

Princeton University
Department of Economics

ECONOMICS 551: INTERNATIONAL TRADE I

Fall 2024
MW 2:40 – 4:10
JRRB 298

Instructor:

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Content:

This 8-week segment will cover competitive trade theory, including the gains from trade, the sources of comparative advantage, the effects of trade on income distribution, trade under imperfect competition, and the theory of trade policy.

Books:

There are no required textbooks. The following books are cited in the reading list by the abbreviations indicated. Those intending to do research in this field may want to have them in their personal libraries. The Princeton University Online Bookstore may have a few copies, but Amazon is also a possibility.

Avinash Dixit and Victor Norman, *Theory of International Trade* (DN)
Robert Feenstra, *Advanced International Trade: Theory and Evidence*, 2nd edition (F)
Elhanan Helpman and Paul R. Krugman, *Market Structure and Foreign Trade* (HK)

COURSE OUTLINE AND READING LIST

Essential items are overviews/introductions and should be read **before** the lecture on the topic. Required items should be read shortly thereafter.

I. GAINS FROM COMPETITIVE TRADE

Essential:

DN pp. 65-79, 94-96
F, pp.187-196

Required:

A. Dixit and V. Norman, “[Gains from trade without lump-sum compensation](#),” JIE 1986, 111-122
A. Deardorff, “[The general validity of the law of comparative advantage](#),” JPE 1980, 941-957

- D. Bernhofen and J. Brown, “[An empirical assessment of the comparative advantage gains from trade: Evidence from Japan](#),” AER 2005, 208-225.
- D. Bernhofen and J. Brown, “[A direct test of the theory of comparative advantage: The case of Japan](#),” JPE 2004
- C. Arkolakis, A. Costinot and A. Rodriguez-Claré, “[New Trade Model, Same Old Gains?](#)” AER 2012, 94-130.
- D. Donaldson, “[The Gains from Market Integration](#),” Annl Rev of Ec 2015, 619-647.

II. TRADE EQUILIBRIUM: PERFECT COMPETITION

A. Factor Endowments: Special Models

Essential:

- F, pp. 4-23, 25-33, 75-79
- R. Jones and P. Neary, “[The positive theory of international trade](#),” in R. Jones and P. Kenen, *Handbook of International Economics*, vol.1, pp 14-27.

Required:

- R. Jones, “[The structure of simple general-equilibrium models](#),” JPE 1965.
- G. Grossman and E. Rossi-Hansberg, “[Trading tasks: A simple theory of offshoring](#),” AER 2008, 1978-1997.

B. Factor Endowments: General Theory

Essential:

- F, pp. 51-60, 67-70.

Required:

- DN, chs. 2,4.
- HK, ch. 1
- W. Ethier, “[Higher dimensional trade theory](#),” in R. Jones and P. Kenen, *Handbook of International Economics*, vol.1

C. Technological Differences

Essential:

- F 1-3, 70-75, 172-174
- K. Matsuyama, “[Ricardian trade theory](#),” in L. Blume and S. Durlauf, eds., *the New Palgrave Dictionary of Economics*, 2nd Edition, Macmillan.

Required:

- R. Dornbusch, S. Fischer and P. Samuelson, “[Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods](#),” AER 1977, 823-839.
- J. Eaton and S. Kortum, “[Technology, geography, and trade](#),” EMA, 2002, 1741-1779.
- A Costinot, D. Donaldson and I. Komunger, “[What goods do countries trade: A quantitative exploration of Ricardo’s](#)

ideas,” RES 2012, 581-608.

L. Caliendo and F. Parro, “Estimates of the trade and welfare effects of NAFTA,” RES 2015, 1-44.

R. Dekle, J. Eaton, and S. Kortum, Samuel “Unbalanced Trade,” AER 2007, 351-355.

D. Empirical Studies of the Trade Pattern

Essential:

F 33-48, 60-66, 78-79

E. Helpman, “The structure of foreign trade,” *Journal of Economic Perspectives* 1999, 121-144.

Required:

H. Bowen, E. Leamer and L. Sveikauskas, “Multicountry, multifactor tests of the factor abundance theory,” AER 1977, 791-809

D. Trefler, “International factor price differences: Leontief was right!” JPE 1993, 961-987.

D. Trefler, “The case of the missing trade and other HOV mysteries,” AER 1995, 1029-1046

D. Davis and D. Weinstein, “An account of global factor trade,” AER 2001, 1423-1453.

E. Empirical Studies of the Welfare and Distributional Effects of Trade

Essential:

R. Feenstra and G., Hanson G, “Global production and inequality: a survey of trade and wages,” in Choi and Harrigan, ed., *Handbook of International Trade*, 2002.

Required:

D. Autor, D. Dorn, and G. Hanson, “The China shock: Learning from labor-market adjustment to large changes in trade,” *Annu Rev Econ* 2016, 205-240.

P. Fajgelbaum and A. Khandelwal, “Measuring the unequal gains from trade,” QJE 2016, 1113-1180.

R. Adao, P. Carrillo, A. Costinot, D. Donaldson and D. Pomeranz, “Imports, exports and earnings inequality: Measures of exposure and estimates of incidence,” QJE 2022, 1153-1614.

G. Sorting: Heterogeneous Workers

Essential:

G. Grossman, “Heterogeneous workers and international trade,” *Rev World Econ* 2013, 211-245.

A Costinot, “An elementary theory of comparative advantage,” *Ema* 2009, 1165-1192.

Required:

G. Grossman and G. Maggi, “Diversity and trade,” AER 2000, 1255-1275.

A. Costinot and J. Vogel, “Matching and inequality in the world economy,” JPE 2010, pp. 747-786.

G. Grossman, E. Helpman and P. Kircher, “Matching, sorting and the distributional effects of international trade,” JPE 2017.

III. THEORY OF TRADE POLICY

A. First and Second Best Trade Policy

Essential:

F 217-224,

A. Dixit, "[Tax policy in open economies](#)," in Auerbach and Feldstein (eds.), *Handbook of Public Economics*, 1985

Required:

DN, chapter 5 (pp.149-163), 6 (pp.165-175)

P. Krishna and A. Panagariya, "[A unification of second best results in international trade](#)," *Journal of International Economics*, 2000, 235-257.

C. Broda, N. Limao, and D. Weinstein, "[Optimal tariffs and market power: The evidence](#)," AER, 2009.

C. Magee and S. Magee, "[The United States is a small country in world trade](#)," *Review of Intl. Economics*, 2008, 990-1004.

L. Caliendo and F. Parro, "[Trade Policy](#)," chapter 4 *Handbook of International Economics* v.5

B. The Political Economy of Trade Policy

Essential:

F, 299-310

Required:

G. Grossman and E. Helpman, "[Protection for sale](#)," AER 1994, 833-850

A. Dixit and J. Londregan, "[The determinants of the success of special interests in redistributive politics](#)," *Jnl of Politics*, 1996, 1132-1155.

P. Goldberg and G. Maggi, "[Protection for sale: An empirical investigation](#)," AER 1999, 1135-1155

R.E. Baldwin and C. Magee, "[Is trade policy for sale: Congressional votes on recent trade bills](#)," *Public Choice* 2000, pp.79-101

C. Trade Agreements

Essential:

F 311-322

K. Bagwell and R. Staiger, "[The World Trade Organization: Theory and practice](#)," *Annu. Rev. of Econ*, 2010, 223-256.

C. Freund and E. Ornelas, "[Regional trade agreements](#)," *Annu. Rev. Econ*, 2010, 39-66.

Required:

G. Grossman and E. Helpman, "[Trade wars and trade talks](#)," JPE 1995, 675-708

G. Maggi and A. Rodríguez-Clare, "[The value of trade agreements in the presence of political pressures](#)," JPE 1998, 574-601

A. Panagariya, "[Preferential trade liberalization: The traditional theory and new developments](#)," JEL 2000, 287-331

IV. IMPERFECT COMPETITION AND TRADE

A. Monopolistic Competition and Gains from Variety

Essential:

HK, chs. 1, 6-8

P. Krugman, “[Increasing returns, monopolistic competition, and international trade](#),” JIE 1979, 469-79

Required:

F: c 5.

E. Zhelobodko, S. Kokovin, M. Parenti and J-F Thisse, “[Monopolistic competition: Beyond the CES](#),” Ema 2013, 2765-84

R. Feenstra, “[New product varieties and the measurement of international prices](#),” AER 1994, 157-77.

C Broda and D. Weinstein, “[Globalization and the gains from variety](#),” QJE 2006, 541-85.

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B. Monopolistic Competition and Home Market Effects

Essential:

P.R. Krugman, “[Scale economies, product differentiation, and the pattern of trade](#),” AER 1980, 950-59

Required:

A Venables, “[Trade and trade policy with differentiated products: A Chamberlinian-Ricardian Model](#),” EJ 1987, 700-17

P. Fajgelbaum, G Grossman and E. Helpman, “[Income distribution, product quality and international trade](#),” JPE 2011, 721-65.

J. Romalis, “[Factor proportions and the structure of commodity trade](#),” AER 2004, 67-97

G. Hanson and C. Xiang, “[The home-market effect and bilateral trade patterns](#),” AER 2004, 1108-29

C. Heterogeneous Firms: Reduced Form Evidence

Essential:

A Bernard, J.B. Jensen, S.J. Redding and P Schott, “[Global Firms](#),” JEL 2018, 565-619

Required:

A Bernard, J.B. Jensen, S.J. Redding and P Schott, “[The empirics of firm heterogeneity and international trade](#),” ARE 2012, 283-313

J. Eaton, S. Kortum and F. Kramarz, “[An anatomy of international trade: Evidence from French firms](#),” Ema 2011, 1453-98

D. Heterogeneous Firms: Theory

Essential:

M Melitz, “[The impact of trade on intra-industry reallocations and aggregate industry productivity](#),” EMA 2003, 1695-1725

M Melitz and S.J. Redding, “[Heterogeneous firms and trade](#),” in E Helpman, G Gopinath and K Rogoff, eds, *Handbook of International Economics vol. IV*

Required:

M Melitz and G. Ottaviano, “[Market size, trade and productivity](#),” RES 2005, 295-316

S. Dhingra and J. Morrow, “[Monopolistic competition and optimum product diversity under firm heterogeneity](#),” JPE 2019

C. Arkolakis, A. Costinot and A. Rodriguez-Clare, “[New trade models, same old gains](#)” AER 2012 94-130

K. Matsuyama and P. Ushchev, “[Selection and sorting of heterogeneous firms through competitive pressures](#)”

E. Oligopoly

Essential:

HK, ch. 5

Required:

J. Brander and P. Krugman, “[A reciprocal dumping model of international trade](#),” JIE 1983, 313-21.

B.D. Bernheim and M.W. Whinston, “[Multi-market contact and collusive behavior](#),” Rand Jnl of Ec 1990, 1-26

A. Atkeson and A. Burstein, “[Pricing-to-market, trade costs and international relative prices](#),” AER 2008, 1998-2031

F. Trade Policy and Imperfect Competition

Essential:

E Helpman and P Krugman, *Trade Policy and Market Structure*, chs. 4-6

Required:

A Dixit, “[International trade policy for oligopolistic industries](#),” EJ 1984, 1-16

D Gros, “[A note on the optimal tariff, retaliation and the welfare loss from tariff wars in a framework with intra-industry trade](#),” JIE 1987, 357-67.

G. Felbermayr, B. Jung and M. Larch, “[Optimal tariffs, retaliation, and the welfare loss from tariff wars in the Melitz model](#),” JIE 2013, 13-25.