

**DEPARTMENT OF ECONOMICS**  
**UNIVERSITY OF FLORIDA**  
**ECO 7706**

*International Trade Theory*  
Fall 2023

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**Office Hours:** Tuesday, 1:40 p.m. - 3:00 p.m., also by (zoom) appointment.  
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**SYLLABUS**

**Course Description:** The course covers the theory of international trade and international factor movements. We will examine the basis of comparative advantage; trade in differentiated products; gains from trade and welfare; trade and income distribution; multinational companies; North-South trade models and technology transfer; and commercial policy.

**Organization and Requirements:** I will make a special effort to present the relevant economic intuition using geometric and algebraic techniques. However, students should be familiar with calculus and optimization techniques (both static and dynamic) presented in the graduate-level economic theory sequence. Many articles in the literature use calculus to describe various issues related to the course.

**Grades:** There will be a mid-term examination, a final examination, and homework assignments. The final exam is cumulative. Grade weights will be approximately as follows: midterm 30%, final examination 50%, homework 20%.

**Textbook:** Feenstra, Robert, *Advanced International Trade: Theory and Evidence*, Second Edition, 2015, Princeton University Press.

**Midterm Exam Date:** Thursday, October 12, in class.

**Final Exam Date:** Tuesday, December 5, in class.

**COURSE OUTLINE**

This is a tentative reading list. More material might be added as it becomes available. Readings preceded by an asterisk (\*) will form the basis for class discussion and lectures.

**1. Ricardian Model**

\*Feenstra, Robert, *Advanced International Trade: Theory and Evidence*, Chapter 1.

Eaton, Jonathan and Samuel Kortum, (2012), "Putting Ricardo to Work," *Journal of Economic Perspectives* 26(2), pp. 65-90.

**2. Heckscher-Ohlin-Samuelson Model**

\*Feenstra, Robert, *Advanced International Trade: Theory and Evidence*, Chapters 1 and 2.

\*Helpman, E. and P. Krugman, (1985), *Market Structure and Foreign Trade*, MIT Press, Chapter 1.

Jones, Ronald, (1965), "The Structure of Simple General Equilibrium Models," *Journal of Political Economy*, 73(6), 557-72.

Mussa, M. (1979) "The Two-Sector Model in Terms of its Dual: A Geometric Exposition," *Journal of International Economics*, November, pp. 513-526.

Trefler, Daniel, (1995), "The Case of Missing Trade and Other Mysteries," *American Economic Review* 85, 1029-46.

### **3. Many Goods and Many Factors.**

\* Feenstra, Robert, *Advanced International Trade: Theory and Evidence*, Chapter 3.

\*Neary, Peter J., (1978), "Short-run Capital Specificity and the Pure Theory of International Trade," *Economic Journal*, 86 pp. 488-510.

\*Dornbusch, R., S. Fischer and P. A. Samuelson, (1977), "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review*, 67 (5), 823-39.

Mayer, Wolfgang (1974), "Short-run and Long-run Equilibrium for a Small Open Economy," *Journal of Political Economy*, 82, pp. 955-968.

Dinopoulos, Elias and Theofanis Tsoulouhas, (2016), "Performance Pay and Offshoring," *Journal of Economics & Management Strategy* 25, pp. 334-369.

### **4. Imperfect Competition and Increasing Returns.**

\*Krugman, Paul R., (1979), "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics*, November, pp. 469-479.

\*Feenstra, Robert, *Advanced International Trade: Theory and Evidence*, Chapters 5 and 6.

\*Dinopoulos, Elias, Costas Syropoulos, Bin Xu, and Yoto Yotov, (2011), "Intra-Industry Trade and the Skill Premium: Theory and Evidence," *Journal of International Economics* 84, pp. 15-25.

\*Redding Stephen, (2011), "Theories of Heterogeneous Firms and Trade," *Annual Review of Economics*, 3, 77-105.

\*Melitz, Marc, (2003), "The Impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity," *Econometrica* 71, pp 1695-1725.

\*Dinopoulos, Elias and Bulent Unel, (2017), "Managerial Capital, Occupational Choice, and Inequality in a Global Economy," *Canadian Journal of Economics*, 50(2), 365-397.

Dinopoulos, Elias, Gunnar Heins, and Theofanis Tsoulouhas, (2023), "Effort, Talent, and Inequality in a Small Open Economy," University of Florida, *Mimeo*.

\*Dinopoulos, Elias and Bulent Unel, (2015), "Entrepreneurs, Jobs, and Trade," *European Economic Review* 79, pp. 93-112.

Melitz, Marc and Daniel Trefler, (2012), "Gains from Trade When Firms Matter," *Journal of Economic Perspectives* 26(2), Spring, pp. 91-118.

Bernard Andrew, Bradford Jensen, Stephen Redding, and Peter Schott, (2012), "The Empirics of Firm Heterogeneity and International Trade," *Annual Review of Economics* 4, pp. 283-313.

## 5. Dynamic Patterns of Trade

\*Vernon, Raymond, (1966), "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics*, December, pp. 190-207.

\*Krugman, Paul, (1979), "A Model of Innovation, Technology Transfer and the World Distribution of Income," *Journal of Political Economy*, pp. 269-84.

\*Dinopoulos, Elias, (1994), "Schumpeterian Growth Theory: An Overview," *Osaka City University Economic Review*, 29, pp. 1-21.

\*Dinopoulos, Elias, (2008), "Growth in Open Economies, Schumpeterian Models", in Reinert K. and R. Rajan, (eds), *Princeton Encyclopedia of the World Economy*, Princeton University.

## 6. Commercial Policy

\*Feenstra, Robert. (1992), "How Costly is Protectionism," *Journal of Economic Perspectives*, Summer, 159-178.

\*Romer, Paul. (1994), "New Goods, Old Theory, and the Welfare Costs of Trade Restrictions," *Journal of Development Economics*, 43, pp. 5-38.

\*Brander, James and Barbara. Spencer, (1984), "Trade Warfare: Tariffs and Cartels," *Journal of International Economics*, 16, pp. 227-242.

\*Eaton, Jonathan and Gene Grossman, (1986), "Optimal Trade and Industrial Policy Under Oligopoly," *The Quarterly Journal of Economics*, May, pp. 383-406.

\*Mezzetti, Claudio and Elias Dinopoulos, (1991), "Domestic Unionization and Import Competition," *Journal of International Economics*, 31, pp. 79-100.

\*Johnson, Harry G., (1953-54), "Optimum Tariffs and Retaliation," *The Review of Economic Studies*, 21, 147-58.

Syropoulos, Constantinos, (2002), "Optimum Tariffs and Retaliation Revised: How Country Size Matters", *The Review of Economic Studies*, 69(3), 707-27.

\*Gros, Daniel, (1987), "A Note on the Optimal Tariff, Retaliation, and the Welfare Loss from Tariff Wars in a Framework with Intra-Industry Trade," *Journal of International Economics*, 23, 357-67.

Felbermayr, Gabriel, Benjamin Jung, and Mario Larch, (2013), "Optimal Tariffs, Retaliation, and the Welfare Loss from Tariff Wars in the Melitz Model," *Journal of International Economics*, 89, 13-25.

\*Mayer, Wolfgang, (1984), "Endogenous Tariff Formation," *American Economic Review*, 74(5),

970-85.

\*Grossman, Gene, and Elhanan Helpman, (1994), "Protection for Sale," *American Economic Review*, 84, 833-850.

## **7. International Factor Movements**

\* Feenstra, Robert, *Advanced International Trade: Theory and Evidence*, Chapter 4.

\* Feenstra, Robert, *Advanced International Trade: Theory and Evidence*, Chapter 12.

\*Helpman, Elhanan, (1984), "A Simple Theory of International Trade with Multinational Corporations," *Journal of Political Economy* 92, 451-71

\*Helpman, Elhanan, (2006), "Trade, FDI, and the Organization of Firms", *Journal of Economic Literature*, September, 589-630.

Helpman, E., M. Melitz, and S. Yeaple, (2004), "Export versus FDI with Heterogeneous Firms", *American Economic Review* 94,1, pp. 300-316.

Dinopoulos, Elias and Paul Segerstrom, (2010), "Intellectual Property Rights, Multinational Firms and Economic Growth", *Journal of Development Economics* 92, pp 13-27.