

INTERNATIONAL TRADE POLICY

MODULE INFORMATION

Module code: ECON632D

This is a 20-credit module

Year: 2005–2006

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Room: 417

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NOTE: Please add “ITP” to the email subject line

MODULE DELIVERY

Lectures: Mondays 15:00 – 17:00, Strathcona LT4

COURSE DESCRIPTION

This course will analyze the causes and consequences of international trade policy. We will then investigate the motives for nations or group of nations to restrict or regulate international trade and study the effects of such policies on economic welfare. We will also spend some time discussing aspects of the different ways of trade integration such as custom unions, preferential trade agreements and the pros and cons of unilateral policies pursued by individual countries, regionalism and multilateralism.

Although the course will emphasize the understanding of past and current use of active trade policy, we will rely on formal economic modelling to help us understand these events. We will mainly use general equilibrium models and when needed adopt a partial equilibrium setting. Classes will provide some training on such analytical tools.

As Pre-requisites, the main point is to bear in mind the assumptions behind positive gains from trade and analytical analysis developed in ECON G31D or an intermediary level trade course. As mentioned, we will rely on formal economic modelling to help us to understand the topics we will cover. We will therefore extensively use micro-economic tools. It is important that you not only be familiar with these tools and models, but that you also feel comfortable using and manipulating them. I will assume this to be the case. If you do not feel absolutely comfortable with these models, I strongly urge you to review your preferred textbook in international economics early on in the semester.

COURSE ASSESMENT

There will be one test at middle of the term (counting for 40% of the course grade), and one final exam (60% of the course grade). The exams will cover all the lecture material and some of the additional readings.

COURSE OUTLINE AND READING

Though no textbook covers all the topics developed in this course, you are advice to purchase

Robert C. Feenstra, *Advanced International Trade, Theory and Evidence*, Princeton University Press, 2005.

You might want to use Markusen et al, Krugman and Obstfeld, Bhagwati et al and Debraj Ray as useful references. For technicalities you should refer to your lecture notes and handouts distributed before the lecture and the articles discussed throughout the course.

Krugman, Paul R. and Maurice Obstfeld, *International Economics: Theory and Policy*, Sixth Edition, Addison Wesley, 2003; Ch. 9 (pp. 233-241)

Markusen, James R., J. Melvin, W. Kaempler and K. Maskus, *International Trade*, Mc Grawhill, 1995

J. Bhagwati, A. Panagariya and T.N. Seinivasan, *Lectures on International Trade*, MIT Press, 2nd edition, 1998.

L. A. Rivera-Batiz, *International Trade: Theory, Strategies and Evidence*, Oxford University Press, 2003.

D. Ray, *Development Economics*, Princeton University Press, 1998.

Internet Resources

Electronic copies of many journals are available on the internet. Several journals are available (without the most recent issues) at <http://uk.jstor.org> (to access this you have to log on from the campus). Other online journals are listed in the library catalogue and at <http://www.tdnet.com/birmingham/> or via the Information Services web page at <http://www.is.bham.ac.uk> from which you select eJournals directory. Note that access to most of these journals is available only if you get on to the internet via the campus network. Most of the journal articles on this reading list are available online as well as on the library shelves.

READING LIST

Please note that all timings are approximate.

Lecture 1.

- What is trade policy? (Various definitions)
- Historical examples of countries using trade policy as a development tool
- Reasons for trade policy
- Varieties of trade policy

Peter Neary "International trade: Commercial policy and trade negotiations", *International Encyclopedia of the Social and Behavioral Sciences*, Volume 11, Oxford: Elsevier Science, 2001, 7837-7843 (available from Peter Neary's website).

Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*. London: Anthem Press, 2002.

Lecture 2.

- The effects of trade policy: *Empirics*

D. Dollar and A. Kraay, "Trade, Growth, and Poverty" *The Economic Journal*, Vol. 114:493, pp. F22-F49(1). (February 2004)

Dani Rodrik and Francisco Rodríguez. A re-examination of the relationship between trade policy and economic growth and a critical review of the literature. Published in *Macroeconomics Annual 2000*, eds. Ben Bernanke and Kenneth S. Rogoff, MIT Press for NBER, Cambridge, MA, 2001. (Available from Dani Rodrik's website)

Yanikkaya, H. "Trade openness and economic growth: a cross-country empirical investigation" *Journal of Development Economics*, Volume 72, Issue 1, 1 October 2003, Pages 57-89

Michael A. Clemens and Jeffrey G. Williamson (2004), "Why Did the Tariff-Growth Correlation Reverse after 1950?" *Journal of Economic Growth*, 9 (1): 5-46.

Lecture 3

- The effects of tariffs in a static setting with perfect competition either on a small open economy or on a larger economy
- Comparison between quotas and tariffs.
- The effect of export subsidies

Feenstra, Chapter 7

Markusen et al, chapters 4, 5, 15 and 16.

Bhaghati et al, chapter 12 and 13.

Ray, chapter 17

Lecture 4

- Regionalism versus Multilateralism (I)

Feenstra, Chapter 6

Krugman, Paul R. (1993), "Regionalism Versus Multilateralism: Analytical Notes," in De Melo, Jaime and Arvind Panagariya eds. *New Dimensions in Regional Integration*, Cambridge University Press.

Baldwin, Richard E. (1996), "A Domino Theory of Regionalism," in Baldwin, Richard E., Pertti J. Haaparanta, and Jaakko Kiander eds. *Expanding the Membership of the EU* (Cambridge: Cambridge University Press).

Lectures 5

- Regionalism versus Multilateralism (II)

Feenstra, Chapter 6

Krishna, Pravin (1998), "Regionalism and Multilateralism: A Political Economy Approach," *Quarterly Journal of Economics*, Vol. 113, No. 1, pp. 227-251.

Levy, Philip I. (1997), "A Political-Economic Analysis of Free-Trade Agreements," *American Economic Review*, Vol. 87, No. 4, pp. 506-519.

Lectures 6

- The GATT and the WTO:

Feenstra, Chapter 6

Bagwell and Staiger (1999)

Krugman and Obstfeld, Ch. 9 (pp. 233-241)

Rivera-Batiz and Oliva, Chapter 18

Deardorff, Alan V. and Robert M. Stern, "What You Should Know about Globalization and the World Trade Organization," *Review of International Economics* 10, August 2002.

Lecture 7

- The political economy of trade policy

Feentra, chapter 9

Maggi, G., and A. Rodríguez-Clare (1998), "The Value of Trade Agreements in the Presence of Political Pressures," *Journal of Political Economy*.

Lecture 8

- Infant industry protection.

M. Melitz “When and How Should Infant Industries Be Protected?” *Journal of International Economics*, 66, 2005.

Ray, chapter 17. Baldwin, Robert E., "The Case Against Infant Industry Tariff Protection," *Journal of Political Economy* 77, May/June 1969, pp. 295-305.

F. Albornoz and P. Vanin (2005) “Local Learning, Trade Policy and Industrial Structure Dynamics”, Discussion Paper University of Birmingham 05-12

Week	Date	Lecture topic
2	16 January	Introduction
3	23 January	Empirics
4	30 January	Tariffs, Quotas and Export Subsidies
5	6 February	Regionalism versus Multilateralism (I)
6	13 February	Mid-term test
7	20 February	Regionalism versus Multilateralism (II)
8	27 February	The GATT and the WTO
9	6 March	Political Economy
10	13 March	The infant industry argument for protection