

International Trade and International Firms

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Course Description

This course introduces students to some of the main theories of international trade and to the associated empirical evidence. The course deals with the following topics: trade based on comparative advantage; intra-industry trade based on economies of scale and product differentiation; firm heterogeneity and intra-industry reallocations; foreign direct investment and firms' boundaries.

Material

Lecture notes are compulsory. Papers and book chapters indicated in the syllabus are strongly recommended. A list of textbooks is provided below:

Intermediate Textbooks

- Feenstra, R. and Taylor, A., 2017, *International Trade*, Macmillan
- Krugman, P., Obstfeld, M. and Melitz, M., 2014, *International Economics: Theory and Policy*, Pearson
- Helpman, E., 2011, *Understanding Global Trade*, Belknap Press of Harvard University Press
- Markusen, J., Melvin, J., Kaempfer, W. and Maskus, K., 1995, *International Trade: Theory and Evidence*, McGraw-Hill

Advanced Textbooks

- Eaton, J. and Kortum, S., 2012, *Technology in the Global Economy: A Framework for Quantitative Analysis*, Princeton University Press
- Feenstra, R., 2004, *Advanced International Trade: Theory and Evidence*, Princeton University Press
- Hart, O.D., 1995, *Firms, Contracts, and Financial Structure*, Oxford University Press
- Helpman, E. and Krugman, P., 1985, *Market Structure and Foreign Trade*, MIT Press

Grading

Class participation: 20%.

Paper replication: 80%, of which:

- replication material (Stata do-files and dta-files): 40% (one copy for each team composed of 3 students);
- written output: 40% (one for each student; it must be written **independently** of the other students in the team).

See the enclosed file for detailed rules about the replication exercise.

Course Contents

1. Trade Based on Comparative Advantage

1.1 The Ricardian model

- Dornbusch, R., Fischer, S. and Samuelson, P., 1977, "Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review*, 67, pp. 823-839
- Feenstra, R., 2004, *Advanced International Trade: Theory and Evidence*, Princeton University Press, Chapter 1
- Eaton, J. and Kortum, S., 2012, "Putting Ricardo to Work," *Journal of Economic Perspectives*, 26, pp. 65-90

1.2 The Heckscher-Ohlin model

- Dornbusch, R., Fischer, S. and Samuelson, P., 1980, "Heckscher-Ohlin Trade Theory with a Continuum of Goods," *Quarterly Journal of Economics*, 95, pp. 203-224
- Trefler, D., 1995, "The Case of the Missing Trade and Other Mysteries," *American Economic Review*, 85, pp. 1029-1046
- Feenstra, R., 2004, *Advanced International Trade: Theory and Evidence*, Princeton University Press, Chapters 2-3

2. Increasing Returns, Product Differentiation and Intra-Industry Trade

- Krugman, P., 1979, "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics*, 9, pp. 469-479
- Krugman, P., 1980, "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review*, 70, pp. 950-959
- Ethier, W.J., 1982, "National and International Returns to Scale in the Modern Theory of International Trade," *American Economic Review*, 72, pp. 389-405
- McCallum, J., 1995, "National Borders Matter: Canada-U.S. Regional Trade Patterns," *American Economic Review*, 85, pp. 615-623
- Anderson, J. and van Wincoop, E., 2003, "Gravity with Gravitas: A Solution to the Border Puzzle," *American Economic Review*, 93, pp. 170-192
- Feenstra, R., 2004, *Advanced International Trade: Theory and Evidence*, Princeton University Press, Chapter 5
- Debaere, P., 2005, "Monopolist Competition and Trade, Revisited: Testing the Model without Testing for Gravity," *Journal of International Economics*, 66, pp. 249-266
- Amiti, M. and Konings, J., 2007, "Trade Liberalization, Intermediate Inputs, and Productivity: Evidence from Indonesia," *American Economic Review*, 97, pp. 1611-1638

3. Heterogeneous-Firms, Selection and Intra-Industry Reallocations

- Pavcnik, N., 2002, "Trade Liberalization, Exit, and Productivity Improvements: Evidence from Chilean Plants," *Review of Economic Studies*, 69, pp. 245-276
- Melitz, M., 2003, "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 71, pp. 1695-1725
- Helpman, E., 2006, "Trade, FDI, and the Organization of Firms," *Journal of Economic Literature*, 44, pp. 589-630
- Bernard, B., Jensen, J., Redding, S. and Schott, P., 2007, "Firms in International Trade," *Journal of Economic Perspectives*, 21, pp. 105-13
- Bernard, B., Jensen, J., Redding, S. and Schott, P., 2012, "The Empirics of Firm Heterogeneity and International Trade," *Annual Review of Economics*, 4, pp. 283-313
- Melitz, M. and Trefler, D., 2012, "Gains from Trade when Firms Matter," *Journal of Economic Perspectives*, 26, pp. 91-118
- Melitz, M. and Redding, S., 2014, "Heterogeneous Firms and Trade," in *Handbook of International Economics*, Vol. 4, pp. 1-54

4. Trade and Foreign Direct Investment

- Brainard, S.L., 1997, "An Empirical Assessment of the Proximity-Concentration Trade-Off Between Multinational Sales and Trade," *American Economic Review*, 87, pp. 520-544
- Helpman, E., Melitz, M. and Yeaple, S., 2004, "Export Versus FDI with Heterogeneous Firms," *American Economic Review*, 94, pp. 300-316
- Antras, P. and Yeaple, S., 2014, "Multinational Firms and the Structure of International Trade," in *Handbook of International Economics*, Vol. 4, pp. 55-130

5. Firms' boundaries

- Hart, O.D., 1995, *Firms, Contracts, and Financial Structure*, Oxford University Press, Chapters 1-2.
- Grossman, S.J. and Helpman, E., 2002, "Integration versus Outsourcing in Industry Equilibrium," *Quarterly Journal of Economics*, 117, 85-120
- Antras, P. and Helpman, E., 2004, "Global Sourcing," *Journal of Political Economy*, 112, pp. 552-580
- Helpman, E., 2006, "Trade, FDI and the Organization of Firms," *Journal of Economic Literature*, 44, pp. 589-630
- Tomiura, E., 2007, "Foreign Outsourcing, Exporting, and FDI: A Productivity Comparison at the Firm-Level," *Journal of International Economics*, 72, pp. 113-127
- Kohler, W.K. and Smolka, M., 2011, "Sourcing Premia with Incomplete Contracts: Theory and Evidence," *The B.E. Journal of Economics Analysis and Policy*, 11, pp. 1-39
- 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, pp. 118-175