

ECON and EEP 181
International Trade Theory
Spring 2018
UC Berkeley

Course label:	C181, cross-listed Econ and EEP
CCN:	33544 and 23582
Instructor:	Thibault FALLY
Class Time:	Monday and Wednesday, 6:30 PM – 8:00 PM
Final Exam:	Friday May 11 th , 3:10 – 5:00 PM (exam group 19)
Class Room:	EVANS 10
Class Website:	bcourse
Clickers required?	Yes
Office:	301 Giannini Hall
Office Hours:	Friday 3-5 PM and by appointment
Email:	fally@berkeley.edu

Course Overview

This course will analyze the causes and consequences of international trade and investment. We will investigate why nations trade, what they trade, and who gains from this trade. We will examine the role played by multinational firms in this context. We will then analyze the motives for countries or organizations to restrict or regulate international trade and study the effects of such policies on economic welfare.

The structure of the course follows Feenstra and Taylor textbook (see reference below) with additional lecture notes on three topics: i) product varieties and imperfect competition, ii) firms decisions to export and invest abroad, iii) trade and poverty:

1. Introduction (1 lecture):
A brief description of the course and some facts about international trade (Chapter 1)
2. Comparative Advantage in the Ricardian model (3-4 lectures):
Comparative advantage: how does international trade generate gains for countries?
(Chapters 2)

3. Specific factor model (3 lectures):
How does trade affect income across workers and stakeholders across industries?
(Chapters 3)
4. Heckscher-Ohlin model (4 lectures):
How does trade affect returns to capital and income across different types of workers?
(Chapters 4 and 5)
5. Multinational Firms, Offshoring and Wages (3 lectures):
How does foreign investment affect wages? Why do some firms become multinationals while others do not? What is offshoring? How is offshoring different from earlier trends in globalization? (Chapter 5 and 7)
6. Increasing returns to scale and firms export decisions (4 lectures):
Does trade reduce monopoly power? What are the gains from increasing variety of consumption goods? Why free trade with Canada is less controversial than free trade with Mexico? (Chapter 6 + additional lecture notes)
7. Trade Policy and political economy of trade policy (3 lectures):
What types of policies affect international trade and how? How trade policies of one country affect well-being in another? Why countries do not always maximize welfare? Why some interest groups are favored over others? (Chapters 8 – 10)
8. Additional topics (about 1 lecture by topic):
 - a. *International Trade Agreements:*
What is the WTO and how does it work? How was NAFTA put in place?
 - Environmental agreements:*
Why do we or do we not need agreements like the Kyoto protocol? (Chapter 11)

Although the course will emphasize the understanding of past and current events in the world economy, we will rely on formal economic modeling to help us understand these events. We will therefore extensively use micro-economic tools that you have learned in your introductory microeconomics classes. Microeconomics (100A or 101A) and Macroeconomics (100B or 101B) are prerequisites for this course. It is important that you not only be familiar with these tools and models, but that you also feel comfortable using and manipulating them.

Prerequisites

Economics 100A & 100B, or Economics 101A & 101B, or equivalent

Tentative schedule of lectures and due dates:

Lecture 1	17-Jan	Intro	
Lecture 2	22-Jan	Ricardo	
Lecture 3	24-Jan	Ricardo	
Lecture 4	29-Jan	Ricardo	
Lecture 5	31-Jan	Specific factors	
Lecture 6	5-Feb	Specific factors	Problem Set 1 due: Ricardo
Lecture 7	7-Feb	Specific factors	
Lecture 8	12-Feb	Heckscher-Ohlin	
Lecture 9	14-Feb	Heckscher-Ohlin	
HOLIDAY	19-Feb	NO CLASS	
Lecture 10	21-Feb	Heckscher-Ohlin	PS2 due Feb 22 nd : Ricardo + HO
Review	26-Feb	Review session	
MIDTERM	28-Feb	First midterm	
Lecture 11	5-Mar	FDI and migration	
Lecture 12	7-Mar	FDI and migration	
Lecture 13	12-Mar	Offshoring	
Lecture 14	14-Mar	Offshoring	
Lecture 15	19-Mar	Imperfect competition	
Lecture 16	21-Mar	Imperfect competition	PS3 due: Offshoring and wage inequality
Lecture 17	2-Apr	Imperfect competition	
Lecture 18	4-Apr	Firms	
Lecture 19	9-Apr	Firms	
Lecture 20	11-Apr	Tariffs	Problem Set 4: US-Canada trade
Lecture 21	16-Apr	Tariffs	
MIDTERM	18-Apr	Second midterm	
Lecture 22	23-Apr	Trade agreements	
Lecture 23	25-Apr	Trade agreements	Non-graded PS5 on trade data
Lecture 24	30-Apr	Trade agreements	
Review	2-May	Review session	
FINAL EXAM	11 May	Final exam: 3pm-5pm	(location TBA)

Textbook

Second, third or fourth edition of Robert C. Feenstra and Alan M. Taylor (2011-2017), *International Trade*, Worth Publishers. See:

<http://www.worthpublishers.com/Catalog/product/internationaltrade-secondedition-feenstra>

The differences between the second and third editions are minimal (for instance, most exercises are identical). A fourth edition has been recently published. It seems that there are only very few minor changes again. It is fine to use either the second, third or fourth edition.

Grading

Your course grade will consist of assignments, class participation, and three examinations. Your grade will be determined as follows:

First Midterm	25%
Second Midterm	25%
Final exam	30%
Assignments	20%

All exams will be held in the regular classroom on the following dates:

First Midterm:	Wednesday, February 28th , 6.30 PM - 8:00 PM
Second Midterm:	Wednesday, April 18th , 6.30 PM - 8:00 PM
Final examination:	Friday, May 11th, 3.10 PM - 5.00 PM (exam group 19)

No exam will be given early, and there will be no makeup exam. If you miss one of the midterm exams, the weight of the final exam will be increased to compensate (i.e. the final exam will be worth 55% of the grade). If you miss the final exam, or if you miss both midterms, you will fail the class. If you are present at both midterms, we can report the weight of one of the two midterms onto the final exam if that can improve your overall grade for the course. To summarize, we will compute grade for these three schedules and select the highest outcome:

Weights	First midterm	Second midterm	Final exam	Assignments
Baseline	25%	25%	30%	20%
Alternative 2	25%	0%	55%	20%
Alternative 3	0%	25%	55%	20%

Exam questions can be on any topic covered during the lectures. The content reviewed for each exam is cumulative. You should bring a pen/pencil and calculator to the exam. Items such as ipods, graphing calculators or cell phones will not be permitted. You will write on the exam forms, so other paper should be necessary. You may not bring lecture notes or books.

Take-home assignments will be posted on the course website. There will be one assignment about every three weeks (four assignments in total). The solution as well as the next assignment will be posted the day after each due date. Assignments have to be sent electronically as a single pdf file (e.g. I often use Word, Latex and Pdftcreator to create pdf files), before the due date. We will not take homework handed after the solution has been posted.

Clickers

“iclickers” will be used during the lectures as a tool to provide two-way feedback on some of the key points of the lecture. There will be a grade from your clicker participation which will count as an optional assignment. Your participation score can replace the grade of your worst assignment (e.g. missed assignment).

Office hours:

- Isabela Manelici (imanelici@berkeley.edu): Wednesday 2-4pm, 640 Evans
- Sergii Meleshchuk (meleshchuk@berkeley.edu): Thursday 10am-12pm, 640 Evans
- James Sayre (jsayre@berkeley.edu): Monday 10-11am and 1-2pm, 640 Evans
- Thibault Fally (fally@berkeley.edu): Friday 3-5pm, 301 Giannini Hall

Office hours are for your benefit. They provide an opportunity to ask questions in a small group setting. If you cannot make my office hours or any of the GSI's office hours (e.g. if you have class at the same time), please email us to arrange alternative meeting times. In any case, I strongly encourage you to email me or the GSI's if you have any question related to the course (question on the lectures, exercises, exam preparation, etc.).

Other Information

UC Berkeley Campus Academic Policies:

Here you will find campus policies regarding: grading, leaves, student information, repetition of courses, credit by examination, midterm and final exams, student conduct and appeals, etc.:

<http://bulletin.berkeley.edu/academic-policies/>

Fire Alarm Policy

Pulling a fire alarm during a lecture or a midterm is a felony, punishable by a fine and time in jail. In addition, anyone caught pulling the alarm will fail the course and is subject to expulsion from the University. If the alarm is pulled during an exam, the class will move outside and finish the exam in the allotted time. In this event, follow the instructions of the GSIs.