

# International Trade I - JEB039/JPB354

Fall 2023

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**Status of the course:** Elective (optional) B.A. course

The first lecture and seminar will commence on **Friday, October 6th**.

The lectures and seminar sessions will be taught on-site (**room 109, Opletalova**) during the Fall 2023, but if necessary “hybridization of the course” is prepared and streaming of the lectures can be available upon request.

All participants who have either registered via the SIS or who are currently on the waiting list will receive a link and an access code to Moodle site of the course before the course starts.

Scheduling:

**Lectures 11:00 – 12:20 p.m., seminars 12:30 – 1:50 p.m. (Fridays)**

**Office hours** of V. Semerák: after the seminar session, i.e. on Friday 2:00-3:00 p.m. in room no. 311 or by appointment. Similarly, office hours can also be taking place online (Google Meet/Skype/Zoom).

## Introduction:

This course covers, with a focus on both theory and empirics, basic topics in international (interregional) trade and trade policy analysis at undergraduate level. The course does not deal with international business methods (logistics, use of letters of credits etc.), instead, it focuses on trade theory and trade policy analysis and attempts to provide some insight into the following questions:

- Why do countries (regions) trade?
- What determines which goods/services will be exported/imported by particular countries?
- How does trade influence welfare?
- How do trade policies influence the effects of trade on economies, can they improve the effects of trade on welfare?

In short, we will analyze the benefits of trading and the causes (and effects) of specialization and the development of theoretical opinions on these issues. Next, we will review the policy instruments (tariffs, quotas, subsidies, anti-dumping measures, as well as very popular schemes for preferential treatment, i.e. customs unions, free trade areas) and options available to those who would want to analyze the effects of trade policies.

While the course resembles standard courses in International Trade Theory as taught at many other undergraduate economic programs, we are trying to provide a bit deeper insight by including more recent advances in trade theory (models with heterogeneous firms or New Economic Geography) as well as emphasis on methods useable for empirical analysis (introduction into the correct use of gravity models, brief introduction into trade policy modelling, examples of application of network analysis).

## Course objectives:

At the end of the course its students should:

- (i) Understand main factors which determine trade flows and effects of trade on economic structures and welfare according to mainstream economic theories.
- (ii) Understand traditional models describing effects of tariffs and quotas on national economies.
- (iii) Gain at least basic insight into the logic of latest development in trade theory (heterogeneous firms).
- (iv) Know basic methods of analysis of trade flows and trade policies

**Course contents:**

1. Introduction. Trade data and trends.
2. Model of comparative advantage (Ricardo) and its extensions.
3. Neoclassical models - the role of differences in factor endowments. Specific factor model.
4. Heckscher-Ohlin model: derivation of the Lerner diagram. Stolper-Samuelson theorem. Factor Price equalization. Rybczynski theorem.
5. Empirical tests of trade theory. Leontief paradox. Intra-industry trade. Alternative theories of international trade (Product cycles, Linder's overlapping demands).
6. New theory of international trade: Krugman model with monopolistic competition and increasing returns to scale.
7. Introduction to the "New new" theory - models with heterogenous firms (Melitz).
8. Introduction to the New Economic Geography (NEG)
9. Trade policy: basic instruments, partial equilibrium models.
10. Trade policy: general equilibrium, large country issues.
11. Economic integration: customs unions and free trade areas. Trade creation and trade diversion effects.
12. Models with mobility of factors of production.

**Grading and related issues:**

Continuous work during the course, active and honest participation in the teamwork, and successful participation in both midterm and final exam are expected from all participants.

Evaluation will be based on a midterm and final exam (in traditional "on-site" written form), two team assignments and online Moodle quizzes. The final exam will include a short (on-site) essay.

The contribution of all the components to the final grade is as follows:

Midterm exam:	20 points
Final exam:	55 points
Team assignments:	15 points
Participation in Moodle online quizzes:	10 points

Extra additional points for active participation in discussion seminars: 10 points

### ***The final grade***

Grading scale (based on the weighted average score):

A ... 91 – 100 points

B ... 81 – 90 points

C ... 71 – 80 points

D ... 61 – 70 points

E ... 51 – 60 points

F ... 50 points and less

The final exam (compulsory for all enrolled) will be scheduled for January 2024 and February 2024.

Please note that even students who would in the hybrid mode at the beginning of the semester will be expected to participate in a written exam after their arrival in Prague.

Preliminary dates for the final exams:

- January 12th
- January 19th
- February 9th

Additional options or early exams can be arranged upon request.

The exam will consist of a written test (sample questions are provided on Moodle website). The test will include a quiz (multiple choice questions) + solution of problem sets, mainly by means of models and graphs. It will also include a short (on-site) essay. The creative thinking and understanding of the problem (e.g. described by a model), will be graded higher than mere memorization of facts or formulas.

All papers/essays worked out in this course (by teams or individuals) must be original and subject to specific rules. Plagiarism will be severely punished.

### **Credits and their Explanation:**

**Number of credits:** 8

The intensity of the course: 4 hours a week, i.e. 2 hours of lectures + 2 hours of seminar work in the period of October through the first week of January. Seminars require a regular participation and homework.

**Expected average time load per student:** 36 hours of classes, 68 hours of assignments, 60 hours final essay and 78 hours of learning for the tests. Definitely this will not be a leisure.

### ***Note on seminar participation and workload:***

Seminar sessions play a key role in this effort, many of the issues discussed during the seminar can be crucial for a successful completion of the assignments as well as for maximizing the chances of succeeding in the exam. Regular attendance of the seminar sessions is therefore strictly recommended.

The course workload corresponds to its weight (8 credits), which implies the calculated average timeload to students of 242 hours (this includes lectures, seminars, work on assignments, final team paper as well as studying for final exam).

## Literature:

### Course materials are available on a special Moodle website.

Main textbooks: P. Krugman, M. Obstfeld, M. J. Melitz: International Trade, Theory & Policy. 9<sup>th</sup> edition or newer. Addison-Wesley (Pearson), 2012.

E. Helpman: Understanding Global Trade. Harvard University Press 2011.

Alternative texts: D. Appleyard, A. Field, S. Cobb: International Economics, McGraw-Hill/Irwin, any recent edition

R.C. Feenstra, A.M. Taylor: International Trade, any recent addition

T. Pugel.: Int. Economics, 2009, part I & II., pp. 1-378 (available in the IES library)

### Articles and papers, online resources:

P. Krugman: Ricardo's Difficult Idea. <http://web.mit.edu/krugman/www/ricardo.htm>

P. Krugman (1999): Was it All in Ohlin? <http://web.mit.edu/krugman/www/ohlin.html>

WTO & UNCTAD (2012): A Practical Guide to Trade Policy Analysis: <https://vi.unctad.org/tpa/>

### Other sources (selected chapters/sections will be used):

W. J. Bernstein. A Splendid Exchange – How Trade Shaped the World. Atlantic Monthly Press, New York, 2008

S. Brakman, H. Garretsen, C. van Marrewijk. The New Introduction to Geographical Economics. 2<sup>nd</sup> edition, Cambridge University Press, 2009

R. Dornbusch, S. Fischer, P.A. Samuelson: Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods. The American Economic Review, Vol. 67, No. 5, (Dec., 1977), pp. 823-839

P.J. Kehoe & T.J. Kehoe: A Primer on Static Applied General Equilibrium Models. Federal Reserve Bank of Minneapolis Quarterly Review Spring 1994, Volume 18, No. 1

E.E. Leamer: The Heckscher-Ohlin Model in Theory and Practice. Princeton Studies in International Finance. No. 77, February 1995

J. R. Markusen, J.R. Melvin, W.M. Kaempfer and K. Maskus: International Trade: Theory and Evidence. McGraw-Hill/Irwin, 1994 – chapter 15 (tariffs).

J.P. Neary: Of Hype and Hyperbolas: Introducing the New Economic Geography. Journal of Economic Literature, Vol. 39, No. 2 (Jun., 2001), pp. 536-561

L. Vavřla & M. Rojíček: Process of the symmetric input-output table compilation