

# Course Syllabus ECN302

## International Trade

(6 ECTS credits)

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### Course description

International Trade (ECN302) analyses the interdependence that arises from international trade in goods and services. We cover the following topics: the gains from trade, the pattern of trade, firms in the global economy (outsourcing, offshoring, and foreign direct investment), trade policy, and the impact of protection. We pay special attention to the European Union and its relationship to other regional trading blocs, and the role of international organizations (European Union, World Trade Organization).

### Course prerequisites

A one-semester principles of economics course covering both micro- and macroeconomics (ECN101), or a two-semester principles of economics sequence.

### Course objectives

By the end of this course, students understand the concept of comparative advantage and the gains from trade, understand what determines the pattern of trade, and can outline the costs, benefits, and impact on income distribution of different instruments of trade protection. They understand why firms choose to outsource activities or move activities abroad. They understand the political economy of protection, and the role and limitations of the World Trade Organisation. They can explain the effects of free trade areas (trade creation and trade diversion). Students can apply the analytical toolbox of trade theory to real world situations in order to make qualitative predictions of the effects of measures such as tariffs or export subsidies. They are able to locate, manipulate, and interpret numerical data on trade flows, and to empirically test the predictions of simple theories of trade using real-world data. Students are able

to write up the results of their research in a report, using a standard academic formatting style (APA Style).

## Course schedule

Read the Appendices and the Mathematical Postscripts only if specified. Study the **key concepts** (list on course web site) as we go along.

### Week 1

How the course is organized. What is international trade about? (Krugman et al., 2015, Ch. 1). World trade: an overview (Krugman et al., 2015, Ch. 2). View and read NPR (n.d.). Planet Money makes a t-shirt: The world behind a simple shirt, in five chapters (<http://apps.npr.org/tshirt/>). Assignment 1 (posted on the course web site) is about the gravity model discussed in chapter 2.

### Week 2

Labor productivity and comparative advantage: the Ricardian model (Krugman et al., 2015, Ch. 3). Work numerical problems 1 through 5 to check whether you understood the theory (this is not a formal assignment; you don't have to hand in your work).

### Week 3

Labor productivity and comparative advantage: the Ricardian model, continued (Krugman et al., 2015, Ch. 3). The data set from Balassa (1963) to reproduce Figure 3-6 (Krugman et al., 2015, p. 76) is posted on the course web site (Balassa-1963-data.csv). **Assignment 1 is due.**

### Week 4

Specific factors and income distribution (Krugman et al., 2015, Ch. 4 + Appendix). Work numerical problems 2 through 6 to check whether you understood the theory (this is not a formal assignment; you don't have to hand in your work). Download the handout for Chapter 4 from the course web site, print it, and bring it to class. The box in Krugman et al. (2015, pp. 96-97) discusses the Trade Adjustment Assistance program in the U.S. The European Union also has a Trade Adjustment Assistance program (the European Global Adjustment Fund). Read the description on the official EU web site: <http://ec.europa.eu/egf/> and watch the clip.

### Week 5

Resources and Trade: the Heckscher-Ohlin model (Krugman et al., 2015, Ch. 5). Download the handout for Chapter 5 from the course web site, print it, and bring it to class.

## Week 6

The standard trade model (Krugman et al., 2015, Ch. 6). Download the hand-out on indifference curves from the course web site, print it, and read it. **Assignment 2 is due.**

## Week 7—midterm exam week

The standard trade model, continued (Krugman et al., 2015, Ch. 6).

**Midterm examination: time and place to be confirmed.** Covers all material covered to date. Bring your student ID, a mechanical pencil, some color pencils (but not red), a pen, a ruler with a centimeter scale, and a scientific calculator (one with at least the  $x^y$  function; the TI-83 or TI-84 from your business math or introductory statistics class will do fine). No mobile phones or other electronic devices allowed.

## Week 8

External economies of scale and the international location of production (Krugman et al., 2015, Ch. 7). On dumping and antidumping: Mankiw and Swagel (2005).

## Week 9

Firms in the global economy: export decisions, outsourcing, and multinational enterprises (Krugman et al., 2015, Ch. 8). Work numerical problems 2, 3 and 4 to check whether you understood the theory (this is not a formal assignment; you don't have to hand in your work). Download the handout for Chapter 8 from the course web site, print it, and bring it to class. Read Virginia Postrel (2005, January 27). "What Happened When Two Countries Liberalized Trade? Pain, Then Gain" *New York Times* (link on course home page)—the article summarizing Daniel Trefler's 2004 *American Economic Review* paper mentioned in Krugman et al. (2015, footnote 10 p. 202). Friday of week 9 is the last day to drop a course.

## Week 10

The instruments of trade policy (Krugman et al., 2015, Ch. 9). Work numerical problems 1 through 9 to check whether you understood the theory (this is not a formal assignment; you don't have to hand in your work). On dumping and antidumping: Mankiw and Swagel (2005). **Assignment 3 is due.**

## Week 11

The political economy of trade policy (Krugman et al., 2015, Ch. 10). Work numerical problems 3 through 5 to check whether you understood the theory (this is not a formal assignment; you don't have to hand in your work).

## Week 12

Trade policy in developing countries (Krugman et al., 2015, Ch. 11).

## Week 13

Controversies in trade policy (Krugman et al., 2015, Ch. 12). Compare the conflicting views on carbon border taxes: Bhagwati, J. and Panagariya, A. (2009, December 8). “Why ‘Carbon-Tax-Equalization’ Tariffs are a Bad Idea,” *Times of India*; and Gros, D. (2009, December 9). “A border tax to protect the global environment?” *VoxEU.org* (links to on-line versions on the course home page). **Assignment 4 is due.**

## Week 14

Controversies in trade policy (Krugman et al., 2015, Ch. 12), continued.

## Week 15—Final exam week

**Final exam (date and room to be announced).** Covers all material since the midterm exam. Bring your student ID, a pencil or pen, a ruler with a centimeter scale, and a scientific calculator (one with at least the  $x^y$  function; the TI-83 or TI-84 from your business math or introductory statistics class will do fine). No mobile phones allowed.

## Course materials

The required text is Krugman et al. (2015).

## Course assessment

There are four short research papers and two written exams. The final grade for the course will be calculated on the following weighting:

Participation and preparedness	10 %
Assignments (four, each carrying 7.5%)	30 %
Midterm exam	30 %
Final exam	30 %

## Grading scale of Vesalius College

Vesalius College grading policy, in line with the Flemish Educational norms, is now as stated follows:

Grade	Grade points <sup>a</sup>	Score (/20) <sup>b</sup>	Score (%) <sup>c</sup>
F	0.00	00.0 to 9.9	00 to 49
D	1.00	10.0 to 10.9	50 to 53
D+	1.33	11.0 to 11.4	54 to 57
C-	1.67	11.5 to 12.4	58 to 61
C	2.00	12.5 to 12.9	62 to 65
C+	2.33	13.0 to 13.9	66 to 68
B-	2.67	14.0 to 14.4	69 to 72
B	3.00	14.5 to 15.4	73 to 76
B+	3.33	15.5 to 15.9	77 to 80
A-	3.67	16.0 to 16.9	81 to 84
A	4.00	17.0 to 20.0	85 to 100

<sup>a</sup> Grade points rounded to .01

<sup>b</sup> Scores (/20) rounded to .1

<sup>c</sup> Scores (%) rounded to 1%

The participation and preparedness grade is computed by counting the number of classes attended out of the total, expressing this as a percentage, and converting the percentage to a letter grade using the table above. A student who arrived in class late or who was poorly prepared (for instance, by not having done the requested readings) loses one-third of the participation and preparedness mark for that class. For example, a student who attended 21 out of 27 classes (78%) and was always well-prepared (on time etc.) will obtain a B+. A student who attended 21 out of 27 classes, but was late three times, will get a mark of 20/27 (74%) and will obtain a B. If you can't attend class for a valid reason, let me or the College administration know before class. Excused absences (doctors notice, or acceptable excuse at my discretion) will be counted as being present. Doctor's notes should be handed in at the reception desk; the receptionist will inform all your professors.

## Additional Course Policies

*Formatting of written work.* See my formatting rules for written work for details on how to format a paper for my class:

[http://homepages.vub.ac.be/~lmahens//written\\_work.html](http://homepages.vub.ac.be/~lmahens//written_work.html)

You can find the assignments on the course home page.

*Late papers policy.* Written work should be submitted on paper at the beginning of class on the date specified in the course schedule. I don't accept submission by e-mail. In accordance with Murphy's Law, computers are likely to crash and printers are likely to run out of ink the evening before the due date. Start in time. Make backups of your work. Computer or printer problems are no valid reason for handing in work late. Late written work is allowed only in emergency cases, which must be documented by a physician or college official, in advance when possible. Otherwise the penalty for late work is 2 points (on a 20-point scale) per workday late.

Examinations provide the occasion for you to revise and consolidate your work during the term, to clear up any problems that have remained unresolved. They give you the chance to test whether you have really understood what you have read and done in class. The exams in my courses typically consist of two

parts. The first, counting for a fourth of the total grade, asks you to explain briefly a number of **key concepts** from the list posted on the course web site. This is intended to find out whether you are able to speak the economist's language accurately. The second part asks you to apply what you have learned by commenting at length on statements from the business and financial press and applying the models we developed in class. Makeup examinations will be allowed only in extreme emergency, which must be documented by a physician or college official, in advance when possible.

During the semester, you should make photocopies of your graded written work (papers and exams) and return the originals to me (needed for inspection by the external examiners and the accreditation body).

Don't mail or call me to inquire about your grade—I don't communicate grades by e-mail or by telephone.

## Academic Honesty

Academic dishonesty is not tolerated at the College. Academic honesty is not only an ethical issue but also the foundation of scholarship. Cheating and plagiarism are therefore serious breaches of academic integrity.

Following the College policy, cheating and plagiarism cases will be communicated in writing to the Associate Dean for Students and submitted to the Student Conduct Committee for disciplinary action.

If you refer to someone else's work, appropriate references and citations must be provided. Grammar, spelling and punctuation count, so use the tools necessary to correct before handing in assignments.

## References

Krugman, P. R., Obstfeld, M., and Melitz, M. J. (2015). *International Trade: Theory and Policy*. Pearson Education, Harlow, 10th edition.

Mankiw, N. G. and Swagel, P. L. (2005). Antidumping: The third rail of trade policy. *Foreign Affairs*, 84(4):107–119.