

International Trade Theory

Instructor: Rahul Giri

Lecture Location: Rio Hondo: Grupo 002, Salon 303; Grupo 003, Salon B-2

Day/Time: Monday & Wednesday: Grupo 002, 10:00-11:30am; Grupo 003, 11:30am to 1:00pm

Office Hours: Monday & Wednesday - 2:30pm to 3:30pm in Santa Teresa, or by appointment.

Office Location: Centro de Investigación (CIE), ITAM, Santa Teresa

E-mail: rahul.giri@itam.mx

Objective

The objective of this course is to introduce you to the theory of international trade. There are two main questions we want to answer –

1. Why do countries trade? OR Are their gains from trade?
2. Who exports (imports) what to (from) whom? OR How can we explain the pattern of international trade?

We will start by understanding why countries gain from international trade, and then move onto discuss different models of trade, where each model will predict a certain pattern of trade based on key assumptions. We will evaluate whether a model does a good job of explaining the data by comparing the predicted pattern of trade with the pattern of trade observed in the data.

Resources

I will follow two textbooks for this course:

1. **Primary textbook:** *International Trade: Theory and Evidence, International ed. (1995)* by James R. Markusen, James R. Melvin, William H. Kaempfer and Keith E. Maskus.
2. **Secondary textbook:** *International Trade*, by Robert C. Feenstra and Alan M. Taylor, second edition.

I will also post my lecture notes on each topic we cover in the class.

Grading

Final – 40%

Midterm – 40%

Homework – 20%

To pass the course your grade on the final and the midterm should be at least greater than or equal to 50% of the maximum possible.

Homeworks will have to be submitted in class in person, and will be graded only for completion, i.e. whether you attempted (seriously!) to answer all questions. An incomplete homework will give you zero points. If you do not submit homework without my prior permission then you will lose all points for that homework. Lastly, the final exam will be based on material that is covered after the midterm.

Prior knowledge/skills required

This course requires you to be comfortable with some basic concepts in economics and their mathematical formulations and analysis. Two crucial concepts that you must understand are utility maximization by consumers and profit maximization by firms. You should be comfortable with the mathematical formulations of these concepts and their mathematical analysis. You should have a good understanding of utility functions and production functions – properties like degree of homogeneity, homotheticity, returns to scale, concavity, convexity, etc. To do all this you should have done at least a basic course in calculus.

Syllabus

Topic 1: Looking at the Bigger Picture

- 1.1: How Important is Trade or Why Should We Care about International Trade?
- 1.2: Gains from Trade

Topic 2: Models of Trade with Perfect Competition

- 2.1: Differences in Technology - The Ricardian Trade Model
- 2.2: Differences in Endowments - The Heckscher-Ohlin Model
- 2.3: Differences in Endowments with Specific Factors - The Specific Factors Model

MIDTERM

Topic 3: Models of Trade with Imperfect Competition

- 3.1: Imperfect Competition as a Determinant of Trade
- 3.2: Increasing Returns to Scale and Monopolistic Competition as a Determinant of Trade
 - Krugman Model (1980)
- 3.3: Monopolistic Competition with heterogeneous firms
 - Melitz Model (2003)

Topic 4: Gravity Equation

- 4.1: Gravity Equation

FINAL EXAM