

**ECO 721
INTERNATIONAL ECONOMICS II
Spring 2020**

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Hours: Tues 15:30 ~
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Introduction

This is a designed primarily for second-year Economics students who wish to take International Economics as one of the fields for their dissertation work. It complements the International Trade I course that is taught in the previous semester. The main goal of the course is to enable students to write research papers that are suitable to be included in academic journals.

Compared with the core International Trade I class taught in the previous semester, this class will cover a number of international economics topics. Some of these have been addressed so far mostly theoretically, and others primarily empirically. All topics are of high current research intensity. This means that they are ‘hot’ and particularly suitable for research writers. The goal of this class is to enable students to find a topic of interest to them where they identify a major contribution to be made as well as know the basic elements of how to do so.

Course Assignment

There will be a graded assignment in the course : Students will prepare a research paper analyzing empirically or theoretically an issue in international economics. The projects ordinarily might be expected to lead into a more comprehensive project for publication purposes and/or dissertation research. Each student will present his or her paper in a class.

Reading List

There is no ideal textbook for this course. There are, however, three textbooks that cover major portions of the material. These are

1. Grossman, G., and E. Helpman (1991), *Innovation and Growth in the Global Economy*, MIT Press: Cambridge, MA; abbreviated GH.
2. Fujita, M, P. Krugman, and A. Venables (1998), *The Spatial Economy: Cities, Regions and International Trade*, MIT Press; abbreviated FKV.

3. Feenstra, R., (2004), *Advanced International Trade: Theory and Evidence*, Princeton Univ. Press: abbreviated F.

Other valuable books for this course include:

- Grossman, G., and K. Rogoff (eds.), 1995, *Handbook of International Economics*, Vol. 3., North-Holland. Reference volume. Abbreviated GR.
- Jones, R., and P. Kenen (eds.) 1984, *Handbook of International Economics*, Vol. 1., North-Holland. Reference volume not including the last 15 years.
- Aghion, P., and P. Howitt (1998), *Endogenous Growth Theory*, MIT Press: Cambridge, MA; abbreviated AH.
- Helpman, E., and P. Krugman (1985), *Market Structure and Foreign Trade*, MIT Press: Cambridge, MA; abbreviated HK.
- Grossman, G. (ed.) 1992, *Imperfect Competition and International Trade*, MIT Press.
- Krugman, P. (1990), *Rethinking International Trade*, MIT Press.

Note that wherever possible I have listed NBER working papers that can be downloaded from www.nber.org/papers. Also, many of the published papers were earlier NBER working papers, which you might still be able to find and download.

I. Dynamic models of trade, learning-by-doing, knowledge accumulation and diffusion

*General reference: Grossman, G., and E. Helpman, *Technology and Trade*, Ch 25 in GR also NBER WP # 4926

1. Modeling product differentiation
*HK Ch 6
Dixit, A., and J. Stiglitz, "Monopolistic Competition and Optimum Product Diversity", AER 1977.
2. Modeling endogenous growth
Romer, P., "Endogenous Technological Change", JPE 1990.
AH Ch 2.
GH Ch 3, 4
3. Trade and R&D driven Growth: insights from special cases
GH Ch 6.
Rivera-Batiz, L., and P. Romer, "Endogenous Technological Change and Economic Integration", QJE 1991.
4. Trade and R&D driven Growth: more factors, more trade, more asymmetries, more dynamics, and applications

- Grossman, G., and E. Helpman (1990), “Comparative Advantage and Long-run Growth”, AER 1990
- Feenstra R. “Trade and uneven growth”, JDE 1996
- Dinopoulos, E., and P. Segerstrom, “A Schumpeterian Model of protection and Relative Wages”, AER 1999
- Rodriguez, F., and D. Rodrik, “Trade Policy and Economic Growth: A Skeptic’s Guide to the Cross-National Evidence”, NBER 2000
- Frankel, J., and D. Romer, “Does Trade Cause Growth?”, AER 1999.
5. North-South and product cycle models
- Kruman, P., “A model of Innovation, Technology transfer, and World Distribution of Income”, JPE 1979
- Grossman, G., and E. Helpman, “Quality Ladders and Product Cycles”, QJE 1991. GH Ch 11, 12
6. Models of Technology adoption and diffusion
- Keller, W. “International Technical Diffusion”, JEL 2004.
- Howitt, P., “Endogenous Growth and Cross-Country Income Differences”, AER 2000.
- AH Ch. 12
- Barro, R., and Sala-i-Martin, “Technological Diffusion, Convergence and Growth”, JEG 1997.
- *W. Keller, "Geographic Localization of International Technology Diffusion," AER 2002.
- II. Firm Heterogeneity**
- Melitz, M., “The Impact of trade in Intra-Industry Reallocations and Aggregate Industry Productivity”, Eca 2003.
- Yeaple, S., “A Simple Model of Firm Heterogeneity, International Trade, and Wages”, JIE 2005.
- Melitz, M., and G. Ottaviano, “Market Size, Trade, and Productivity”, ReStud.
- Bernard, A., J. Eaton, B. Jensen, and S. Kortum, “Plants and Productivity in International Trade”, AER 2003.
- Roberts, M., and J. Tybout, “The Decision to Export in Columbia: An Empirical Model of Entry with Sunk costs”, AER 1997.
- III. Multinational Enterprises and International Production**
- Helpman, E., “A Simple Theory of Trade with Multinational Corporations”, JPE 1984.
- Carr, J. Markusen, and K. Maskus, “Estimating the Knowledge-Capital Model of the Multinational Enterprise”, AER 2001.
- Brainard, S., “An Empirical Assessment of the Proximity-Concentration Trade-Off Between Multinational Sales and Trade”, AER 1997.
- Helpman, E., M. Melitz, and S. Yeaple, “Exporting versus FDI with Heterogeneous Firms”, AER 2004.
- Antras, P., and E. Helpman, “Global Sourcing”, JPE 2004.

Hanson, G., and R. Feenstra, Ownership and Control in Outsourcing to China: Estimating the Property Rights Theory of the Firm”, QJE 2005.

IV. Models of economic agglomeration and dispersion – economic geography

Krugman, P. (1991), *Geography and Trade*, MIT Press

Krugman, P., (1991) “Increasing returns and economic geography”, JPE 1991. FKV Ch. 4 ~ 5. 7

Davis, D., “The Home Market, Trade and Industrial Structure”, AER 1998

Venables, A. (1996) “Equilibrium locations of vertically linked industries”, IER.

Krugman, P., and A. Venables, “Globalization and the Inequality of Nations”, QJE 1995.

V. Empirical work on international trade

A. Gravity Models:

*J. Frankel, E. Stein, and S. Wei, “Trading Blocs and the Americas: The Natural, the Unnatural and the Super-Natural,” *Journal of Development Economics* 1995, 61-95.

J. Bergstrand, “The Gravity Equation in International Trade: Some Microeconomic Foundations and Empirical Evidence,” *Review of Economics and Statistics* 1985, 474-481.

*J. Bergstrand, “The Generalized Gravity Equation, Monopolistic Competition, and the Factor-Proportions Theory in International Trade,” *Rev. of Economics and Statistics* 1989, 143-153.

*S. Evenett and W. Keller, "On Theories Explaining the Success of the Gravity Equation," *Journal of Political Economy* 2002, 281-316.

J. Anderson, “A Theoretical Foundation for the Gravity Equation,” *American Economic Review* 1979, 106-116.

A. Deardorff, “Determinants of Bilateral Trade: Does Gravity Work in a Neoclassical World?” in J. Frankel, ed., *The Regionalization of the World Economy*, 1997.

*J. McCallum, “National Borders Matter: Canada-U.S. Regional Trade Patterns,” *American Economic Review*, June 1995, 615-623.

C. Evans, “Do National Border Effects Matter?” manuscript, 1998.

*J. Anderson and E. van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle," *American Economic Review* (forthcoming), NBER working paper 8079, January 2001.

E. Balistreri and R. Hillberry, "Gravity with Gravitas: A Solution to the Border Puzzle, Comment," manuscript, December 2002.

J. Anderson and E. van Wincoop, "Borders, Trade, and Welfare," NBER working paper 8515, October 2001.

J. Harrigan, "OECD Imports and Trade Barriers in 1983," *Journal of International Economics*, August 1993, 92-111.

K. Maskus and M. Penubarti, "How Trade-Related are Intellectual Property Rights?" *J. of International Economics* November 1995, 227-248.

B. Increasing Returns, Imperfect Competition and Bilateral Trade Flows:

*E. Helpman, "Imperfect Competition and International Trade: Evidence from 14 Countries," *Journal of the Japanese and International Economies*, 1987, 62-81.

*D. Hummels and J. Levinsohn, "Monopolistic Competition and International Trade: Reconsidering the Evidence," *Quarterly J. of Economics* 1995, 799-836.

*J. Harrigan, "Scale Economies and the Volume of Trade," *Rev. of Economics and Statistics*, May 1994, 283-293.

W. Antweiler and D. Trefler, "Increasing Returns and All That: A View from Trade," *American Economic Review* March 2002, 93-119.

C. Other Theories:

*B. Balassa, "Intra-Industry Specialization: A Cross-Country Analysis," *European Economic Review*, 1986, 27-42.

*R. Feenstra, "Gains from Trade in Differentiated Products: Japanese Compact Trucks," in Feenstra, EMIT, 119-136.

J. Levinsohn and R. Feenstra, "Identifying the Competition," *J. of International Economics*, May 1990, 199-216.

*L. Hunter, "The Contribution of Nonhomothetic Preferences to Trade," *J. of International Economics*, May 1991, 345-358.

L. Hunter and J. Markusen, "Per-Capita Income as a Determinant of Trade," in Feenstra, ed., *Empirical Methods for International Trade* (MIT Press), 1988, 119-136 (book hereafter called EMIT).

J. Bergstrand, "The Heckscher-Ohlin Theorem, the Linder Hypothesis, and the Volume and Pattern of International Trade," *Economic Journal*, Dec. 1990, 1216-1229.

P. Armington, "A Theory of Demand for Products Distinguished by Place of Production," *IMF Staff Papers*, March 1969, 159-177.

*D. Hummels, "Time as a Trade Barrier," manuscript, July 2001, available at www.mgmt.purdue.edu/faculty/hummelsd

R. Feenstra and A. Rose, "Putting Things in Order: Trade Dynamics and Product Cycles," *Review of Economics and Statistics* August 2000, 369-382.

D. Export Dynamics:

*A. Bernard and J.B. Jensen, "Exceptional Exporter Performance: Cause, Effect, or Both?" *Journal of International Economics* 1999, 1-26.

*M. Roberts and J. Tybout, "The Decision to Export in Colombia: An Empirical Model of Entry with Sunk Costs," *American Economic Review* 1997, 545-564.

J. Tybout, "Plant- and Firm-Level Evidence on "New" Trade Theories," manuscript, March 2001.

E. International Trade, Growth, and Spillovers

Gene Grossman and E. Helpman, *Innovation and Growth in the Global Economy* (MIT Press), 1991.

R. Barro and X. Sala-I-Martin, *Economic Growth* (McGraw Hill), 1995.

R. Barro, "Economic Growth in a Cross Section of Countries," *Quarterly J. of Economics* May 1991, 407-443.

*G. Mankiw, D. Romer and D. Weil, "A Contribution to the Empirics of Economic Growth," *Quarterly J. of Economics*, May 1992, 407-437.

*R. Levine and D. Renelt, "A Sensitivity Analysis of Cross-Country Growth Regressions," *American Economic Review*, Sept. 1992, 942-963.

D. Dollar, "Outward-Oriented Developing Economies Really Do Grow More Rapidly: Evidence from 95 LDCs, 1976-1985," *Economic Development and Cultural Change*, 1992, 523-544.

D. Ben-David, "Trade and Convergence Among Countries," *J. of International Economics* May 1996, 279-298.

*J. Frankel and D. Romer, "Does Trade Cause Growth?" *American Economic Review* June 1999, 379-399.

*D. Coe, E. Helpman and A. Hoffmaister, "North-South R&D Spillovers," *Economic Journal* 1997, 134-149.

*W. Keller, "Geographic Localization of International Technology Diffusion," *American Economic Review* March 2002, 120-142.

F. Determinants of Foreign Direct Investment

S. Grubaugh, "Determinants of Direct Foreign Investment," *Rev. of Economics and Statistics*, Feb. 1987, 149-151.

*S.L. Brainard, "An Empirical Assessment of the Proximity-Concentration Tradeoff between Multinational Sales and Trade," *American Economic Review* 1997, 520-544.

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

James R. Markusen and Keith E. Maskus, "General Equilibrium Approaches to the Multinational Firm: A Review of Theory and Evidence," NBER working paper number 8334

J. Markusen, "The Boundaries of Multinational Enterprises and the Theory of International Trade," *J. of Economic Perspectives*, Spring 1995, 169-189.

K. Head, J. Ries, and D. Swenson, "Agglomeration Benefits and Location Choice: Evidence from Japanese Manufacturing Investments in the United States," *J. of International Economics* May 1995, 223-248.

*B. Blonigen, "In Search of Substitution Effects between Foreign Production and Exports," *Journal of International Economics* 2001, 81-104.

B. Blonigen, "Tariff-Jumping Antidumping Duties," *Journal of International Economics* June 2002, 31-50.

G. Trade Policy

*J. Francois and K. Reinert, eds., *Applied Methods for Trade Policy Analysis* (Cambridge U. Press), 1997, chs. 1-3 (hereafter AMTPA).

*D. Brown, "Tariffs, the Terms of Trade, and National Product Differentiation," *J. of Policy Modelling*, 1987, 503-526.

R. Feenstra, "Estimating the Effects of Trade Policy," in Grossman and Rogoff, eds., *Handbook of International Economics: Vol. 3* (North-Holland), 1995, 1553-1596.

*D. Rodrik, "Imperfect Competition, Scale Economies, and Trade Policy in Developing Countries," in R. Baldwin, ed., *Trade Policy Issues and Empirical Analysis* (U of Chicago Press), 1988, 109-

*D. Brown and R. Stern, "US-Canada Bilateral Tariff Elimination: The Role of Product Differentiation and Market Structure," in R. Feenstra, ed., *Trade Policies for International Competitiveness* (U of Chicago Press), 1989, 217-245.

*T. Hertel, E. Ianchovichina, and B. McDonald, "Multi-Region General Equilibrium Modeling," in AMTPA, ch. 9.

*D. Konan and K. Maskus, "Joint Trade Liberalization and Tax Reform in a Small Open Economy: The Case of Egypt," *Journal of Development Economics* April 2000, 365-392.

*T. Rutherford and D. Tarr, "Trade Liberalization, Product Variety and Growth in a Small Open Economy: A Quantitative Assessment," *Journal of International Economics* March 2002, 247-272.

C. Shiells, A. Deardorff, and R. Stern, "Estimates of the Elasticities of Substitution between Imports and Home Goods for the United States," *Weltwirtschaftliches Archiv*, 1986, 497-519.

T.N. Srinivasan and J. Whalley, eds., *General Equilibrium Trade Policy Modelling* (MIT Press), 1986.

J. de Melo, "Computable General Equilibrium Models for Trade Policy Analysis in Developing Countries: A Survey," *J. of Policy Modelling*, 1988, 469-503.

H. Other Topics

A. Bohara and W. Kaempfer, "A Test of Tariff Endogeneity in the United States," *American Economic Review*, Sept. 1991, 952-960.

D. Trefler, "Trade Liberalization and the Theory of Endogenous Protection: An Econometric Study of U.S. Import Policy," *J. of Political Economy* 1993, 138-160.

T. Prusa, "Why Are So Many Antidumping Petitions Withdrawn?" *J. of International Economics* 1992, 1-20.

K. Gawande and U. Bandyopadhyay, "Is Protection for Sale? Evidence on the Grossman-Helpman Theory of Endogenous Protection," *Review of Economics and Statistics* February 2000, 139-152.

K. Gawande, "Testing Theories of Endogenous Protection: Robust Evidence from U.S. Nontariff Barrier Data," in K. Maskus, et al, eds., *Quiet Pioneering: Robert M. Stern and His International Economic Legacy*, (U of Michigan Press), 1997, 37-70.

R. Lawrence and M. Slaughter, "International Trade and American Wages in the 1980s: Giant Sucking Sound or Small Hiccup?" *Brookings Papers on Economic Activity: Microeconomics* 2 1993, 161-226.

E. Leamer, "A Trade Economist's View of U.S. Wages and Globalization," manuscript, 1995.

Ana Revenga, "Exporting Jobs? The Impact of Import Competition on Employment and Wages in U.S. Manufacturing," *Quarterly J. of Economics*, Feb. 1992, 255-282.

Adrian Wood, "How Trade Hurt Unskilled Workers," *J. of Economic Perspectives*, Summer 1995, 57-80.

R. Feenstra and G. Hanson, "The Exact Measurement of Productivity, Outsourcing and Its Impact on Wages: Estimates for the U.S., 1972-1990," manuscript, 1996.

B. Aitken, A. Harrison, and R. Lipsey, "Wages and Foreign Ownership: A Comparative Study of Mexico, Venezuela, and the United States," *J. of International Economics*, May 1996, 345-372.

G. Hanson and M. Slaughter, "Labor-Market Adjustment in Open Economies: Evidence from US States," *Journal of International Economics* June 2002, 3-30.

W. Antweiler, B. Copeland, and M.S. Taylor, "Is Free Trade Good for the Environment?" *American Economic Review* September 2001, 877-908.

S-J Wei, "How Taxing is Corruption on International Investors?" *Review of Economics and Statistics* February 2000, 1-11.

Organization for Economic Cooperation and Development (2000), *International Trade and Core Labor Standards*, Paris: OECD.