Available at:*

<http://www.eldis.org/static/DOC11821.htm>

*Rodrik, Dani. 2001. "Feasible Globalizations." NBER working paper 9129. Available at:*

[ksghome.harvard.edu/~drodrik.academic.ksg/Feasible.pdf](http://ksghome.harvard.edu/~drodrik.academic.ksg/Feasible.pdf)

Suggested additional reading:

Dutt, Amitava. 2001. "Globalization, North-South Uneven Development, and International Institutions." Available at: [www.uibk.ac.at/csi/paperconf2001/Dutt.pdf](http://www.uibk.ac.at/csi/paperconf2001/Dutt.pdf)

R 11/10

**Unequal exchange? Aspects of international trade and development II.**

*Lee, Marc. 2002. "The Global Divide." Behind the Numbers 4(2). Available at:*

[www.networkideas.org/featart/apr2002/The\\_Global\\_Divide.pdf](http://www.networkideas.org/featart/apr2002/The_Global_Divide.pdf)

*Jomo, K.S. "Globalization for Whom? A World for All." Available at:*

[www.networkideas.org/featart/jun2002/Globalisation.pdf](http://www.networkideas.org/featart/jun2002/Globalisation.pdf)

Suggested additional reading:

Rodrik, Dani. 1992. "The Limits of Trade Policy Reform in Developing Countries." *Journal of Economic Perspectives* 6(1): 87-105.

T 11/15

**Multinationals and foreign direct investment.**

*CFJ Chapter 9.*

Suggested additional reading:

Hanson, Gordon H. 2001. *Should Countries Promote Foreign Direct Investment?* UNCTAD G-24 Discussion Paper Series No. 9, UNCTAD, Geneva. Available at:

[ksghome.harvard.edu/~drodrik/g24-hanson.pdf](http://ksghome.harvard.edu/~drodrik/g24-hanson.pdf)

Milberg, William. 1999. "Foreign direct investment and development: Balancing the costs and benefits." In *International Monetary and Financial Issues for the 1990s, Vol. XI*. UNCTAD, Geneva.

R 11/17

**Video: *The Global Assembly Line***

T 11/22

**Fall Recess**

R 11/24

**Fall Recess**

T 11/29

**Gender and Trade**

*Nilufer Cagatay, Trade Gender and Poverty, Background Paper for the United Nations Development Programme, 2001, Available at: [www.undp.org/poverty/docs/pov\\_tradegenderpoverty\\_doc.pdf](http://www.undp.org/poverty/docs/pov_tradegenderpoverty_doc.pdf)*

*Standing, Guy. 1999. "Global Feminization Through Flexible Labor: A Theme Revisited." World Development 27(3): 583-602.*

Suggested additional reading:

Kucera, David and William Milberg. 2000. "Gender Segregation and Gender Bias in Manufacturing Trade Expansion: Revisiting the 'Wood Asymmetry.'" *World Development* 28(7): 1191-1210.

R 12/1

**Video: *Rich World, Poor Women***

T 12/6

**Trade, Labor and the Environment**

*Brown, Drusilla. 2001. "Labor Standards: Where Do They Belong on the International Trade Agenda?" Journal of Economic Perspectives 15(3): 89-112.*

*Esty, Daniel. 2001. "Bridging the Trade-Environment Debate." Journal of Economic Perspectives 15(3): 113-130.*

Additional reading:

Bagwell, Kyle and Robert Staiger. 2001. "The WTO as a Mechanism for Securing Market Access Property Rights: Implications for Global Labor and Environmental Issues." *Journal of Economic Perspectives* 15(3): 69-88.

R 12/8

**Review for final**

R 12/15

**\*\*To be confirmed**

**Final Exam**

**3:40-5:40 pm, in this room**