

ECON 450: International Trade
University of Southern California
Spring 2016

Faculty: Ali Shahnawaz
Office: KAP 306E
e-mail: shahnawa [at] usc.edu
Office Hours: TuTh 2:00 – 3:30 pm

TA: Bahar Kartalciklar; e-mail: kartalci [at] usc.edu
TA Office Location and Hours: KAP 363, TBA
Class Location: KAP 144
Schedule: TuTh 6–7:50pm

COURSE OBJECTIVES AND DESCRIPTION: This course will analyze the explanations for and consequences of international trade and investment. We will focus on the interplay of economic theory and empirical descriptions of foreign trade and direct investment patterns. At the end of the course, you should have an understanding of why we observe the patterns of trade that we do, what the gains and losses from trade liberalization are, and how economists think about trade policies and their impacts.

PREREQUISITES: ECON 303 is a strict prerequisite for this course. This also means that you will be expected to have some basic facility with calculus.

REQUIREMENTS: Students will be expected to prepare assigned readings before class. Problem sets, listed at the end of this syllabus, are an important component of the course and will be critical in enhancing your understanding of the material (not to mention, in helping you do well on the exams!). **No late assignments will be accepted** since I will provide solutions soon after the homework is due and it won't make much sense to accept assignments once the solutions are out. I will post answers to the Blackboard website for this course.

In addition, there will be two midterms and a final exam. All will be closed-book and will cover assigned readings from the text and assigned articles, as well as the lectures. **There are no make-ups or early exams!** The exams will be held on the following dates:

Exam 1: Tuesday, March 8

Exam 2: Tuesday, April 26

FINAL EXAM: Thursday, May 5, 7:00-9:00 pm

(Please double check this info with the finals schedule online)

Do not miss the exams!

- Problem sets are worth 25%
- Midterms are each worth 25%
- The final exam is worth 25% (Missing the final is an automatic F on the course!).

TEXT: The required book is Paul Krugman, Maurice Obstfeld, and Marc Melitz, *International Economics: Theory and Policy*, 10th edition, Addison Wesley (henceforth KO). Since much of the homework will be assigned from the textbook, it is important that you have access to the 10th edition. In terms of content, there is some material in the 9th and 10th editions that cannot be found in the older editions. Another helpful text on the theory of international trade, from which we will do a few readings, is James Markusen, et al, *International Trade: Theory and Evidence*, available for free on line at: <http://spot.colorado.edu/~markusen/textbook.html>

You might also benefit from having by your side your ECON 303 or any other intermediate microeconomics text (for example, Hal Varian's *Intermediate Microeconomics*) to review some of the relevant models.

STUDENTS WITH DISABILITIES: Students requesting academic accommodations based on a disability are required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP when adequate documentation is filed. Please be sure the letter is delivered to me as early in the semester as possible. DSP is open Monday – Friday, 8:30 – 5:00. The office is in Student Union 301 and their phone number is (213) 740-0776.

TENTATIVE SCHEDULE

The schedule below is tentative and may be adjusted as we progress through the semester. Note that the recommended journal articles can be downloaded from JSTOR (www.jstor.org) as long as you access the website while on the USC network.

Topic 1: Introduction, Basic facts and issues

Reading: KO, Ch.1 and 2

Recommended: “What do Undergrads Need to Know About Trade?” *American Economic Review Papers and Proceedings*, May 1993, p. 23-26

Topic 2: Endowment Economies

Reading: Markusen et al, Ch. 3

Recommended: Varian, Chs 2-6, 9, 31

Topic 3: The Ricardian Model

Reading: KO, Ch. 3

Recommended: (1) Markusen, et al, Ch. 7; (2) Paul Samuelson: “Why Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization”, *Journal of Economic Perspectives* (Summer 2004), pp. 135-146.

Topic 4: The Specific Factors Model

Reading: KO, Ch 4

Recommended: Markusen, et al, Ch 9

Topic 5: The Heckscher-Ohlin Model

Reading: KO, Ch. 5

Recommended: (1) Markusen, et al, Ch. 8; (2) Richard Freeman: “Are Your Wages Set in Beijing?” *Journal of Economic Perspectives*, Summer 1995.

Topic 6: The Standard Trade Model

Reading: KO, Ch. 6

Topic 7: Increasing Returns

Reading: KO, Ch. 7

Topic 8: Multinational Firms and FDI

Reading: KO, Ch. 8

Recommended: Robert Feenstra: “Integration of Trade and Disintegration of Production in the Global Economy,” *Journal of Economic Perspectives*, Fall 1998.

Topic 9: Trade Policy

Reading: KO, Ch. 9

Topic 10: International Trade Agreements and the WTO

Reading: (1) KO, Ch. 10

(2) Alan Deardorff and Robert Stern: "What the Public Should Know about Globalization and the World Trade Organization," July 2000, Part III. (Available at:

www1.worldbank.org/economicpolicy/globalization/documents/r460.pdf)

Topic 11: Trade and Development

Reading: KO, Ch. 11

Recommended: Jeffrey A. Frankel and David Romer, "Does Trade Cause Growth?" *American Economic Review*, June 1999, pp. 379-399.

Topic 12: Industrial Policy and Standards

Readings: KO, Ch. 12

ASSIGNMENTS: These must be turned in at the start of the lecture on the due date.

Problem Set	Due Date
<i>HW1:</i> <u>Ch. 2:</u> #2, 3; <u>Ch. 3:</u> #1, 2, 3, 4, 5	Tuesday, Feb 2
<i>HW2:</i> <u>Ch. 4:</u> #2, 3, 4; <u>Ch. 5:</u> #1, 6, 7	Tuesday, Feb 16
<i>HW3:</i> <u>Ch. 6:</u> #1, 2, 5, 10; <u>Ch. 7:</u> #2, 4, 5	Tuesday, Mar 1
<i>HW4:</i> <u>Ch. 8:</u> #2, 3, 4; <u>Ch. 9:</u> 1, 2, 3, 5	Tuesday, Mar 29
<i>HW5:</i> <u>Ch. 10:</u> 3, 5; <u>Ch. 11:</u> #3; <u>Ch. 12:</u> #5, 8	Tuesday, April 19