

# ECO 7707: International Economic Relations

## Syllabus

**Instructor:** Gunnar Heins

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**Office Hours:** Tuesdays, 2-4 in MAT 320

**Class Meeting Times:** Mondays & Wednesdays, 9th/10th period (4:05 - 6:00)

**Room:** MAT 114

### Course Description

This course is an introduction to empirical international trade on the graduate level. The course will introduce students to empirical facts and data related to trade, international prices, and firms. We will cover models and techniques that allow researchers to bring trade theory to the data and to evaluate trade policies quantitatively. The final goal is to become familiar with the recent literature in the field.

### Course Requirements, Homework, and Grading

The main requirements are a midterm (20 %) and a final exam (30 %) as well as homeworks and presentations (50 %). The homeworks are especially important and will ask you to apply the models and techniques covered in class to trade data in a hands-on fashion. This serves the purpose of enhancing the understanding of the theory and learn how to actually do research in international trade and in general. It will also refresh and improve your coding skills.

In the last three lectures of the course, to give you an additional sense of the frontier in the field, I ask each of you choose and to present a paper related to international trade that has been published in a top 5 journal (American Economic Review, Quarterly Journal of Economics, Journal of Political Economy, Econometrica, Review of Economic Studies) since 2012. The presentations should be about 40-45 minutes long and give an in-depth description of the paper as well as point out its contribution. It cannot be a paper that we covered (in detail) in class.

# Topics

## Part 1: Course Introduction, Data, and the Gravity Equation

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Lectures 1-2 (Jan 8, 10)

- Course Introduction
- Data Sources in international trade and collecting data with R
- The Gravity Equation

Readings:

1. McCallum (1995)
2. Anderson, van Wincoop (2003)

**Homework 1: Data Collection and the Gravity Equation** (due: Jan 29)

## Part 2: New Trade Models, Firms and International Trade

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Lectures 3-5 (Jan 17, 22, 24)

- Technology and International Trade: The Eaton, Kortum model
- Productivity and Imperfect Competition: The Melitz Model
- Introduction to Estimating structural trade models

Readings:

1. Eaton, Kortum (2002)
2. Melitz (2003)
3. Eaton, Kortum, Kramartz (2011)

## Part 3: Trade, Offshoring, and Labor Markets

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Lectures 6 - 8 (Jan 29, 31, Feb 5)

- Trade and Inequality in the U.S.
- Import Competition and the Labor Market: Autor, Dorn, and Hanson (2013)
- Trade, Unemployment and Inequality: Helpman, Itskhoki, and Redding (2010)

Readings:

1. Helpman, Itskhoki, and Redding (2010)
2. Autor, Dorn, and Hanson (2013)
3. Autor, Dorn, Hanson, Song (2014)

**Homework 2: Simulation in Trade Models** (due: Feb 19)

## Part 4: Trade, Competition and Markups

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Lectures 9 - 10 (Feb 7, 12)

- Market Power and Markups
- Trade with endogenous markups: Melitz and Ottaviano
- Measuring Markups

Readings:

1. Melitz, Ottaviano (2008)
2. De Loecker and Warzynski (2012)
3. De Loecker, Goldberg, Khandelwal, Pavcnik (2016)

Part 5: Entry and Selection

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Lectures 11 - 12 (Feb 14, 19)

- How do firms enter?
- Sequential Entry

Readings:

1. Helpman, Melitz, Rubinstein (2008)
2. Morales, Sheu, Zahler (2017)

**Midterm: Lecture 13 (Feb 21)**

Part 6: The Gains from Trade

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Lectures 14 - 15 (Feb 26, 28)

- How big are the gains from trade?
- Measuring the gains from trade and variety

Readings:

1. Arkolakis, Costinot, Rodriguez-Clare (2012)
2. Feenstra (1994)
3. Broda and Weinstein (2006)

**Homework 3: Trade and Local Labor Markets** (due: Mar 19)

Part 7: Vertical and Horizontal Differentiation

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Lectures 16 - 17 (Mar 12, 14)

- Cross-country differences in quality
- Product differentiation, strategy and trade

Readings:

1. Verhoogen (2008)

2. Khandelwal (2010)
3. Cosar, Grieco, Li, and Tintelnot (2015)

#### Part 8: The political economy of trade

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Lectures 18 - 19 (Mar 19, 21)

- Tariffs and the WTO
- Protection for sale: Bagwell, Staiger
- New trade and optimal tariffs: Ossa

Readings

1. Grossman, Helpman (1994)
2. Bagwell, Staiger (1999)
3. Ossa (2014)

#### **Homework 4: The Feenstra Method and the Gains from Trade** (due Apr 18)

#### Part 9: Economic Geography

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Lectures 20 - 21 (Mar 26, 28)

- How important is transportation infrastructure?
- Where do firms locate and what are the determinants of city structures?

Readings:

1. Donaldson (2015)
2. Ahlfeld, Redding, Sturm, Wolf (2015)

#### Part 10: Immigration

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Lectures 22 - 23 (Apr 2, 4)

- How does immigration affect the labor market?
- Immigration and inequality

Readings:

1. Ottaviano, Peri, Wright (2013)
2. Peri, Shih, Sparber (2015)

#### Part 11: Intermediates and Networks

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Lectures 24 - 25 (Apr 9, 11)

- Firm-to-firm trade in the U.S.

- Trade and firm-to-firm trade

Readings:

1. Antras, Fort, and Tintelnot (2015)
2. Lim (2015)

Part 12: Student Presentations

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Lectures 26-28 (Apr 16, 18, 23)

**Final Exam: Lecture 29 (Apr 25)**

## References

- [1] Ahlfeld, Gabriel, Stephen Redding, Daniel Sturm, and Nikolaus Wolf (2015): "The Economics of Density: Evidence from the Berlin Wall"; *Econometrica* 83 (6), November, 2015, 2127–2189.
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- [3] Antras, Pol, Teresa Fort, and Felix Tintelnot: "The Margins of Global Sourcing: Theory and Evidence from U.S. Firms"; Working Paper.
- [4] Arkolakis, Costas, Arnaud Costinot, and Andres Rodriguez-Clare (2012): "New Trade Models, Same Old Gains"; *American Economic Review* 102 (1), February 2012, pp. 94-130.
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- [7] Bagwell, Kyle, and Robert Staiger (1999): *An Economic Theory of GATT*; *American Economic Review* 89, 215-248.
- [8] Broda, Christian, and David Weinstein (2006): "Globalization and the Gains from Variety"; *Quarterly Journal of Economics*, 121, 541-585.
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- [10] De Loecker, Jan, Pinelopi Goldberg, Amit Khandelwal, and Nina Pavcnik (2016): "Prices, Markups, and Trade Reform"; *Econometrica*, Vol. 84 (2), March 2016, 445–510.

- [11] De Loecker, Jan, and Frederic Warzynski (2012): "Markups and Firm-Level Export Status," *American Economic Review* 102 (6), October 2012, 2437–2471.
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- [19] Khandelwal, Amit (2010): "The Long and Short (of) Quality Ladders"; *Review of Economic Studies*, 77, pp. 1450-1476.
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- [21] McCallum, John (1995): "National Borders Matter: Canada-U.S. Regional Trade Patterns"; *American Economic Review* 85 (3), June 1995, pp. 615-623.
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- [23] Melitz, Marc and Gianmarco Ottaviano (2008): "Market Size, Trade, and Productivity"; *Review of Economic Studies*, 75, pp. 295-316.
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- [26] Ottaviano, Gianmarco, Giovanni Peri, and Greg Wright (2013): "Immigration, Offshoring, and American Jobs"; *American Economic Review* 103 (5), pp. 1925-1959.

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