



## Econ 450: International Trade (Fall 2019)

**Time:** Tuesday and Thursday 10:00-11:50am

**Location:** KAP 156

**Instructor:** Monica Morlacco

**Email:** [morlacco@usc.edu](mailto:morlacco@usc.edu)

**Office:** KAP 324D

**Office Hours:** Mon 5:00-6:00pm, or by appointment

**Teaching Fellow:** Liying Yang

**Office hours:** Wed 10:00-12:00pm, KAP 337

### Course Overview

This course will analyze the causes and consequences of international trade and investment. We will investigate why nations trade, what they trade, and who gains (or not) from this trade. We will then analyze the motives for countries or organizations to restrict or regulate international trade and study the effects of such policies on economic welfare. Topics covered will include the effects of trade on economic growth and wage inequality, multinationals and foreign direct investment, international trade agreements and current trade policy disputes. Although the course will examine past and current events in the world economy, we will heavily rely on formal economic modeling to help us understand these events.

### Prerequisite(s)

The course is designed for econ majors and I assume that you are familiar with the basic concepts in economics, such as indifference curves, consumer surplus, producer surplus, etc. This also means that you will be expected to have some basic facility with calculus. Exposure to the principles of macroeconomics is also useful. Econ 303 is a strict prerequisite for this course.

### Requirements

Activities	Percentages
In-Class mid-term Exam	30%
Final Exam	50%
Problem Sets	20%

Students will be expected to prepare assigned readings before class. There will be one in-class midterm exam (30% of the course grade), and one final exam (50% of the course grade). The exams will cover all the lecture material, and all of the assigned textbook readings. The specific readings that will be required for each exam will be announced well ahead of each exam date. *There will be no make-up exams.* All exams will be closed-book: You may not use notes, electronic devices, books, or communicate to other classmates.

The exam(s) will be held on the following dates:

- Midterm Exam: October 15<sup>th</sup>, 2019
- Final Exam: December, 17<sup>th</sup>, 2019

**Problem Sets:** Five problem sets will be distributed during the semester. They will include mostly analytical problems that involve the use of basic calculus. Your lowest problem set grade will be dropped, so you can miss one with no questions asked. The problem sets will be collected and evaluated, and answers will be subsequently posted on the class website. You are encouraged to discuss these problems with your classmates; however, you must write up your own answers. **No late assignments will be accepted** since I will provide solutions soon after the homework is due. Problem set evaluation will account for the remaining 20% of your course grade.

## Required Textbook

[KOM] Paul Krugman, Maurice Obstfeld, and Marc Melitz, *International Economics: Theory and Policy*, 11th edition, Addison Wesley

Additional Textbooks (not required):

[Pop] Paul Krugman, *Pop Internationalism*, MIT Press, 1997

## Grading Policy

- Write clearly and legibly; if we can't read it, we can't grade it. Show the steps of your mathematical reasoning, and draw and label the figures clearly.
- Check your answers against the answer key; this should resolve most of your questions. If any remain, ask the TA. Any regrading requests for exams must be made within two weeks from the date the graded answers are made available. If you ask for a regrading, your whole problem set or exam will be regraded. This may bring to light some previously unnoticed errors, and you may end up with a lower score, not higher.
- On math questions, unless your answer is fully correct, the assignment of partial credit must be a matter for judgment. If you make a mistake on an early part of a question, everything thereafter will probably go wrong; we do not have the time to figure out if your subsequent answer is a "correct" follow-up given your earlier mistake.
- Grading of any essay questions involves not only checking the logical correctness of your reasoning, but also an evaluation of the coverage, order of presentation, and overall quality of the writing. This entails some unavoidable subjective judgment, and, like balls and strikes in baseball, it is not open to question.

## Course Schedule: A Weekly Breakdown\*

SES #	TOPICS	KEY DATES	DATE
1	Introduction		Aug. 27 <sup>th</sup>
2	The Basics		Aug. 29 <sup>th</sup>
3	Preferences and Demand		Sep. 3 <sup>rd</sup>
4	Exchange Economies		Sep. 5 <sup>th</sup>
5	Exchange Economies: Welfare, Inequality, Trade Imbalances	PS 1 Available	Sep. 10 <sup>th</sup>
6	“Standard” Trade Models		Sep. 12 <sup>th</sup>
7	“Standard” Trade Models: Changes in Terms of Trade		Sep. 17 <sup>th</sup>
8	Ricardian Trade Model	PS1 Due; PS2 Available	Sep. 19 <sup>th</sup>
9	Extension of Ricardian Trade Model		Sep. 24 <sup>th</sup>
10	Production Function	PS2 Due; PS3 Available	Sep. 26 <sup>th</sup>
11	Specific Factor Model		Oct. 1 <sup>st</sup>
12	Specific Factor Model (cont.)	PS3 Due	Oct. 3 <sup>rd</sup>
13	Heckscher-Ohlin Model of Trade		Oct. 8 <sup>th</sup>
14	Heckscher-Ohlin Model of Trade (cont.)		Oct. 10 <sup>th</sup>
In-Class Midterm			Oct. 15 <sup>th</sup>
15	Heckscher-Ohlin Model of Trade (cont.)		Oct. 22 <sup>nd</sup>
16	Trade and Inequality**	Midterm Grades Available	Oct. 24 <sup>th</sup>
17	Increasing Returns to Scale		Oct. 29 <sup>th</sup>
18	Consequences of Increasing Returns: Theory and Evidence	PS4 Available	Oct. 31 <sup>st</sup>
19	Firms and Trade		Nov. 5 <sup>th</sup>
20	Increasing Returns: Dumping & External Economies of Scale	PS4 Due; PS5 Available	Nov. 7 <sup>th</sup>
21	Trade Policy: Tariffs		Nov. 12 <sup>th</sup>
22	Trade Policy: Other Policy Instruments	PS5 Due	Nov. 14 <sup>th</sup>
23	Trade Policy (cont.)		Nov. 19 <sup>th</sup>
24	Factor Mobility: Labor Migration		Nov. 21 <sup>st</sup>
25	Factor Mobility: Multinational Firms		Nov. 26 <sup>th</sup>
26	Offshoring: Do Old Rules Still Apply?		Dec. 3 <sup>rd</sup>
27	The Economics of Space		Dec. 5 <sup>th</sup>
Final Exam			Dec. 17 <sup>th</sup>

\* Details of the readings/schedule of classes are subject to change.

\*\* No Class Meeting. Class material (video) will be available on Blackboard.

## Reading(s) by Topic\*

Topic #	Topic(s)	Readings
1	Course introduction;  Basic Facts about Trade	[KOM] Chapter 1-2  [Pop] " <i>What Do Undergrads Need to Know About Trade?</i> " P.117  Deardorff, Alan, and Robert Stern. " <a href="#">What the Public Should Know About Globalization and the World Trade Organization.</a> " <a href="#">(PDF)</a> Research Seminar in International Economics, Discussion Paper No. 460, July 2000. (Part I & II)
2	Gains from Trade;  Comparative Advantage;  Standard Trade Model	[KOM] Chapter 6  Deardorff, Alan. " <a href="#">Benefits and Costs of Following Comparative Advantage.</a> " University of Michigan, School of Public Policy, Research Seminar in International Economics, Discussion Paper No. 423, 1998.
3	Technology,  Factor Endowments,  and Increasing Returns	[KOM] Chapters 3–5 and 7  Krugman, Paul R. " <a href="#">Ricardo's Difficult Idea.</a> "  [Pop] Krugman, Paul R., and Robert Lawrence. "Trade, Jobs, and Wages."  Freeman, Richard. " <a href="#">Are Your Wages Set in Beijing?</a> " <i>The Journal of Economic Perspectives</i> 9, no. 3 (1995): 15–32.  [Pop] "Does Third World Growth Hurt First World Prosperity?"
4	Trade Policy	[KOM] Chapters 9–10.  Feenstra, Robert C. " <a href="#">How Costly is Protectionism?</a> " <i>The Journal of Economic Perspectives</i> 6, no. 3 (1992): 159–78.  Baldwin, Robert E. " <a href="#">The Political Economy of Trade Policy.</a> " <i>The Journal of Economic Perspectives</i> 3, no. 4 (1989): 119–35.  Krugman, Paul R. " <a href="#">Is Free Trade Passé?</a> " <i>The Journal of Economic Perspectives</i> 1, no. 2 (1987): 131–44.
5	Firms in the Global Economy;  International Factor Movements	[KOM] Chapter 8.  A. Bernard, J. Jensen, S. Redding, and P. Schott. "Firms in International Trade." <i>The Journal of Economic Perspectives</i> , Vol. 21, No. 3 (Summer, 2007), pp. 105-130.  M. Melitz and D. Trefler. "Gains from Trade when Firms Matter." <i>The Journal of Economic Perspectives</i> , Vol. 26, No. 2 (Spring 2012), pp. 91-118.

		<p>Borjas, George, Richard Freeman, et al. "<a href="#">Searching for the Effect of Immigration on the Labor Market</a>." <i>The American Economic Review</i> 86, no. 2 (1996): 246–51.</p> <p>Markusen, James R. "<a href="#">The Boundaries of Multinational Enterprises and the Theory of International Trade</a>." <i>The Journal of Economic Perspectives</i> 9, no. 2 (1995): 169–89.</p> <p>Feenstra, Robert C. "<a href="#">Integration of Trade and Disintegration of Production in the Global Economy</a>." <i>Journal of Economic Perspectives</i> 12, no. 4 (1998): 31–50.</p>
6	Trade and Development	[KOM] Chapter 11
7	Industrial Policy, Labor Standards, and the Environment	[KOM] Chapter 12
8	Trade Agreements	<p>[Fire] Chapters 5–6</p> <p>Deardorff, Alan, and Robert Stern. "<a href="#">What the Public Should Know About Globalization and the World Trade Organization</a>." <a href="#">(PDF)</a> Research Seminar in International Economics, Discussion Paper No. 460, July 2000. (Part III)</p> <p>[Pop] "The Uncomfortable Truth About NAFTA."</p>
9	Economic Geography	Arkolakis, Allen "Primer on Spatial Economics"

\* Details of the readings/schedule of classes are subject to change.

### **Policy on Missed Exams**

Students must take the exams at the scheduled times. The only valid grounds for a make-up exam is a valid medical excuse with documentation, or extenuating circumstances for which prior arrangements have been made with the instructor. No credit will be given for unexcused, missed exams. Student will receive an F for the course if the final exam is missed for an unexcused absence. If you have a valid reason for missing the final exam, and can document it, you will be awarded an incomplete.

Under the USC ARR Grade Handbook, students are never permitted to omit taking the final exam or take it early. The only possible grounds for taking the final exam at a different time from the rest of the class are: (1) two final examinations that are scheduled for the same time; or (2) more than two final examinations on the same day. If this situation applies to you, you must contact both me and the other involved professors no later than two weeks prior to the examination dates.

### **Students with Disabilities**

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me (or to a TA) as early in the semester as possible. DSP is located in STU 301 and is open 8:30AM-5PM, Monday-Friday. The phone number for DSP is (213)740-0776.

### **Statement on Academic Conduct and Support Systems**

#### **Academic Conduct:**

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in *SCampus* in Part B, Section 11, “Behavior Violating University Standards” [policy.usc.edu/scampus-part-b](http://policy.usc.edu/scampus-part-b). Other forms of academic dishonesty are equally unacceptable. See additional information in *SCampus* and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct>.

#### **Support Systems:**

*Student Counseling Services (SCS) – (213) 740-7711 – 24/7 on call*

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention. [engemannshc.usc.edu/counseling](http://engemannshc.usc.edu/counseling)

*National Suicide Prevention Lifeline – 1 (800) 273-8255*

Provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week. [www.suicidepreventionlifeline.org](http://www.suicidepreventionlifeline.org)

*Relationship and Sexual Violence Prevention Services (RSVP) – (213) 740-4900 – 24/7 on call*

Free and confidential therapy services, workshops, and training for situations related to gender-based harm. [engemannshc.usc.edu/rsvp](http://engemannshc.usc.edu/rsvp)

*Sexual Assault Resource Center*

For more information about how to get help or help a survivor, rights, reporting options, and additional resources, visit the website: [sarc.usc.edu](http://sarc.usc.edu)

*Office of Equity and Diversity (OED)/Title IX Compliance – (213) 740-5086*

Works with faculty, staff, visitors, applicants, and students around issues of protected class. [equity.usc.edu](http://equity.usc.edu)

*Bias Assessment Response and Support*

Incidents of bias, hate crimes and microaggressions need to be reported allowing for appropriate investigation and response. [studentaffairs.usc.edu/bias-assessment-response-support](http://studentaffairs.usc.edu/bias-assessment-response-support)

*The Office of Disability Services and Programs*

Provides certification for students with disabilities and helps arrange relevant accommodations. [dsp.usc.edu](http://dsp.usc.edu)

*Student Support and Advocacy – (213) 821-4710*

Assists students and families in resolving complex issues adversely affecting their success as a student EX: personal, financial, and academic. [studentaffairs.usc.edu/ssa](http://studentaffairs.usc.edu/ssa)

*Diversity at USC*

Information on events, programs and training, the Diversity Task Force (including representatives for each school), chronology, participation, and various resources for students. [diversity.usc.edu](http://diversity.usc.edu)

*USC Emergency Information*

Provides safety and other updates, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible. [emergency.usc.edu](http://emergency.usc.edu)

*USC Department of Public Safety – UPC: (213) 740-4321 – HSC: (323) 442-1000 – 24-hour emergency or to report a crime.*

Provides overall safety to USC community. [dps.usc.edu](http://dps.usc.edu)