

Economics 7122: International Economics II

Spring 2016

Instructor

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Lecture: Tuesday and Thursday 9:35 am – 10:55 am in Old CE 310

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Course Description

This course is targeted at second-year (and higher) Ph.D. students in economics. Students are expected to have completed first-year micro and macro theory courses. Students who have taken graduate International Economics I (ECON 7121) in the fall semester will benefit more from the class. Before the midterm exam, we will go over the details of milestone models in trade literature. After the midterm, we will look at how these international economic theories are applied in analyzing various economic mechanisms. After the midterm, you will be able to understand most trade literature. The course will focus on helping you to start your own research.

Course Outline

I. Theoretical Models with Firm Heterogeneity

Basic CES Model:

Armington (1969)

Ricardian Models:

Dornbusch, Fischer, and Samuelson (1977)

Eaton and Kortum (2002)

Bernard, Eaton, Jensen, and Kortum (2003)

Models with Monopolistic Competition:

Melitz (2003)

Bernard, Redding and Schott (2007)

Chaney (2008)

Problem Set 1

Non-CES utility (Endogenous Markup):

Melitz and Ottaviano (2008)

General arguments on trade models with CES preference:

Arkolakis, Costinot and Rodriguez-Clare (2012)
Dhingra and Morrow (2014)

- II. The Economics of Trade Agreements
Bagwell and Staiger (1999)
Export Subsidy: Bagwell and Staiger (2012)
Trade Policy under firm heterogeneity: Demidova and Rodriguez-Clare (2009),
Bagwell and Lee (2015)

Problem Set 2

Midterm Exam

- III. Empirical Evidence on Firm Heterogeneity and Trade
Firm Level Evidence: Bernard, Jensen and Schott (2007), Bernard and Jensen (1995, 1999), Eaton, Kortum and Kramarz (2004, 2011), Pavcnik (2002), Dixit (1989a), Roberts and Tybout (1997), Eaton, Eslava, Kugler and Tybout (2008)
Country Level Evidence: Helpman, Melitz and Rubinstein (2008), Broda and Weinstein (2006), Hummels and Klenow (2005)
Quality and Trade: Manova and Zhang (2010), Verhoogen (2008), Kugler and Verhoogen (2012)
- IV. Trade, Institutional Frictions and Market Frictions
Credit Constraints and Trade. Manova (2007)
Credit Constraints and FDI. Manova (2008), Antràs, Desai and Foley (2009), Chor, Foley and Manova (2007), Desai, Foley and Forbes (2008)
Trade and Institutions. Nunn (2007), Acemoglu, Antràs and Helpman (2008), Helpman and Isthokhi (2010), Cuñat and Melitz (2007)
- V. Foreign Direct Investment
Horizontal FDI: Brainard (1997), Markusen and Venables (2000), Helpman, Melitz and Yeaple (2004), Helpman (1984)
Vertical FDI: Brainard (1997), Carr, Markusen, and Maskus (2001), Yeaple (2003 a,b), Hanson, Mataloni and Slaughter (2001)
- VI. Multinational Corporations
Firm Structure and Contractual Imperfection: Antràs (2003)
Global Sourcing with Contractual Imperfection: Antràs (2005), Antràs and Helpman (2004, 2008)

Grading

Your grade will be based on:

1. Midterm exam (30%) will cover up from the beginning to the Economics of Trade Agreements.

2. Two problem sets (10%) will be given before the midterm exam.
3. After the midterm, a referee report (5%) will be assigned.
4. You will be assigned two in-class presentations (10%). Details on referee report and in-class presentations will be announced after Midterm.
5. Project presentation and written project proposal (35%): You must prepare a brief presentation on a new project related to the topics in the course. You are not expected to present a finished draft, but rather an idea and a brief outline of how that idea could be worked out. The presentation will take place the last day of class. After the presentation, you will have a week to write up a 4-5 page-long proposal.
6. Class participation (10%): You are expected to participate in class discussions and should read the paper(s) we will be discussing before coming to class. You don't have to understand the papers in its entirety but should be familiar with its key elements.

Academic Accommodation

Students who may need an academic accommodation based on the impact of a disability must initiate the request with the Office of Disability Services. Professional staff will evaluate the request with required documentation, recommend reasonable accommodations, and prepare an Accommodation Letter for faculty dated in the current semester in which the request is being made. Students should contact the Office of Disability Services as soon as possible since timely notice is needed to coordinate accommodations. Website: <http://disabilityservices.gatech.edu/>

Reading List by Topics

I. Theoretical Models with Firm Heterogeneity

Armington, P. S. (1969): "A Theory of Demand for Products Distinguished by Place of Production," *International Monetary Fund Staff Papers*, 16, 159–178.

Bernard, A., Redding, S. and P. Schott (2007). "Comparative Advantage and Heterogeneous Firms." *Review of Economic Studies* 74.

Chaney, T. (2008). "Distorted Gravity: The Intensive and Extensive Margins of International Trade." *American Economic Review* 98(4), p.1707-21.

Dhingra, S. and J. Morrow (2014), "Monopolistic Competition and Optimum Product Diversity under Firm Heterogeneity," manuscript.

Dornbusch, R., S. Fischer, and P.A. Samuelson, "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review* (1977).

Eaton, Jonathan and Samuel Kortum (2002), "Technology, Geography, and Trade," *Econometrica*, 70(5): 1741–1779

Melitz, M. (2003). "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity." *Econometrica* 71(6), p.1695-725.

Melitz, M. and G. Ottaviano (2008). "Market Size, Trade and Productivity." *Review of Economic Studies* 75(1), p.295-316.

Bernard, A., Eaton, J., Jensen, B. and S. Kortum (2003). "Plants and Productivity in International Trade." *American Economic Review* 93(4), p.1268-90.

Arkolakis, C., Costinot, A. and A. Rodriguez-Clare (2012). "New Trade Models, Same Old Gains?" *American Economic Review* 102(1), p.94-130.

II. The Economics of Trade Agreements

Bagwell, K. and R.W. Staiger, "An Economic Theory of GATT," *American Economic Review* (1999)

Bagwell, K. and R.W. Staiger, "The Economics of Trade Agreements in the Linear Cournot Delocation Model," *Journal of International Economics* (2012)

Demidova, S. and A. Rodriguez-Clare (2009), "Trade Policy under Firm-Level Heterogeneity in a Small Economy," *Journal of International Economics*, 78, 100-12.

Bagwell, K. and SH Lee, "The Economics of Trade Agreements in the Linear Cournot Delocation Model," Mimeo (2015)

III. Empirical Evidence on Firm Heterogeneity and Trade

Bernard, A., Jensen, B. and P. Schott (2007). "Importers, Exporters, and Multinationals: A Portrait of Firms in the U.S. that Trade Goods." In Dunne, T., Jensen, B. and M. Roberts (eds). *Producer Dynamics: New Evidence from Micro Data*. University of Chicago Press, 2008.

Bernard, A. and B. Jensen (1995). "Exporters, Jobs and Wages in U.S. Manufacturing, 1976-1987." *Brookings Papers on Economic Activity: Microeconomics*.

Bernard, A. and B. Jensen (1999). "Exceptional Exporter Performance: Cause, Effect, or Both?" *Journal of International Economics* 47(1), p.1-25.

Bernard, A., Redding, S. and P. Schott (2010). "Multi-Product Firms and Product Switching." *American Economic Review* 100, p.70-97.

Bernard, A., Redding, S. and P. Schott (2011). "Multi-Product Firms and Trade Liberalization." *Quarterly Journal of Economics*.

Broda, C. and D. Weinstein (2006). "Globalization and the Gains from Variety." *Quarterly Journal of Economics* 121(2).

Bustos, P. (2011). "Trade Liberalization, Exports, and Technology Upgrading: Evidence on the Impact of MERCOSUR on Argentinian Firms." *American Economic Review* 101, p.304-40.

Eaton, J., Kortum, S. and F. Kramarz (2011). "An Anatomy of International Trade: Evidence from French Firms." *Econometrica* 79(5), p.1453-98.

Eaton, J., Kortum, S. and F. Kramarz (2004). "Dissecting Trade: Firms, Industries, and Export Destinations." *American Economic Review* P&P 94, p.150-4.

Eaton, J., Eslava, M., Kugler, M. and J. Tybout (2008). "The Margins of Entry into Exports Markets: Evidence from Columbia." Forthcoming in Helpman, E., Marin, D. and T. Verdier (eds). *The Organization of Firms in a Global Economy*. Cambridge, MA: Harvard University Press, 2008.

Dixit, A. (1989a). "Entry and Exit Decision under Uncertainty." *Journal of Political Economy* 97(3), p.620-38.

Helpman, E., Melitz, M. and Y. Rubinstein (2008). "Estimating Trade Flows: Trading Partners and Trading Volumes." *Quarterly Journal of Economics* 123, p.441-87.

Hummels, D. and P. Klenow (2005). "The Variety and Quality of a Nation's Exports." *American Economic Review* 95, p.704-23.

Kugler, M. and E. Verhoogen (2012). "Prices, Plant Size and Product Quality." *Review of Economics Studies* 79(1), p.307-39.

Manova, K. and Z. Zhang (2010). "Export Prices across Firms and Destinations." *Quarterly Journal of Economics*.

Pavcnik, N. (2002). "Trade Liberalization, Exit, and Productivity Improvements: Evidence from Chilean Plants." *The Review of Economic Studies* 69, p.245-76.

Roberts, M. and J. Tybout (1997). "The Decision to Export in Colombia: An Empirical Model of Entry with Sunk Costs." *American Economic Review* 87(4), p.545-64.

Verhoogen, E. (2008). "Trade, Quality Upgrading and Wage Inequality in the Mexican Manufacturing Sector." *Quarterly Journal of Economics* 123 (2), p. 489-530.

IV. Trade, Institutional Frictions and Market Frictions

Acemoglu, D., Antràs, P. and E. Helpman (2007). "Contracts and Technology Adoption." *American Economic Review* 97(3), p.916-43.

Antràs, P., Desai, M. and F. Foley (2009). "Multinational Firms, FDI Flows and Imperfect Capital Markets." *Quarterly Journal of Economics* 124, p.1171-219.

Chor, D., Foley, F. and K. Manova (2007). "MNC Activity and Host Country Financial Development." *Stanford University mimeo*.

Cuñat, A. and M. Melitz (2007). "Volatility, Labor Market Flexibility and Comparative Advantage." *Journal of the European Economic Association* (forthcoming).

Desai, M., Foley, F. and K. Forbes (2008). "Financial Constraints and Growth: Multinational and Local; Firm Responses to Currency Depreciations." *Review of Financial Studies* 21(6), p.2857-88.

Helpman, E. and O. Itskhoki (2010). "Labor Market Rigidities, Trade and Unemployment." *Review of Economic Studies* 77(3), p.1100-37.

Manova, K. (2007). "Credit Constraints, Heterogeneous Firms and International Trade." *Stanford University mimeo*.

Manova, K. (2008). "Credit Constraints, Equity Market Liberalizations and International Trade." *Journal of International Economics* 76, p.33-47.

Manova, K., Wei, S.-J. and Z. Zhang (2009). "Firm Exports and Multinational Activity under Credit Constraints." *Stanford University mimeo*.

Nunn, N. (2007). "Relationship-Specificity, Incomplete Contracts, and the Pattern of Trade." *Quarterly Journal of Economics* 122(2), p.569-600.

V. Foreign Direct Investment

Brainard, L. (1997). "An Empirical Assessment of the Proximity-Concentration Trade-off Between Multinational Sales and Trade." *American Economic Review* 87(4), p.520-44.

Carr, D., Markusen, J. and K. Maskus (2001). "Estimating the Knowledge-Capital Model of the Multinational Enterprise." *American Economic Review* 91(3), p.693-708.

Markusen, J. and A. Venables (2000). "The Theory of Endowment, Intra-industry and Multi-national Trade." *Journal of International Economics* 52, p.209-34.

Hanson, G., Mataloni, R. and M. Slaughter (2001). "Expansion Strategies of U.S. Multinational Firms." In Rodrik, D. and S. Collins (eds). *Brookings Trade Forum*, p.245-82.

Helpman, E., Melitz, M. and S. Yeaple (2004). "Exports versus FDI with Heterogeneous Firms." *American Economic Review* 94(1), p.300-16.

Helpman, E. (1984). "A Simple Theory of International Trade with Multinational Corporations." *Journal of Political Economy* 92(3), p.451-71.

Yeaple, S. (2003a). "The Role of Skill Endowments in the Structure of U.S. Outward FDI." *Review of Economics and Statistics* 85(3), p.726-34.

Yeaple, S. (2003b). "The Complex Integration Strategies of Multinationals and Cross Country Dependencies in the Structure of FDI." *Journal of International Economics* 60, p.293-314.

VI. Multinational Corporations

Antràs, P. (2003). "Firms, Contracts, and Trade Structure." *Quarterly Journal of Economics* 118(4), p.1375-418.

Antràs, P. (2005). "Incomplete Contracts and the Product Cycle," *American Economic Review* 95(4), p.1054-73.

Antràs, P. and E. Helpman (2004). "Global Sourcing." *Journal of Political Economy* 112, p.552-80.

Antràs, P. and E. Helpman (2008). "Contractual Frictions and Global Sourcing." Forthcoming in Helpman, E., Marin, D. and T. Verdier (eds). *The Organization of Firms in a Global Economy*. Cambridge, MA: Harvard University Press, 2008.

Bernard, A., Jensen, B., Redding, S. and P. Schott (2008). "Intra-Firm Trade and Product Contractibility." *American Economic Review P&P* 100, p.444-8. (longer version on Bernard's website)

Feenstra, R. and G. Hanson (2005). "Ownership and Control in Outsourcing to China: Estimating the Property-Rights Theory of the Firm." *Quarterly Journal of Economics* 120(2), p.729-61.

Nunn, N. and D. Trefler (2008). "The Boundaries of the Multinational Firm: An Empirical Analysis." Forthcoming in Helpman, E., Marin, D. and T. Verdier (eds). *The Organization of Firms in a Global Economy*. Cambridge, MA: Harvard University Press, 2008.

Yeaple, S. (2006). "Foreign Direct Investment, and the Structure of U.S. Trade." *Journal of the European Economic Association* 4, p.602-11.