

EC 607: SEMINAR IN INTERNATIONAL TRADE

**Mondays and Wednesdays
12:00 – 1:50 pm, PLC 412**

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Office Hours: by appointment

Course Website: Blackboard

Course Description

This is a graduate level seminar in international trade. The course is designed to introduce you to recent theoretical and empirical developments in the field. The first part of the course will focus on new firm-level theories of trade, and their quantitative implications. In the second part we will use these modeling frameworks to investigate topics such as quality differentiation, optimal product scope and multinational firms in international trade. We will also examine the international organization of production, the decision to offshore activities, and the impact of institutional frictions on trade flows.

This course has two purposes. One is to get you familiar with recent models, data and quantitative methodologies that are commonly used in international trade. Second is to help you develop skills that will prepare you for doing research in this or other fields. Towards this goal, you will have to discuss and critically assess others' research work, present recent papers at the frontier of research, and develop research ideas.

Readings

The required readings for this course are journal articles market listed below each topic and market with star (*). They will be discussed extensively during class. The reading list is subject to revisions, but the required readings will be announced a week in advance. Unstarred readings are optional.

Recommended Texts in International Trade:

Feenstra, Robert. "Advanced International Trade: Theory and Evidence", Princeton, Princeton University Press, 2004.

Helpman, E. and P. Krugman. "Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition, and the International Trade", Cambridge, MIT Press, 1995.

Grossman, G.M. and K. Rogoff (eds.). "Handbook of International Economics, Vol. 3", North Holland, 1995.

Helpman, E., Marin, D., and T. Verdier (eds). "The Organization of Firms in a Global Economy", Harvard University Press, 2008.

Course Requirements & Grading:

| | | <i>Due Dates:</i> |
|--|-----|--------------------------|
| Class participation & paper critiques (x2) | 15% | |
| Written Assignments (x2) | 15% | April 15; April 27 |
| Referee Report | 10% | May 13 |
| Paper Presentation | 15% | Dead week |
| Term Paper (5% Proposal) | 45% | June 3 (Week 4 proposal) |

Class Participation, Paper Critiques and Written Assignments:

Since in each class we will be discussing at length research articles, class participation will depend primarily on you doing the assigned readings before class. For two of the required readings (to be discussed in class) you are asked to provide a one-page critical analysis of the papers' research ideas. You can choose any two papers from the listed of required readings, and the critique must be turned in *the evening before the class assigned to that reading*.

There will be two written assignments handed to you during the course of the term. They will consist of problem sets and data exercises related to topics and readings discussed in class.

Referee Reports

You must write two referee reports during the length of the course. A referee report is a critical assessment of an unpublished paper that is submitted for publication at a peer-reviewed journal. It is an activity solicited by a journal editor and is intended to help the editor decide whether or not to pursue the paper for publication.

A typical referee report is *2-4 pages (single spaced)*, and has the following general structure. The first few paragraphs should summarize the paper for the editor (putting it into context), describe the main model/estimation features of the paper and highlight its strengths and original contributions. The body of the report should be a critical analysis of the paper. Comments may be organized in paragraphs or in list form, and should discuss the paper's weaknesses. Where possible, you should propose directions on how the author(s) could address the identified weaknesses, as well as make recommendations for changes that would improve the paper. Comments are generally organized based on their importance for the overall quality of the paper, from major concerns to minor points.

You can choose to referee any one of the *unpublished* papers listed in the syllabus, which are not going to be discussed in class. I will supplement that with a list of working papers on related topics. However, if you have a strong preference for a particular paper not included in either reference list, please consult with me in advance.

Term paper

A requirement for this course is to write a term paper on a trade-related topic of your choice, decided in consultation with me. There are two options for the paper: (1). a comprehensive *analysis* of the existing literature that identifies unresolved research questions (must have at least 15 references published in academic journals); or (2). a paper that presents a novel, original research idea and derives some preliminary theoretical and/or empirical results. In either case, the term paper must show your thinking and analysis of the topic/idea and provide a concrete avenue and suggestions for future research. More detail on each option will be given in class. The *term paper is due the last day of classes* (June 3, 2015).

A *written one-page proposal* framing the research question or topic chosen for the term paper must be submitted by week 4 of classes. Please schedule a meeting with me to discuss your proposal.

Paper Presentation:

Each student has to prepare a 30-minute in-class presentation on work done for the term paper. This could include an overview of the state of the literature surveyed, with a more detailed discussion of one particular paper in this literature. Students that have started work on an original research idea are encouraged to focus their presentation on that.

Tentative Schedule
(subject to change during the course)

| Date | Assigned Reading |
|------|---|
| 3/30 | Dornbusch, R, S. Fischer and P.A. Samuelson, 1977. "Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods", <i>American Economic Review</i> 823-839. |
| 4/1 | Krugman, P., 1980. "Scale Economies, Product Differentiation and the Pattern of Trade", <i>American Economic Review</i> 70, 950-959. |
| 4/6 | Baier, S. and J. Bergstrand, 2001. "The growth of world trade: tariffs, transport costs, and income similarity", <i>Journal of International Economics</i> 53, 1-27. Rauch, J. and V. Trindade, 2002. "Ethnic Chinese Networks in International Trade", <i>Review of Economics and Statistics</i> 84, 116-130. |
| 4/8 | Hummels, D., Lugovskyy, V., & Skiba, A. (2009). "The trade reducing effects of market power in international shipping", <i>Journal of Development Economics</i> 89, 84-97. |
| 4/13 | Atkin, D. and D. Donaldson, 2014. "Who's Getting Globalized? Implications of Intranational Trade Costs", Yale University, mimeo. |
| 4/15 | Melitz, M., 2003. "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity", <i>Econometrica</i> 71, 1695-1725. Yeaple, Stephen, 2005. "A simple model of firm heterogeneity, international trade, and wages." <i>Journal of international Economics</i> 65, 1-20. |
| 4/20 | Helpman, E., Melitz, M. and Y. Rubinstein, 2008. "Estimating Trade Flows: Trading Partners and Trading Volumes", <i>Quarterly Journal of Economics</i> 123, 441-487. |
| 4/22 | Roberts, M. and J. Tybout, 1997. "The Decision to Export in Columbia: An Empirical Model with Sunk Costs", <i>American Economic Review</i> 87, 545-564. |
| 4/27 | Pavcnik, N., 2002. "Trade Liberalization, Exit and Productivity Improvements: Evidence from Chilean Plants", <i>Review of Economic Studies</i> 69, 245-276. |
| 4/29 | Helpman, E., Melitz, M. and S. Yeaple, 2004. "Exports versus FDI with Heterogeneous Firms", <i>American Economic Review</i> 94, 300-316. |
| 5/4 | Conconi, P., A. Sapir, and M. Zanardi, 2014. "The Internationalization Process of Firms: from Exports to FDI", Universite Libre de Bruxelles, mimeo. |
| 5/6 | Javorcik, B. S., 2004. "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages", <i>American Economic Review</i> , 605-627. |
| 5/11 | Keller, Wolfgang and Stephen Yeaple, 2009. "Gravity in the Weightless Economy", NBER working paper 15509. |

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| 5/13 | Hummels, D., Jørgensen, R., Munch, J. R., & Xiang, C. (2011). "The Wage Effects of Offshoring: Evidence from Danish Matched Worker-firm Data", <i>American Economic Review</i> , forthcoming. |
| 5/18 | Verhoogen, E., 2008. "Trade, Quality Upgrading and Wage Inequality in the Mexican Manufacturing Sector", <i>Quarterly Journal of Economics</i> 123, 489-530. |
| 5/20 & 5/27 | Of choice (2/3): Manova, K., 2013. "Credit Constraints, Heterogeneous Firms and International Trade", <i>Review of Economic Studies</i> 80, 711-744. Forslid, R., T. Okubo and K. H. Ulltveit-Moe, 2015. "Why are Firms that Export Cleaner? International Trade, Abatement and Environmental Emissions", University of Oslo, mimeo. Boler, E. A., B. Javorcik, K. H. Ulltveit-Moe, 2015. "Globalization: A Woman's Best Friend? Exporters and the Gender Wage Gap", University of Oxford, mimeo. |
| 5/25 | Memorial Day |
| 6/1 | Student Presentations |
| 6/3 | Student Presentations |

Reading List

I. Neoclassical Models of Trade: the Ricardian Model of Trade

- (*) 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* 823-839.
- Eaton, J., and S. Kortum, 2002. "Technology, Geography, and Trade" *Econometrica*, 70(5), 1741-1779.
- Matsuyama, K., 2008. "Ricardian Trade Theory" in the New Palgrave Dictionary of Economics.

II. Monopolistic Competition Model and Applications

Basic Monopolistic Competition Model of Trade

- (*) Krugman, P., 1980. "Scale Economies, Product Differentiation and the Pattern of Trade", *American Economic Review* 70, 950-959.
- Krugman, P., 1979. "Increasing Returns, Monopolistic Competition and International Trade", *Journal of International Economics* 9, 469-479.
- Krugman, P. (1995). "Increasing Returns, Imperfect Competition and the Positive Theory of International Trade", *Handbook of International Economics* Vol. 3, Chapter 24.
- Feenstra, R. (2004). *Advanced International Trade. Theory and Evidence*. Chapter 5.
- Helpman, H., and P. Krugman, 1985. *Market Structure and Foreign Trade*, MIT Press, Ch. 6-9.

Evidence for Monopolistic Competition Model

- Hummels, D. and J. Levinsohn, 1995. "Monopolistic Competition and International Trade: Reinterpreting the Evidence", *Quarterly Journal of Economics* 110, 799-836.
- Helpman, Elhanan, 1987. "Imperfect Competition and International Trade: Evidence from Fourteen Industrial Countries", *Journal of Japanese and International Economics* 1, 62-81.
- Hanson, G. and C. Xiang, 2004. "The Home Market Effect and Bilateral Trade Patterns", *American Economic Review* 94, 1108-1129.

Gravity Equation

- (*) Baier, S. and J. Bergstrand, 2001. "The growth of world trade: tariffs, transport costs, and income similarity", *Journal of International Economics* 53, 1-27.
- (*) Rauch, J. and V. Trindade, 2002. "Ethnic Chinese Networks in International Trade", *Review of Economics and Statistics* 84, 116-130.
- Anderson, J. E., 1979. "A Theoretical Foundation of the Gravity Equation", *American Economic Review* 69, 106-116.

Empirical Applications of Gravity: Border Puzzle

- McCallum, J., 1995. "National Borders Matter", *American Economic Review* 85, 615-623.
- Anderson, J. and E. van Wincoop, 2003. "Gravity with Gravitas: A Solution to the Border Puzzle", *American Economic Review* 93, 170-192.

Empirical Applications of Gravity: Trade Costs

- (*) Hummels, D., Lugovskyy, V., & Skiba, A. (2009). "The trade reducing effects of market power in international shipping", *Journal of Development Economics* 89, 84-97.
- (*) Atkin, D. and D. Donaldson, 2014. "Who's Getting Globalized? Implications of Intranational Trade Costs", Yale University, mimeo.
- Hummels, D. and R. Hillberry, 2008. "Trade Responses to Geographic Frictions: A Decomposition Using MicroData", *European Economic Review* 52, 527-550.
- Anderson, James, 2001. "Trade Costs", *Journal of Economic Literature* 42, 691-751.
- Rauch, J., 1999. "Networks versus Markets in International Trade", *Journal of International Economics* 48, 7-35.

III. Firm Heterogeneity Models

Basic Facts

- Bernard, A. and B. Jensen, 1999. "Exceptional Exporter Performance: Cause, Effect or Both?", *Journal of International Economics* 47: 1-25.
- Bernard, A. and B. Jensen, 2004. "Why Some Firms Export?", *Review of Economics and Statistics* 86, 561-569.
- De Loecker, J., 2007. "Do Exports Generate Higher Productivity? Evidence from Slovenia", *Journal of International Economics* (73), 69-98.
- Bernard, A., Jensen, B., Redding, S. and P. Schott, 2007. "Firms in International Trade", *Journal of Economic Perspectives* 21, 105-130.

Theoretical Models of Firm Heterogeneity

- (*) Melitz, M., 2003. "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity", *Econometrica* 71, 1695-1725.
- (*) Chaney, T., 2005. "Distorted Gravity: Heterogeneous Firms, Market Structure and the Geography of International Trade", *American Economic Review* 98, 1707-1721.
- (*) Yeaple, Stephen, 2005. "A simple model of firm heterogeneity, international trade, and wages." *Journal of international Economics* 65, 1-20.
- Bernard, A., Redding S., and P. Schott, 2004. "Comparative Advantage and Heterogeneous Firms", *Review of Economic Studies* 74, 31-66.
- Melitz, M. and G. Ottaviano, 2008. "Market Size, Trade and Productivity", *Review of Economic Studies* 295-316.
- Eaton, J. and S. Kortum, 2002. "Technology, Geography and Trade", *Econometrica* 70, 1741-1780.
- Bernard, A., Eaton, J., Jensen, B., Kortum, S., 2003. "Plants and Productivity in International Trade", *American Economic Review* 93, 1268-1290.

Empirics on Firms Heterogeneity: New Margins of Trade

- (*) Helpman, E., Melitz, M. and Y. Rubinstein, 2008. "Estimating Trade Flows: Trading Partners and Trading Volumes", *Quarterly Journal of Economics* 123, 441-487.
- (*) Roberts, M. and J. Tybout, 1997. "The Decision to Export in Columbia: An Empirical Model with Sunk Costs", *American Economic Review* 87, 545-564.
- Eaton, J., Kortum, S. and F. Kramarz, 2004. "Dissecting Trade: Firms, Industries and Export Destinations", *American Economic Review P&P* 94(2), 150-154.
- Arkolakis, C., 2010. "Market Penetration Costs and the New Consumers Margin in International Trade", *Journal of Political Economy*, forthcoming.

Adjustments to Trade Liberalization: Productivity and Labor Market Implications

- (*) Pavcnkic, N., 2002. "Trade Liberalization, Exit and Productivity Improvements: Evidence from Chilean Plants", *Review of Economic Studies* 69, 245-276.
- Bustos, P., 2011. "Trade Liberalization, Exports and Technology Upgrading: Evidence on the Impact of MERCOSUR on the Argentinean Firms", *American Economic Review* 101, 304-340.
- Amiti, M. and J. Konings, 2007. "Trade Liberalization, Intermediate Inputs and Productivity: Evidence from Indonesia", *American Economic Review* 97(5), 1611-1638.
- Trefler, D., 2004. "The Long and Short of the Canada-U.S. Free Trade Agreement", *American Economic Review* 94, 870-895.

Multi-Product Firms

- Bernard, A., Stephen Reading, and P. Schott, 2010. "Multi-Product Firms and Trade Liberalization", *Quarterly Journal of Economics*, forthcoming.
- Bernard, A., Stephen Reading, and P. Schott, 2010. "Multi-Product Firms and Product Switching", *American Economic Review* 100, 70-97.
- Dhingra, S., 2011. "Trading Away Wide Brands for Cheap Brands", Princeton University, mimeo.

- Eckel and Neary, 2010. "Multi-Product Firms and Flexible Manufacturing in the Global Economy", *Review of Economic Studies* 77, 188-217.
- Khandelwal, A., Goldberg, P., Pavcnik, N. and P. Topalova, 2010. "Multi-product Firms and Product Turnover in the Developing World: Evidence from India", *Review of Economics and Statistics* 92, 1042-1049.

III. Trade Topics

Firms and Decision to Invest Abroad

- (*) Helpman, E., Melitz, M. and S. Yeaple, 2004. "Exports versus FDI with Heterogeneous Firms", *American Economic Review* 94, 300-316.
- Brainard, L., 1997. "An Empirical Assessment of the Proximity-Concentration Trade-off Between Multinational Sales and Trade", *American Economic Review* 87, 520-544.
- (*) Conconi, P., A. Sapir, and M. Zanardi, 2014. "The Internationalization Process of Firms: from Exports to FDI", Universite Libre de Bruxelles, mimeo.
- Yeaple, S., 2003. "The Role of Skill Endowments in the Structure of U.S. Outward Foreign Direct Investment", *Review of Economics and Statistics* 85, 726-734.
- Hanson, G., Mataloni, R., and Slaughter, M., 2005. "Vertical Production Networks in Multinational Firms", *Review of Economics and Statistics* 87, 664-678.
- Blonigen, B. and J. Piger, 2011. "Determinants of Foreign Direct Investment", University of Oregon, mimeo.
- Helpman, E., 1984. "A Simple Theory of International Trade with Multinational Corporations", *Journal of Political Economy* 92, 451-471.
- Markusen, J., and A. Venables, 2000. "The theory of endowment, intra-industry and multi-national trade", *Journal of International Economics* 52, 209-234.

Boundaries of the Firm

- Antras, P., 2003. "Firms, Contracts and Trade Structure", *Quarterly Journal of Economics* 118, 1375-1418.
- Antras, P., E., Helpman, 2004. "Global Sourcing", *Journal of Political Economy* 112, 552-580.
- Grossman, G. and E. Helpman, 2002. "Integration vs. Outsourcing in Industry Equilibrium", *Quarterly Journal of Economics* 117, 85-120.
- Yeaple, S., 2006. "Foreign Direct Investment and the Structure of U.S. Trade", *Journal of the European Economic Association* 4, 602-611.
- Costinot, A., Oldensky, L., and J. Rauch, 2009. "Adaptation and the Boundaries of the Multinational Firms", *Review of Economics and Statistics* 93, 298-308.
- Nunn, N. and D. Trefler, 2008. "The Boundaries of the Multinational Firm: An Empirical Analysis", in E. Helpman, D. marin and T. Verdier (Eds.), *The Organization of Firms in a Global Economy*, Harvard University Press.

FDI Spillovers

- (*) Javorcik, B. S., 2004. "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages", *American Economic Review*, 605-627.
- Aitken, B. J., and A. Harrison, 1999. "Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela" *American Economic Review*, 605-618.

Offshoring

- (*) Keller, Wolfgang and Stephen Yeaple, 2009. "Gravity in the Weightless Economy", NBER working paper 15509.
- (*) Hummels, D., Jørgensen, R., Munch, J. R., & Xiang, C. (2011). "The Wage Effects of Offshoring: Evidence from Danish Matched Worker-firm Data", *American Economic Review*, forthcoming.
- Grossman, G. and E. Rossi-Hansberg, 2008. "Trading Tasks: A Simple Theory of Offshoring", *American Economic Review* 98, 1978-1997.
- Feenstra, R. and G. Hanson, 1999. "The Impact of Outsourcing and High-Technology Capital on Wages", *Quarterly Journal of Economics* 114, 907-940.
- Yi, K. M., 2003. "Can Vertical Specialization Explain the Growth of World Trade?", *Journal of Political Economy*, 111:1, 52-102.

Quality and Trade

- (*) Verhoogen, Eric, 2008. "Trade, Quality Upgrading and Wage Inequality in the Mexican Manufacturing Sector: Theory and Evidence from an Exchange Rate Shock", *Quarterly Journal of Economics* 123, 489-530.
- Kugler, M. and E. Verhoogen, 2010. "Prices, Plant Size and Product Quality", Columbia University, mimeo.
- Schott, P., 2003. "Across Product versus Within Product Specialization in International Trade", *Quarterly Journal of Economics* 119, 647-678.
- Khandelwal, A., 2010. "Long and Short (of) Quality Ladders", *Review of Economic Studies* 77, 1450-1476.
- Baldwin, R. and J. Harrigan, 2011. "Zeros, Quality and Space: Trade Theory and Trade Evidence", *American Economic Journal: Microeconomics* 3, 1-31.
- Hallak, J. C., 2006. "Product Quality and the Direction of Trade", *Journal of International Economics* 68, 238-265.

Institutional and Market Frictions in International Trade

- Manova, K., 2011. "Credit Constraints, Heterogeneous Firms and International Trade", Stanford University, mimeo.
- Nunn, N., 2007. "Relationship-Specificity, Incomplete Contracts and the Pattern of Trade", *Quarterly Journal of Economics* 122, 569-600.

Other Topics

- Forslid, R., T. Okubo and K. H. Ulltveit-Moe, 2015. "Why are Firms that Export Cleaner? International Trade, Abatement and Environmental Emissions", University of Oslo, mimeo.
- Boler, E. A., B. Javorcik, K. H. Ulltveit-Moe, 2015. "Globalization: A Woman's Best Friend? Exporters and the Gender Wage Gap", University of Oxford, mimeo.