Objectives
This course has two objectives. First, to analyze recent research on selected topics in trade in order to identify dissertation topics. Second, to aid in your transition from consumer to producer of research by critically presenting some of this research yourself. In the first part of the course we analyze the theory and evidence for alternative political economy models of trade policy and then focus on the recent work on "pure" trade agreements and trade agreements with non-trade objectives. The focus of the second part of the course is mostly on empirical tests of trade theories and the effects of trade on productivity, technological diffusion and growth. The final part addresses the appropriate use of trade shocks as a source of identification to analyze non-trade outcomes.

Pre-requisites
You must have taken ECON 604 and either 622 or 624. I also highly recommend that you take ECON 742.

Requirements
- Presentations: Each student is required to present at least twice during the semester (the exact number will be 2 or three presentations depending on the number of students enrolled). The presentations will last 20 minutes and should provide a critical evaluation of the article chosen from the detailed reading list of those denoted with “s*”.

- Exercises: There will be two empirical exercises. You will work in pairs for these.

- Summary papers: In order to benefit from the class all students must read the key articles before class. Therefore I will require a 2 page summary of some of those articles before each class. You need to do this 5 times during the semester and you will be able to choose the topics from the articles marked either “**” or “s***”.

- Epilogue presentations and reading list: The Epilogue aims to bring together various parts of the syllabus and get you to think about their implications when using trade shocks to study outcomes that are not immediately related to trade. Each student must individually choose three papers that use trade related shocks (e.g. world prices or trade volumes, policy or trade costs) to study any of the following outcomes: wages, productivity, inequality, poverty or institutions (e.g. labor standards, child labor, etc). At least one of the three papers must be an example of a good use of a trade shock as an exogenous source of identification and one a misuse. You will then pair up and choose two papers, one of each, by April 11th. You will present and defend your choices in the last classes. I can provide recent reviews if you need an initial guide.

- The final grade will be a weighted average of your presentations (30%), summary papers (5%), exercises (20%), and final exam (45%). In exceptional cases the final exam may be replaced with a paper on a topic related to the class. This will be addressed on a case-by-case basis and it is a privilege rather than a right.
Course outline

Part I: Trade policy

1. Introduction
   1.1 The questions
   1.2 Measuring trade policy

2. Political economy models of trade policy
   2.1 Theory
   2.2 Evidence

3. Important puzzles in trade policy
   3.1 The choice and use of inefficient redistribution policies
   3.2 Anti-trade bias

4. International political economy and the world trading system
   4.1 Theory and practice of “pure” trade agreements
   4.2 Theory and practice of trade agreements with non-trade objectives
   4.3 Effects of Trade Agreements on Trade Policy: The Evidence

Part II: Trade theory and evidence

1. Trade patterns, volume and composition
   1.1 The questions
   1.2 Comparative advantage models
   1.3 Scale economies: evidence
   1.4 Volume and composition of trade

2. Trade, productivity, technological diffusion and growth
   2.1 Theory
   2.2 Cross-country evidence
   2.3 Evidence on international knowledge/technology diffusion
   2.4 Trade and productivity: Plant and firm level evidence

Epilogue

1. Trade shocks: uses and misuses as exogenous variation for non-trade outcomes
   1.1 Wages and productivity
   1.2 Inequality and poverty
   1.3 Institutions
Readings

Basic material

The following books contain background and supplemental material that may be useful. Some of them also contain specific readings listed under each topic.


**Notes for the detailed reading list below**

"*" Denotes a required reading. Summary papers can cover these.
"S*" Denotes a required reading of an article that I expect a student to present. Summary papers can cover these.
"r" Denotes a review. Some are important enough and so required, they are marked as "*r". 
"b" Denotes background material generally for the trade policy section.
References that are not preceded by any of the marks above denote other interesting papers in the topic. The underscored titles indicate online availability (for some of these you must access from the campus).
Part I: Trade policy

1. Introduction

1.1 The questions


1.2 Measuring trade policy

WTO country trade policy reviews

2. Political economy models of trade policy

2.1 Theory


2.1.1 Demand, supply and median voter models of protection.


2.1.2 Political contributions and electoral models of protection


2.2 Evidence


3. Important puzzles in trade policy

3.1 The choice and use of inefficient redistribution policies

3.1.1 Asymmetric and imperfect information

3.1.2 Lobby competition and free-riding

3.1.3 Other

3.2 Anti-trade bias

4. International political economy and the world trading system

4.1 Theory and practice of “pure” trade agreements

4.1.1 The structure and history of the GATT/WTO
*BAGwell, K. and R. Staiger. 2002.. Ch. 3
b Hoekman, B. and M. Kostecki, Chs.1,2.
b Jackson, chs: 1, 2.
4.1.2 The motivations for trade agreements

Terms-of-trade
*Bagwell, K. and R. Staiger. 2002. Ch. 2


Pure political externalities

Commitment

4.1.3 Can countries influence their TOT?


Testing the optimal tariff theory

Effects of tariff changes on prices

Pass-through/imperfect competition evidence

4.1.4 Reciprocity and MFN as the pillars of the WTO: theory and evidence


b Hoekman and Kostecki, ch. 4.

4.1.5 Dispute settlement and enforcement of trade commitments and rules

b WTO, Guide to GATT Law and Practice: Analytical Index.

4.2 Theory and practice of trade agreements with non-trade objectives


4.2.1 The expanding scope of the WTO: Environment and labor

4.2.2 Preferential trade agreements with non-trade objectives


4.3 Effects of Trade Agreements on Trade Policy: The Evidence

4.3.1 Preferential Trade Agreements and Multilateral Liberalization


Limão, N. Forthcoming “Preferential vs. Multilateral Trade Liberalization: Evidence and Open Questions,” *World Trade Review*.


4.3.1 GATT-WTO and Multilateral Liberalization


Part II: Trade theory and evidence

1. Trade patterns, volume and composition

1.1 The questions


1.2 Comparative Advantage models


1.2.1 Tests of the HOV theory


1.2.2 Determinants of the location of production


1.3 Scale economies’ models: evidence


1.4 Volume and composition of trade

1.4.1 Gravity equation


1.4.2 Effects of trade costs on the composition and volume of trade


2. Trade, productivity, technological diffusion and growth

2.1 Theory

2.1.1 Factor accumulation


2.1.2 Exogenous technological progress


2.1.3 Learning-by-doing


2.1.4 R & D

2.2 Cross-country evidence


2.3 Evidence on international knowledge/technology diffusion


2.4 Trade and productivity: Plant and firm level evidence

*† Tybout, J.R. 2004. ”Plant and firm level evidence on new trade theories” In Handbook of International Trade (NER WP 8418).

Epilogue

1. Trade shocks: uses and misuses as exogenous variation for non-trade outcomes

1.1 Wages and productivity
1.2 Inequality and poverty
1.3 Institutions

Readings to be determined by students after consulting professor.