ECON 17100: Introduction to International Trade
Autumn 2023

Instructor:	Jordan Rosenthal-Kay	**Lecture:**	T/Th 5-6:20pm, SHFE 146
Email:	jrosenthalkay@uchicago.edu	**Discussion:**	F 3:30-4:20pm, SHFE 146

Course Page: Canvas

Office Hours:
Jordan: M/W 8:30-9:30 SHFE 201 (Graduate Student Lounge), or by appointment.
Sasha: TBA (canvas poll) 2×1hr sessions a week

Teaching Assistant: Sasha Petrov (alexpetrov@uchicago.edu)

Main References:

- *Lecture notes.* These will be available on canvas.

- Krugman, Melitz, Obstfeld (KMO), *International Economics: Theory and Policy* (Optional; 9th ed.)

Objectives: This is a first course in international trade aimed at students pursuing the Business Economics track. This course provides an understanding of the key theories in international economics and prepares students to analyze the pattern of trade and conduct qualitative policy analysis. We will cover Ricardian and factor-endowment based trade theory, trade under increasing returns and imperfect competition, trade and industrial policy, economic geography, the main empirical patterns of international trade, and international investment. All topics covered will be presented alongside historical and contemporary case studies.

Grading Policy: Your numeric grade will be determined by:

$$\text{Numeric grade} = \max\big\{(30\% \text{ PSet}, 35\% \text{ Midterm}, 35\% \text{ Final}), (30\% \text{ PSet}, 10\% \text{ Midterm}, 60\% \text{ Final})\big\}$$

The final is cumulative. The conversion of numeric scores to letter grades will be determined at the end of the course, but I aim for above 90% to be an A. I want everyone to get an A. However, *this course is hard!*

TFUs: This course will rely on the UChicago Economics tradition of asking 'True/False/Uncertain' questions. I will provide a statement for you to *evaluate* whether it is true, false, or uncertain. I will award points based on the quality of an explanation. Students are expected to use clear and concise economic reasoning to evaluate a statement by drawing and explaining graphs, equations, and by referencing case studies or empirical evidence. No points are awarded for only writing true, false, or uncertain, but I will give ample partial credit for wrong answers accompanied by good explanations.

Problem sets: There will be 6 problem sets. Each PSet consists of 3-5 'TFUs' and 1-2 longer 'problems.' PSets can be submitted in groups of two (one PSet per group). PSets must be *submitted on canvas as a PDF before 3:30pm* on Fridays. PSet solutions will be covered in the discussion section in which they are due. For this reason, *no late submissions are allowed*; however, *we will drop the lowest PSet grade.* Any regrade request will result in the entire PSet being regraded. If you anticipate being unable to turn in a PSet for family/personal/other reasons, email us ASAP.

Exams: Exams will mirror the PSet format. The final will be worth 70% of your grade if you miss the Midterm.

Midterm . . . . Thursday, November 2nd
Final Exam . . . . TBA

Academic Honesty: Lack of knowledge of UChicago's academic honesty policy is not a reasonable explanation for a violation. Use of ChatGPT is a violation – obviously!

Emails: Sasha and I will return emails within 24 hours and typically won't respond after 9pm and before 9am. We won't respond to questions about the PSets after 6pm the day before it is due. PSet questions should be addressed in office hours. Please have 'Econ 17100' in the subject line of the email.

(Tentative) Course Outline:
Note: I will post Lecture Notes to Canvas and the course site following each lecture. New problem sets will be uploaded once the last one is turned in. Readings marked "(Technical)" are not required, and the relevant material will be covered in lecture and discussion section. However, I encourage you to read the introduction of these papers.

❚9/26-9/28, Week 1: Introduction, trade in endowments and review of utility maximization

  - *Key concepts:* Utility maximization, Pareto efficiency, resource constraints

  - *Graphical analysis:* Edgeworth box analysis

  - *Takeaway:* 'Invisible hand theorem'

Note: No TA office hours this week. I will use the Discussion Section to hold office hours.

❚10/3-10/5, Week 2: Ricardian theory

  - *Key concepts:* Comparative vs. absolute advantage

  - *Graphical analysis:* Derivation of the Ricardian trading equilibrium

  - *Case study:* Japan opens to trade in the 19th century

Deliverables: PSet 1 due Friday, 10/6, at 3:30pm on Canvas.
Readings and links:

  - KMO Chapter 3 (Optional, helpful)

  - Bernhofen and Brown (2004): A Direct Test of the Theory of Comparative Advantage: The Case of Japan

  - Bernhofen and Brown (2005): An Empirical Assessment of the Comparative Advantage Gains from Trade: Evidence from Japan

❚10/10-10/12, Week 3: Specific factors model

  - *Key concepts:* Mobile and immobile factors, average vs. marginal product, wage determination, winners and losers from trade, incomplete specialization

  - *Graphical analysis:* Derivation of the concave PPF, world and domestic market effects of changes in technology and endowments, labor market effects of trade

  - *Case studies:* The 'China shock' in the United States, the 'quartz crisis' in Switzerland.

Deliverables: PSet 2 due Friday, 10/13 at 3:30pm on Canvas.
Readings and links:

  - KMO Chapter 4 (Optional, helpful)

  - *Trade Talks*: The historic collapse of Switzerland's watch industry (Podcast)

  - Autor, Dorn, and Hanson (2013): The China Syndrome: Local Labor Market Effects of Import Competition in the United States (Technical)

  - Twiman (2022): Trade competition and migration: Evidence from the quartz crisis (Technical)

❙ 10/17-10/19, Week 4: Heckscher-Ohlin theory

- *Key concepts:* Factor intensity in production, Stolper-Samuelson and related 'theorems'

- *Graphical analysis:* Edgeworth box for factor allocation, determination of relative factor prices

- *Case study:* Uber and Lyft enter US cities

Deliverables: PSet 3 due Friday, 10/20, at 3:30pm on Canvas.
Readings and links:

- KMO Chapter 5 (Optional, helpful)

- Gorback (2022): Ridesharing and the Redistribution of Economic Activity (Technical)

❙ 10/24-10/26, Week 5: Trade policy under perfect competition

- *Key concepts:* Tariffs, quotas, and subsidies, terms-of-trade gain, quota rents

- *Graphical analysis:* Determination of equilibrium prices, imports, rents, and deadweight loss under different trade policies

- *Case study:* Can tariffs fight climate change?

Note: No discussion section or this week. Midterm review makeup next week.
Readings and links:

- KMO Chapter 9 (Optional, helpful)

- Hsiao (2023): Coordination and Commitment in International Climate Action: Evidence from Palm Oil (Technical) – (Video)

■ 10/31-11/2, Week 6: Midterm review (10/31) and Midterm (11/2) ■

Deliverables: PSet 4 due at the start of the TA's Midterm review, time TBA.

❙ 11/7-11/9, Week 7: Economic geography, industrial policy

- *Key concepts:* Agglomeration, external economies of scale, long vs. short run cost curves

- *Graphical analysis:* Tariffs with downward-sloping long-run average cost curves

- *Case studies:* Portage in US waterways, cotton spinning in France under the Napoleonic Blockade

Readings and links:

- KMO Chapter 7, 10, 11 (Optional, helpful)

- *Trade Talks*: Is China's Industrial Policy Working? (Podcast)

- Bleakley and Lin (2012): Portage and Path Dependence (Technical)

- Juhasz (2018): Temporary Protection and Technology Adoption: Evidence from the Napoleonic Blockade (Technical)

▌11/14-11/16, Week 8: Trade under increasing returns and imperfect competition

- *Key concepts:* Increasing returns to scale, fixed vs. variable costs, monopolistic competition, markups, pro-competitive and love-of-variety gains to trade, home market effect

- *Graphical analysis:* Krugman model equilibrium

- *Case studies:* Trade in medical services, the 'Home market effect' in pharmaceuticals

Deliverables: PSet 5 due Friday, 11/17 at 3:30pm.
Readings and links:

- KMO Chapter 8 (Optional, helpful)

- Costinot et al. (2019): The More We Die, The More We Sell? A Simple Test of the Home-Market Effect (Technical)

- Dingel et al. (2023): Market Size and Trade in Medical Services (Technical)

▌Thanksgiving break 11/20-11/25 ▌

▌11/28-11/30 Week 9: Empirics of trade, international investment, final review

- *Key concepts:* Gravity equation, trade costs, current account, selection into exporting

- *Graphical analysis:* Selection into exporting and FDI, determination of current account imbalances

- *Case study:* Using the gravity equation to find lost cities

Deliverables: PSet 6 due Friday, 12/1 at 3:30pm.
Readings and links:

- KMO 2, 8 (Optional)

- Barjamovic et al. (2019): Trade, Merchants, and the Lost Cities of the Bronze Age (Technical)

- Helpman et al. (2004): Export Versus FDI with Heterogeneous Firms (Technical)

■ 12/2-12/4, Reading period. Final review session time TBA ■