

# **Advanced International Trade**

European University Institute

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## **Course Information**

Lectures will take place on Tuesdays from 5pm to 7pm in VSP 1 or 2, from February 24th to March 24th inclusive.

## **Course Overview**

This series of lectures will explore the so called new-new trade theory and its empirical applications. The course will provide an excellent opportunity to discuss some of the most current policy issues such as the link between trade and growth, the relation between trade flows and the distribution of economic activity in space or the role of multinationals in offshoring, vertical specialization and trade dynamics. Since it is not possible to cover all aspects of international trade in class, the lectures will focus on a core of major theoretical models and empirical studies.

## **Grading**

The assessment will be based on a problem set (50%) and a research proposal (50%). As a realistic goal for the research proposal (5-10pp), I expect that it includes (a) a motivation of the research question, (b) a brief summary of what is known on the problem, and (c) a motivation of the theoretical/empirical framework used to conceptualize the approach.

## Readings

We will rely primarily on journal articles and working papers, although you should consult Robert Feenstras book, *Advanced International Trade: Theory and Evidence*. Each lecture will take as its starting point at least one influential paper in the literature. You should make the effort to read these principal works in advance. The other readings listed below are a mixture of seminal articles, and more recent research that will be discussed in the lectures. Student participation will be sought and encouraged.

## Outline

### 1. Monopolistic Competition with Heterogeneous Firms

Main readings:

- Andrew B. Bernard, A. B., Eaton, J., Jensen, J. B. and S. Kortum (2003). Plants and Productivity in International Trade. *American Economic Review* 93(4), 1268-1290.
- Melitz, M. J. (2003). The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity. *Econometrica* 71(6), 1695-1725.

Further readings:

- Davis, D.R. and D. E. Weinstein (2001). An Account of Global Factor Trade. *American Economic Review* 91(5), 1423-1453.
- Eaton, J. and S. Kortum (2002). Technology, Geography, and Trade. *Econometrica* 70(5), 1741-1779.
- Behrens, K. and Y. Murata (2007). General equilibrium models of monopolistic competition: A new approach. *Journal of Economic Theory* 136(1), 776-787.

### 2. Evidence of Firm Heterogeneity and Selection into Exporting

Main readings:

- Clerides, S. K., Lach, S. and J. R. Tybout (1998). Is Learning By Exporting Important? Micro-Dynamic Evidence From Colombia, Mexico, And Morocco. *The Quarterly Journal of Economics* 113(3), 903-947.
- Chaney, T. (2008). Distorted Gravity: The Intensive and Extensive Margins of International Trade. *American Economic Review* 98(4), 1707-21.

Further readings:

- Bernard, A. B., Jensen, J. B. and P. K. Schott (2006). Trade costs, firms and productivity. *Journal of Monetary Economics* 53(5), 917-937.
- De Loecker, J. (2007). Do exports generate higher productivity? Evidence from Slovenia. *Journal of International Economics* 73(1), 69-98.
- Morales, E., Sheu, G. and A. Zahler (2014). Gravity and Extended Gravity: Using Moment Inequalities to Estimate a Model of Export Entry. *NBER Working Papers* 19916 .
- Mrázová, M. and J.P. Neary (2013). Selection Effects with Heterogeneous Firms. *CEP Discussion Papers*, dp1174.

### 3. Learning by doing, Innovation and FDI

Main readings:

- Helpman, E., M. J. Melitz and S. R. Yeaple (2004). Export versus FDI with Heterogeneous Firms *American Economic Review* 94(1), 300-316
- Atkeson, A. and A. T. Burstein (2010). Innovation, Firm Dynamics, and International Trade. *Journal of Political Economy* 118(3), 433-484.

Further readings:

- Thornton, R. A. and P. Thompson (2001). Learning from Experience and Learning from Others: An Exploration of Learning and Spillovers in Wartime Shipbuilding. *American Economic Review* 91(5), 1350-1368.
- Aghion, P., Burgess, R., Redding, S. J. and F. Zilibotti (2008). The Unequal Effects of Liberalization: Evidence from Dismantling the License Raj in India. *American Economic Review* 98(4), 1397-1412.
- Lileeva, A. and D. Trefler (2010). Improved Access to Foreign Markets Raises Plant-Level Productivity... for Some Plants. *The Quarterly Journal of Economics* 125(3), 1051-1099.
- Crespo, A. (2013). Trade, Innovation and Productivity: A Quantitative Analysis of Europe. *EFIGE Working paper* 62.

#### 4. Free Trade Agreements

##### Main Readings

- Treffer, D. (2004). The Long and Short of the Canada-U.S. Free Trade Agreement. *American Economic Review* 94(4), 870-895.
- Baier, S. L. and J. H. Bergstrand (2004). Economic Determinants of Free Trade Agreements. *Journal of International Economics* 64(1), 29-63

##### Further readings:

- Hayakawa, K and N Yamashita (2011), The Role of Preferential Trade Agreements (PTAs) in Facilitating Global Production Networks. *IDE Discussion paper No. 280*.
- Baldwin, R (2012), Global Supply Chains: Why They Emerged, Why They Matter, and Where They are Going. *CEPR Discussion Paper No. 9103*.
- Carballo, J., A. Graziano, G. Schaur and C. Volpe Martincus (2014). Transit Trade. *Inter-American Development Bank, unpublished document*.

#### 5. Miscellaneous

##### Main Readings:

- Caliendo, L. and E. Rossi-Hansberg (2012). The Impact of Trade on Organization and Productivity. *The Quarterly Journal of Economics* 127(3), 1393-1467.
- Defever, F. and A. Riaño (2012). China's Pure Exporter Subsidies. *CEP Discussion Papers dp1182*.
- Claudia Steinwender, C. (2013). Information Frictions and the Law of One Price: "When the States and Kingdom became United". *CEPREMAP Working Papers*

##### Further Readings by topic:

##### (a) Variable Mark-ups

- Melitz, M. J. and G. I. P. Ottaviano (2008). Market Size, Trade, and Productivity. *Review of Economic Studies* 75(1), pages 295-316.

- Desmet, K. and S. L. Parente (2010). Bigger Is Better: Market Size, Demand Elasticity, And Innovation. *International Economic Review* 51(2), 319-333.

(b) Offshoring

- Grossman, G. M. and E. Rossi-Hansberg (2006). The rise of offshoring: it's not wine for cloth anymore. *Proceedings - Economic Policy Symposium, Federal Reserve Bank of Kansas City*, pages 59-102.
- Amiti, M. and S. Wei (2009). Service Offshoring and Productivity: Evidence from the US. *The World Economy* 32(2), 203-220.
- Rodríguez-Clare, A. (2010). Offshoring in a Ricardian World. *American Economic Journal: Macroeconomics* 2(2), 227-58.
- Baldwin, R. and F. Robert-Nicoud (2014). Trade-in-goods and trade-in-tasks: An integrating framework. *Journal of International Economics* 92(1), 51-62.

(c) Trade Dynamics and Growth

- Acemoglu, D. and J. Ventura (2002). The World Income Distribution. *The Quarterly Journal of Economics* 117(2), 659-694.
- Ghironi, F. and M. J. Melitz (2005). International Trade and Macroeconomic Dynamics with Heterogeneous Firms. *The Quarterly Journal of Economics* 120(3), 865-915.
- Das S., Roberts, M.J. and J. R. Tybout (2007). Market Entry Costs, Producer Heterogeneity, and Export Dynamics. *Econometrica* 75(3), 837-873.
- Caliendo, L. (2011). On the Dynamics of the Heckscher-Ohlin Theory.

(d) Labor Market

- Acemoglu, D. (2003). Patterns of Skill Premia. *Review of Economic Studies* 70(2), 199-230.
- Yeaple, S. R. (2005). A simple model of firm heterogeneity, international trade, and wages. *Journal of International Economics* 65(1), 1-20.
- Helpman, E. and O. Itskhoki (2010). Labour Market Rigidities, Trade and Unemployment. *Review of Economic Studies* 77(3), 1100-1137.

(e) Property Rights

- Antràs, P. (2005). Property Rights and the International Organization of Production. *American Economic Review* 95(2), 25-32.
- Acemoglu, D., Antràs, P. and E. Helpman (2007). Contracts and Technology Adoption. *American Economic Review* 97(3), 916-943.

(f) Networks

- Chaney, T. (2014). The Network Structure of International Trade. *Forthcoming American Economic Review*.

(g) Economic Geography

- Davis, D. R. and D. E. Weinstein (2002). Bones, Bombs, and Break Points: The Geography of Economic Activity. *American Economic Review* 92(5), 1269-1289.
- Anderson, J. E. and E. van Wincoop (2003). Gravity with Gravitas: A Solution to the Border Puzzle. *American Economic Review* 93(1), 170-192.
- Desmet, K. and E. Rossi-Hansberg (2010). On Spatial Dynamics. *Journal of Regional Science* 50(1), 43-63.
- Desmet, K. and E. Rossi-Hansberg (2013). Urban Accounting and Welfare. *American Economic Review* 103(6), 2296-2327.