

Reading group
THE MICROECONOMICS OF INTERNATIONAL TRADE

Valeria Gattai
Università degli Studi di Milano-Bicocca
valeria.gattai@unimib.it

Contents

Recent years have witnessed remarkable changes in the world economy and the nature of trade. During the first wave of globalization, trade was an “inter-industry” phenomenon, relying on comparative advantages and involving different goods and different countries. Then, under the second wave of globalization, trade became “intra-industry”, meaning that similar countries exchanged similar goods exploiting increasing returns to scale in imperfectly competitive markets. Nowadays, most trade is neither inter-industry nor intra-industry: It is “intra-firm”, in that it takes place within the boundaries of multinational enterprises. Indeed, a new feature of globalization is the increasing interconnectedness of production processes in a vertical trading chain that stretches across many countries, with each country specializing in a particular stage of production, rather than manufacturing final goods from start to finish. “Outsourcing”, “global value chain”, “disintegration of production” are just a few labels for the same phenomenon of vertical specialization that pushes modern firms toward a global structure. This evidence clearly begs for new analytical tools to model trade flows and interpret the empirical evidence regarding intra-firm trade.

The reading group in The Microeconomics of International Trade follows the evolution in the nature of trade, and provides students with an updated overview of recent theoretical and empirical analyses of intra-firm trade.

Syllabus

The reading group in The Microeconomics of International Trade is intended to span over five lectures. To allow students prepare their presentations satisfactorily, I suggest organizing the reading group in three weeks. The first and second weeks are devoted to introductory lectures and the third week to students’ presentations. During the second week of the reading group, a firm-level dataset on intra-firm trade will be made available for students. Drawing on the theoretical and empirical analyses presented in class, they will figure out an original research question and answer it using the available data.

Please, find a detailed syllabus below:

FIRST WEEK – INTRODUCTION (the topic)

Lecture 1 (V. Gattai), 3 hours

The evolution of trade: from inter-industry to intra-industry to intra-firm

Feenstra, R. (2004) “Advanced International Trade: Theory and Evidence”, Princeton University Press, Ch. 1, 2, 5.

Helpman, E. (2006) “Trade, FDI and the Organization of Firms,” *Journal of Economic Literature*, 44, 589-630.

The economics of intra-firm trade: a toolbox

Feenstra, R. (2004) “Advanced International Trade: Theory and Evidence”, Princeton University Press, Ch. 11.

Hart, O.D. (1995) “Firms, Contracts, and Financial Structure”, Oxford University Press, Ch. 1, 2.

Antras, P. (2014) “Grossman–Hart (1986) Goes Global: Incomplete Contracts, Property Rights, and the International Organization of Production,” *Journal of Law, Economics, and Organization*, 30, 118-175.

Lecture 2 (V. Gattai), 3 hours

The economics of intra-firm trade: global sourcing

Antras P. and Helpman E. (2004) “Global Sourcing”, *Journal of Political Economy*, 112(3), 552-580.

Spencer B.J. (2005) “International Outsourcing and Incomplete Contracts”, *Canadian Journal of Economics*, 2005, 38(4), 1107-1135.

SECOND WEEK – INTRODUCTION (the database)

Lecture 3 (V. Gattai), 3 hours

De Ponti P. and Gattai V. (2022) “Family firms, Productivity, and Input Specificity: An Empirical Assessment of Italian Firm’s Sourcing”, *Applied Economics*, DOI:10.1080/00036846.2022.2141458

Bernasconi M., Galetti S., Gattai V. and Natale P. (2022) “Contract incompleteness and the boundaries of the firm in times of Covid-19”, *Journal of Industry, Competition and Trade*, <https://doi.org/10.1007/s10842-022-00387-7>

THIRD WEEK – STUDENTS’ PRESENTATIONS

Lecture 4 (students’ presentations of existing papers), 3 hours*

Lecture 5 (students’ presentations of their own research), 3 hours**

*Each student will present a paper from the list below:

Antras P. (2003) “Firms, Contracts, and Trade Structure”, *Quarterly Journal of Economics*, 118(4), 1375-1418.

Antras P., Helpman E. (2008) “Contractual frictions and global sourcing”. In: Helpman E, Marin D., Verdier T. (eds) *The Organization of Firms in a Global Economy*. Harvard University Press, Cambridge, 9-54

Antras P., Fort T. and Tintelnot F. (2017) “The Margins of Global Sourcing: Theory and Evidence from US Firms”, *American Economic Review*, 107(9), 2514-64

Baiardi D., Gattai V. and Natale P. (2021) “Estimating the Ex-ante and the Ex-post Effects of Chinese Outward FDI” (con D. Baiardi e P. Natale), *The World Economy*, 44(12), 3641-3673, <https://doi.org/10.1111/twec.13161>

Barba Navaretti G. and Castellani D. (2008) “Do Italian firms improve their performance at home by investing abroad?”, In: Brakman S., Garretsen H. (eds) *Foreign Direct Investment and the Multinational Enterprise*. MIT Press, Cambridge MA

Barba Navaretti G., Castellani D. and Disdier A.C. (2010) “How does investing in cheap labour countries affect performance at home? Firm-level evidence from France and Italy”, *Oxford Economic Papers*, 62, 234-260

Borin A. and Mancini M. (2016) “Foreign direct investment and firm performance: An empirical analysis of Italian firms”, *Review of World Economics*, 152, 705-732

Corcos G., Irac D.M., Mion G. and Verdier T. (2013) “The Determinants of Intrafirm Trade: Evidence from French Firms”, *Review of Economics and Statistics*, 95(3), 825-838

Defever F. and Toubal F. (2013) “Productivity, Relationship-Specific Inputs and the Sourcing Modes of Multinationals”, *Journal of Economic Behaviour & Organization*, 94(C), 245-357

Federico S. (2010) “Outsourcing versus Integration at Home or Abroad and Firm Heterogeneity”, *Empirica*, 37(1), 47-63

- Feenstra R.C. and Hanson G.H. (2005) "Ownership and Control in Outsourcing to China: Estimating the Property-Rights Theory of the Firm", *The Quarterly Journal of Economics*, 120(2), 729-761
- Grossman S.J. and Helpman E. (2002) "Integration versus Outsourcing in Industry Equilibrium", *Quarterly Journal of Economics*, 117(1), 85-120.
- Grossman S.J., Helpman E. and Szeidl A. (2006) "Optimal integration strategies for the multinational firm", *Journal of International Economics*, 70, 216-238
- Grossman G.M. and Rossi-Hansberg E. (2008) "Trading tasks: A simple theory of offshoring", *American Economic Review*, 98, 1978-1997
- Head K. and Ries J. (2003) "Heterogeneity and the foreign direct investment versus exports decision of Japanese manufacturers", *Journal of the Japanese and International Economics*, 17, 448-467
- Helpman E., Melitz M. and Yeaple S. (2004) "Export versus FDI", *American Economic Review*, 94, 300-316
- Ito B., Tomiura E., and Wakasugi R. (2011) "Offshore Outsourcing and Productivity: Evidence from Japanese Firm-Level Data Disaggregated by Task", *Review of International Economics*, 19(3), 555-567
- Kohler W. and Smolka M. (2011) "Sourcing Premia with Incomplete Contracts: Theory and Evidence", *B.E. Journal of Economic Analysis & Policy*, 11(1), 1-37
- Kohler W. and Smolka M. (2014) "Global Sourcing and Firm Selection", *Economics Letters*, 124(3), 411-415
- Kohler W. and Smolka M. (2018) "Global Sourcing of Heterogeneous Firms: Theory and Evidence," CESifo Working Paper No. 5184
- McLaren J. (2000), "Globalisation and Vertical Structure", *American Economic Review*, 90(5), 1239-54
- Melitz M.J. (2003) "The impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity", *Econometrica*, 71(6), 1661-1694
- Ottaviano G.I.P. and Turrini A. (2003) "Distance and Foreign Direct Investment When Contracts Are Incomplete", *Journal of the European Economic Association*, 54(4), 796-822
- Tomiura E. (2007) "Global sourcing, technology, and factor intensity: Firm-level relationships", RIETI Discussion Paper Series 24

**Each student will present his/her empirical research on intra-industry trade drawing on the data made available.

Requirements

Students are expected to:

- participate in all lectures;
- do all the required readings;
- present an existing paper. Each student will be responsible for a 40 minutes presentation during lecture 4;
- present their own research. Each student will be responsible for a 40 minutes presentation during lecture 5.

Grading

- class participation: 10%
- presentation of existing papers (lecture 4): 40%;
- presentation of own research (lecture 5): 50%.

Presentations will be evaluated according to the presenters' effectiveness and the accompanying materials (slides, do-files etc.). Please, relate the presented materials to the literature discussed in the introductory lectures, and provide a discussion of the strengths and weaknesses.