Syllabus

The purpose of this course is to provide you with an analytical framework for the analysis of international trade issues. Our starting point will be the examination of models in traditional trade theory based on comparative advantage. We will then consider new trade theory models. In this discussion we will introduce imperfect competition, economies of scale, and demand characteristics as determinants of trade and analyze implications for the gains from trade. Finally we will spend the last third of the course discussing issues related to international trade instruments, policy, rules and implementation. A comprehensive list of lecture topics and assigned readings is provided in the “Course Outline” section of this syllabus.

Support Textbooks

Graded Components
Graded components in this course include the four homework assignments with problems you need to complete related to the course material. A fifth assignment is an essay based on topics in the book by Professor Dani Rodrik referenced above. Instructions related to the Rodrik essay are provided at the end of this syllabus. The remaining graded components include a midterm and a final exam. A summary of assignments, associated weights and due dates is as follows.

<table>
<thead>
<tr>
<th>Assignment/Exam</th>
<th>Percent of Course grade</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homework No. 1</td>
<td>10%</td>
<td>April 6th, 2016</td>
</tr>
<tr>
<td>Homework No. 2</td>
<td>10%</td>
<td>April 20th, 2016</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>25%</td>
<td>April 27th, 2016</td>
</tr>
<tr>
<td>Homework No. 3</td>
<td>10%</td>
<td>May 18th, 2016</td>
</tr>
<tr>
<td>Homework No. 4</td>
<td>10%</td>
<td>June 1st, 2016</td>
</tr>
<tr>
<td>Rodrik Essay</td>
<td>10%</td>
<td>June 7th, 2016</td>
</tr>
<tr>
<td>Final Exam</td>
<td>25%</td>
<td>June 9th, 2016 (12:30 - 2:20 pm)</td>
</tr>
</tbody>
</table>

**NOTE:** Assignments will be handed out a week in advance of the due date and must be submitted in (the beginning of) class on the indicated due date. Homework assignments must be typed out (where applicable, equations/graphs can be neatly written/drawn in). Points will be deducted for any illegible portion of a homework assignment and/or for failure to show work.
<table>
<thead>
<tr>
<th>Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Exams cannot be rescheduled. Please DO NOT enroll in this course unless you can take the exams at their scheduled times (see “Tentative Schedule” section).</strong> The only exceptions to this rule are: (i) documented medical emergencies; and (ii) absence due to active military, police, and/or jury duty (need letter from the appropriate official).</td>
</tr>
<tr>
<td>• If you arrive more than 20 minutes after the time an exam is scheduled to begin, you will not be allowed to take that exam.</td>
</tr>
<tr>
<td>• Concerns and questions related to graded components in this class need to be resolved within one week from the date the assignment (or exam) in question has been graded and returned.</td>
</tr>
<tr>
<td>• Improving your grade through “extra work” is <strong>not</strong> an option in this class! In addition, an <em>Incomplete</em> (letter grade &quot;I&quot;) or a <em>No Basis for a Grade</em> (letter grade “X”) is not to be viewed as a substitute for a failing grade in this course (letter grade “F”).</td>
</tr>
<tr>
<td>• Students with documented learning disabilities or special needs, must contact me at least a week in advance of scheduled exams if use of the Testing Center’s facilities is required. It is the student’s responsibility to arrange for accommodations through the Testing Center and provide me with the appropriate documentation in the beginning of the semester.</td>
</tr>
<tr>
<td>• Familiarize yourself with PSU academic honesty policies. Minimum penalty for academic dishonesty in this class will be letter grade &quot;F&quot; for the assignment or exam in question.</td>
</tr>
<tr>
<td>• <strong>Turn off your phone</strong> or any other communication device that may disturb, disrupt, or in any way impede the learning process during class meetings.</td>
</tr>
</tbody>
</table>
Tentative Course Outline

I. Introduction
   A. World Trade: An Excursion in Time
   B. Who Trades with Whom: The Gravity Model

II. Technical Concepts and the Gains from Trade
   A. Supply and Production Possibilities (MMKM Ch. 2)
      1. Production functions, returns to scale, and producer equilibrium.
      2. Production possibility frontier, increasing returns to scale, and competitive equilibrium.
   B. Preferences, Demand, and Welfare (MMKM Ch. 3)
      1. Utility maximization
      2. Aggregation and community indifference curves.
   C. General Equilibrium in Open and Closed Economies (MMKM Ch. 4)
      1. General equilibrium in opened and closed economies
      2. The excess demand function and international general equilibrium
   D. The Gains from Trade (MMKM Ch. 5)
      1. The gains from trade theorem
      2. Gains from exchange, specialization, and the distribution of gains from trade.

III. Traditional Trade Theory
   A. The No-Trade Model (MMKM Ch. 6)
   B. Differences in Technology (MMKM Ch. 7)
      1. Absolute and comparative advantage
      2. Production possibilities, excess demand, and International equilibrium
      3. The role of wages
      4. Big versus small countries
   C. The Heckscher-Ohlin (H-O) Model (MMKM Ch. 8)
      1. The effects of endowment differences
      2. The H-O theorem
      3. The factor-price equalization theorem
      4. The Stolper-Samuelson and Rybczynski theorems
      5. Trade theory with many goods and factors

IV. Post Heckscher-Ohlin Theories of Trade
   A. Imperfect Competition, Economies of Scale, and International Trade
      1. Imperfect Competition (MMKM Ch. 11)
      2. Increasing Returns to Scale (MMKM Ch. 12)
   B. Tastes, Per-Capita Income, and Technology Theories of Trade (MMKM Ch. 13)
      1. Linder Theory of Overlapping Demands
      2. Product Cycle theories
   C. Testing Comparative advantage Models of Trade (MMKM Ch. 14)
      1. How do you test a trade theory?
      2. Test of the Ricardian Model
      3. Tests of the Heckscher-Ohlin Model
      4. Other Empirical Evidence
V. Trade Policy and Foreign Direct Investment

A. The Instruments of Trade Policy (Lecture notes; MMKM Ch. 15)
1. Classification of Commercial Policy Instruments
2. Tariffs (Import and Export)
3. Basic Tariff Analysis - Partial Equilibrium (small and large country cases)
4. Basic Tariff Analysis - General Equilibrium (small and large country cases)

B. Quotas and Non-Tariff Barriers to Trade (Lecture notes; Ch. 16)
1. Quotas and a comparison of quotas vs. tariffs
2. Other non-tariff barriers to trade
3. Estimating the cost of protection

C. Foreign Direct Investment (FDI) and Multinational firms (Lecture notes; MMKM Ch. 22)
1. FDI and the OLI framework
2. Welfare analysis

Rodrik Essay Instructions

*Rodrik Essay: Due June 7th, 2016 (no late essays will be accepted).*

Your Assignment:
- **EC 440 Students** - Write an 800 word essay
- **EC 540 Students** – Write a 2000 word essay

Your essay must address each of the following questions:

1. In what sense is globalization a paradox? What historical events lead up to the current state of globalization that poses this paradox?
2. What historical lessons discussed in the book do you find most informative when it comes to better understanding of globalization issues today?
3. What choices does the political trilemma of the world economy imply for trade among countries? If you were the leader of a sovereign nation, which one of these choices would you pick? What would be the tradeoffs you would face given your choice?
4. Discuss your own views regarding Rodrik’s position on how globalization should move forward.

In preparing your essay, the following requirements must be observed.

1. Your essay needs to be double spaced with 12-pt font and pages must be numbered.
2. Your essay needs to have an introduction, main body and conclusion.
3. Your essay must have a cover page with your name, course number, date, and department. I will provide a template for this separately.
4. The total word count for your essay is specified above. You must provide a total word count on the cover page of the essay. All word processors can do this for you, but if you have questions on how to obtain a word-count, I will be happy to show you.
5. When referencing text from the book to support your arguments, you must include the page number(s) related to the material you are discussing (in parentheses immediately after your reference). Referencing does mean quoting – fulfilling the word limit on your essay with direct quotes from the text would result in deduction of points.