

Economics C181 and EEP C181, Fall 2008
International Trade

Instructor: Professor Ann Harrison
GSI: Luosha Du, Shanthi Nataraj, and Robert Santillano

Monday and Wednesday, 5:30-7:00 pm, 101 Morgan

Course Website address: Go to <http://are.berkeley.edu/~harrison> and click on econ181

This is a four unit course with three hours of lecture and one hour of discussion per week. You need to sign up in one section during the first week of class to remain in the class. Attendance to one discussion section is mandatory. Sections are scheduled as follows;

Section 101, Wednesday 12-1, 285 Cory

Section 102, Wednesday 1-2, 285 Cory

Section 103, Tuesday 4-5, 107 GPB

Section 104, Tuesday 5-6, 107 GPB

Section 105, Friday 10-11, 81 Evans

Adding the Course

If you are not in the course but wish to add, you should consult the Economics Department or the College of Natural Resources. Neither the instructor nor the GSIs have the power to get you registered in the class.

Textbook and reader

You may choose to purchase either the seventh (2005) or eighth (2009) edition of Paul Krugman and Maurice Obstfeld (K & O), *International Economics: Theory and Policy*, Addison-Wesley. The course readings are listed for both the eighth edition (as “new” K & O) and also for the seventh edition. There is also a reader, which will be made available during the second week of class. Although both the textbook and reader are required, I also encourage you to purchase the study guide, which is only recommended. The Study Guide, written by Linda Goldberg and Michael Klein, contains sample problems for each chapter and is quite useful as a guide for exams. Although the study guide was written to accompany an earlier version of K & O, it is still very useful and up-to-date. There are multiple copies of the texts and the study guide available on reserve in Moffitt Library.

Course Description

This course covers the microeconomics of international trade. We also briefly touch on related issues of US trade policy, developing country trade policies, foreign direct investment and multinational corporations. We begin with a brief introduction and then develop a theoretical framework to help us understand (1) why countries trade with each other (gains from trade) (2) what determines trade patterns and (3) how trade affects the distribution of income. Half of the course focuses on standard theoretical models for understanding why there are gains from trade and for understanding the pattern of trade. These models include the Ricardian model of trade, the Specific Factors model, and the Heckscher-Ohlin model.

The second half of the course emphasizes the effects of commercial policy (ie tariffs and quantitative restrictions such as quotas) on trade and economic welfare. We explore the welfare effects of tariffs, quotas, and other barriers to trade. We conclude with a discussion of recent issues, including the World Trade Organization (WTO), regional trade agreements such as NAFTA, the impact of trade policy on growth, and other current concerns such as the links between trade, poverty, and inequality. Since I feel that there is not enough data analysis conducted in most classes, I will supplement the readings and the text with handouts whenever possible. I will expect you to become proficient in reading tables, graphs, and figures. An understanding of basic regression analysis, although helpful, is not required.

Prerequisites

This course uses microeconomic tools extensively, and therefore requires a solid understanding of price theory. Economics 100 A & B, or Economics 101 A & B, or PENR100, are the prerequisites.

Requirements

1. **Assignments** There will be five assignments during the semester, but only your four best assignments will count for your final grade. Assignments are due at the beginning of class on the following dates:

Monday, September 15, Assignment #1
Wednesday, October 1, Assignment #2
Wednesday, November 12, Assignment #3
Wednesday, November 26, Assignment #4
Wednesday, December 10, Assignment #5

All homework assignments will be graded and recorded by your TA. Late homeworks lose 2 points (out of a possible total of 10) per day. Note that assignments are late whenever submitted later than 5:45 on the due date. Late homework must be handed directly to your TA or to Professor Harrison. DO NOT submit homework in the form of e-mail attachments or fax your homework to Professor Harrison!

2. **Examinations**

There will be a mid-term and a final examination on the following dates:

Mid-term examination: Monday, October 20, 5:30-7:00

Final Examination: Exam Group 14, Thursday, December 18, 12:30-3:30

Policy on missed midterm or final exam: There is no scheduled make-up midterm or final exam. Students who miss an exam for any reason must communicate with Professor Harrison by e-mail or phone by 6:00 pm on the day of the exam (email: harrison@are.berkeley.edu; telephone 643-9676). Students need to have a written certificate from a medical or legal authority justifying the reason for having missed the examination. DO NOT take this course if you cannot make the exam dates!

For a missed mid-term, the student will take the mid-term as a closed book take-home examination. If the answers are of A quality, the final examination will count for 88 % of the grade instead of 50 %. Failure of the above will result in a 0 score for the examination.

For a missed final exam, an “incomplete” grade will be given for the class. The student will have to take the final exam at another session. Econ 181 classes are regularly offered in summer and fall sessions every year. Please DO NOT take the course if you cannot attend the final; I do not give make-up exams for either the midterm or the final.

Fire Alarm Policy: A truly annoying bad habit at UCB is the pulling of fire alarms by ill-prepared and selfish students. If the alarm is pulled during an exam, the examination will not be rescheduled. The class will move outside and finish the exam in the allotted time.

3. **Grades**

The grade for the course will be based on the following components:

Exercises: 12 percent

Mid-term: 38 percent

Final: 50 percent

Office hours and e-mail addresses:

Ann Harrison: 329 Giannini Hall, Mondays 2:00-3:30; harrison@are.berkeley.edu

Luosha Du: 310 Giannini Hall, Wednesdays 10 to 12; luosha@are.berkeley.edu

Shanthi Nataraj: 317 Giannini Hall, Tuesdays 11 to 12; shanthi@are.berkeley.edu

Robert Santillano: 325 Giannini Hall, Wednesdays 3:00 to 5:00; gsirobert@gmail.com

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Class Number	Topic	Assigned Readings
Class #1 (8/27)	Overview. Introduction to Ricardian Model	New K&O: Pages 1-9, 19-25, 27-31 Old K&O: Pages 1-10, 17-22, 24-29 Reader, TBA
Class #2 (9/3)	International Technology Differences And Trade—Ricardian Model	New K&O: Chapter 3, pages 31-37 Old K&O: Chapter 3, pages 29-36 Practice problem 1 in K&O, Ch 3
Class #3 (9/8)	Ricardian model, continued	New K&O: Chapter 3, pages 37-51 Old K&O: Chapter 3, 36-48 Problems 2,3,4 in both K&Os, Ch 3 Reader, TBA
Class #4 (9/10)	Factor Endowment Differences and Trade: Specific Factors Model I	Reader (REQUIRED): pages TBA
Class #5 (9/15)	Factor Endowment Differences and Trade: Specific Factors Model II	Reader (REQUIRED): pages TBA
Class #6 (9/17)	Factor Endowment Differences: Specific Factors Model III	Reader (REQUIRED): pages TBA
Class #7 (9/22)	Factor Endowments Differences and Trade: Heckscher-Ohlin Model Part I	New K&O: Chapter 4, 54-64 plus appendix Old K&O: Chapter 4, 50-61 plus appendix
Class #8 (9/24)	Heckscher-Ohlin Model, Part II	New K&O: Chapter 4, 64-82 Old K&O: Chapter 4, 61-77
Class #9 (9/29)	The Standard Trade Model	New K&O: Chapter 5 K&O: Chapter 5 Reader, TBA
Class#10 (10/1)	The Gravity Model	Reader, TBA New K&O: pages 12-18 Old K&O: pages 11-17
Class #11 (10/6)	Trade, Wages, and Income Inequality	Reader, TBA
Class #12 (10/8)	NO CLASS	
Class #13 (10/13)	Globalization and Poverty	TBA
Class #14 (10/15)	Review	
Class #15 (10/20)	MIDTERM	

Class Number	Topic	Assigned Readings
Class #16 (10/22)	Foreign Direct Investment	New K&O: Chapter 7, pp 163-170 Old K&O: Chapter 7, pp 157-165
Class #17 (10/27)	Immigration	New K&O: Chapter 7, 153-160 Old K&O: Chapter 7, 148-154
Class #18 (10/29)	Trade in Industries with Imperfect Competition and Increasing Returns to Scale	New K&O: Chapter 6, 114-125 Old K&O: Chapter 6, 110-121
Class #19 (11/3)	“ Continued	New K&O: Chapter 6, 125-135,140-149 Old K&O: Chapter 6, 121-131, 136-144
Class #20 (11/5)	Tariffs	New and Old K & O: Chapter 8 Reader, TBA
Class #21 (11/10)	Tariffs II	
Class #22 (11/12)	Other Trade Policy Instruments, Dumping, Price Discrimination	New K&O: Chapter 6, 135-140 Old K&O: Chapter 6, 131-136
Class #23 (11/17)	Regional Trade agreements: Regionalism versus Multilateralism	New and Old K&O: Chapter 9 Reader, TBA
Class #24 (11/19)	Regional Trade Agreements, Continued The Global Framework for Trade (WTO)	New and Old K&O: Chapter 9 Reader, TBA
Class #25 (11/24)	Trade and Growth (I) Orthodoxy, Heterodoxy, and Developing Country Approaches	New and Old K&O: Chapter 10 Reader, TBA
Class #26 (11/26)	Trade and Growth (II)	
Class #27 (12/1)	Strategic Trade Policy	New and Old K&O: Chapter 11 Reader, TBA
Class # 28 (12/3)	Outsourcing and Offshoring	Reader, TBA
Class #29 (12/8)	The Anti-Sweatshop Movement: A Case Study on Indonesia	Reader, TBA
Class #30 (12/10)	Final Review	