

International Trade

Code: 102475
ECTS Credits: 6

| Degree | Type | Year | Semester |
|-------------------|------|------|----------|
| 2501573 Economics | OT | 4 | 0 |

Contact

Name: Francisco Obiols Homs
Email: Francesc.Obiols@uab.cat

Use of languages

Principal working language: english (eng)
Some groups entirely in English: Yes
Some groups entirely in Catalan: No
Some groups entirely in Spanish: No

Teachers

Jackeline Raquel Velazco Portocarrero

Prerequisites

Mathematics I
Microeconomics I
Microeconomics II
Macroeconomics I

Objectives and Contextualisation

In the first part of the course we review the static theory of International Trade. The objective in this part is to show that international trade appears as a natural channel to exploit comparative advantages and to determine the ingredients that may create such advantages. The reference texts are Caves, Frankel and Jones, and that of Krugman, Obstfeld and Melitz. Some themes will be complemented with additional readings that will be indicated in class.

In the second part of the course we will study several dynamic aspects of International Trade. In particular, we will study the effect of trade on economic inequality by means of changes in the distribution of income and wealth. The basic references in this part are a few selected chapters in the books by Aghion and Howitt and by Barro and Sala-i-Martin, as well as specific complementary readings.

The mathematics we use during the course are essentially limited to partial derivatives and its application in optimization problems. For the dynamic part we will introduce the convenient techniques.

During the course there will be a variety of problem sets and exercises that will help to put to work the mechanisms introduced in the classes. These homeworks will be revised and corrected in the classes.

Skills

- Capacity for adapting to changing environments.
- Demonstrate initiative and work individually when the situation requires it.
- Demonstrate thorough understanding of concepts related to international trade.
- Lead multidisciplinary and multicultural teams, implementing new projects and coordinating, negotiating and managing conflicts.
- Organise the work in terms of good time management, organisation and planning.
- Take decisions in situations of uncertainty, demonstrating an entrepreneurial and innovative attitude.
- Use of the available information technology and adaptation to new technological environments.
- Use theoretical models to analyse open macroeconomies.
- Work well in a team, being able to argue proposals and validate or reject the arguments of others in a reasoned manner.

Learning outcomes

1. Analyse a Balance of Payment.
2. Analyse the balance, in terms of welfare, of different commercial policies.
3. Analyse the impact of a change in resources on international trade, and incorporate the relationship between growth and international trade.
4. Capacity to adapt to changing environments.
5. Consider the impact of different commercial policies (fees, duties, subsidies, etc.) on international equilibrium.
6. Convey the diversity of products with imperfect competition and returns to scale.
7. Convey the structure of political institutions with trade policies.
8. Decide on a macroeconomic model for an open economy and highlight the aspects differentiating it from a closed economy.
9. Demonstrate initiative and work independently when required.
10. Find trade patterns according to comparative advantages.
11. Identify comparative advantages.
12. Interpret the evolution and current functioning of the international monetary system.
13. Lead multidisciplinary and multicultural teams, implement new projects, coordinate, negotiate and manage conflicts.
14. Make decisions in situations of uncertainty and show an enterprising and innovative spirit.
15. Organise work, in terms of good time management and organisation and planning.
16. Present the main models to determine exchange-rates on a short and long-term basis.
17. Recognise the groups of agents that benefit from trade and the groups of agents that are harmed by international trade.
18. Recognise the role of history and/or foreign economies on trade patterns.
19. Understand the main aspects behind exchange-rate fluctuations and the limitations on an empirical level of the existing models of exchange rate determination.
20. Understand the main aspects behind the choice of an exchange-rate regime.
21. Understand the main aspects related to the Balance of Payment of a country. Present the main theoretical models to analyse the effectiveness of fiscal and monetary policy in an open economy.
22. Use available information technology and be able to adapt to new technological settings.
23. Use the models learned to assess the effectiveness of fiscal and monetary policy in an open economy.
24. Work as part of a team and be able to argue own proposals and validate or refuse the arguments of others in a reasonable manner.

Content

Part 1: Static Theory

1. The basic theory of International Trade: The Ricardian Model with two goods and a single factor of production, the Frontier of Production Possibilities and the opportunity cost. Absolut advantage and comparative advantage. Gains from trade. Extensions of the basic model.

2. The specific factors model and the distribution of income. The relationship between the use of factors of production and its relative cost. Relationship between the relative cost of factors of productions and the relative prices of goods. The effects of changes in relative good's prices.

3. The Heckscher-Ohlin model: two goods and two factors of production. Comparative advantage due to the differences in the endowments of factors of production. Changes in the relative prices of goods and on the distribution of income. The offer curve and the terms of trade.

4. Classical results in the Theory of International Trade. The Rybczynski Theorem. The Stolper-Samuelson Theorem: International Trade and the functional distribution of income. The Factor Price Equalization Theorem. International Trade and the Fundamental Theorems of Welfare Economics.

5. Economies of scale and imperfect competition: intra-industry trade. Internal and external economies of scale.

6. Instruments of trade policy. Partial equilibrium models. Excess demand and excess supply curves. Consumer and producer surplus. Taxes and quotas. The case of the domestic monopolist.

Part 2: Dynamic Theory

7. Introduction to dynamic optimization.

8. The dynamic H-O model. The effects of International Trade on the Steady State. The emerging economics and the cone of diversification. The effects of International Trade on the personal distribution of income.

9. The Melitz model.

Methodology

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The mathematics we use during the course are essentially limited to partial derivatives and its application in optimization problems. For the dynamic part we will introduce the convenient techniques.

During the course there will be a variety of problem sets and exercises that will help to put to work the mechanisms introduced in the classes. These homeworks will be revised and corrected in the classes.

Activities

| Title | Hours | ECTS | Learning outcomes |
|----------------------------------|-------|------|---|
| Type: Directed | | | |
| Classes with the main instructor | 30 | 1.2 | 2, 3, 1, 20, 19, 21, 11, 12, 5, 16, 18, 17, 8, 10, 23, 6, 7 |
| Problem sets and exercises | 15 | 0.6 | 2, 3, 1, 4, 20, 19, 21, 11, 9, 12, 13, 15, 5, 14, 16, 18, |

| Type: Supervised | | | |
|--|-----|-----|---|
| Tutorial time and progress report on ongoing homeworks | 7.5 | 0.3 | 2, 3, 1, 4, 20, 19, 21, 11, 9, 12, 13, 15, 5, 14, 16, 18, 17, 8, 24, 10, 23, 22, 6, 7 |
| Type: Autonomous | | | |
| Reading reference materials | 15 | 0.6 | 2, 3, 1, 20, 19, 21, 11, 9, 12, 13, 15, 5, 16, 18, 17, 8, 10, 23, 22, 6, 7 |
| Study | 75 | 3 | 2, 3, 1, 20, 19, 21, 11, 9, 12, 15, 5, 16, 18, 17, 8, 10, 23, 22, 6, 7 |

Evaluation

The course will be continuously evaluated by means of two mid-term (partial) exams plus a final exam including all the materials. The weights of the grades in these exams in the final grade will be as follows:

- 60% for the final exam,
- 20% for each of the partial (mid-term) exams.

Partial exams: The objective of these exams is to facilitate the learning of the materials by studying a small amount of materials at a constant pace rather than a large amount in a particular point in time. In these exams it won't be possible to use/have access to complementary materials (books, classnotes, etc.) and the length of the exams won't exceed 90 minutes.

Final exam: It will include all the materials developed during the course. This exam is designed so that the student makes a final effort to consolidate her/his understanding of the materials studied in the course. The length of the exam will not exceed 3 hours, and it won't be possible to have access to books or other materials. Problem sets: they represent the best exercise to learn the materials developed in the classes and will help the student to master the usual techniques of analysis. There will be problem sets regularly during the course, and eventually some additional work involving real data on International Trade.

All students must write the exams and submit solutions to problem sets and additional exercises in the due dates. It won't be possible to write exams off the dates indicated in the Academic Calendar.

A student with a final grade at least as large as 5 will have passed the course and thus she/he won't be able to take a second evaluation. If a student obtains a grade below 4 then she/he will have to take again the course in the following academic year.

For students with grades between 4 and 5 there will be a re-evaluation exercise, and the corresponding date is indicated in the Academic Calendar. The final grade after the re-evaluation will be 5, in case the student is favorably evaluated, or the original grade (the one before the re-avaluation) in case the evaluation is unsatisfactory.

A student is considered "non evaluable" (NA) if and only if she /he has not participated in any of the evaluation activities. Hence, students that have participated in at least one evaluation activity will not be considered NA.

Evaluation activities

| Title | Weighting | Hours | ECTS | Learning outcomes |
|-----------------------------------|-----------|-------|------|---|
| Final exam | 40% | 3 | 0.12 | 2, 3, 21, 11, 5, 16, 18, 17, 10, 6 |
| Parcial Exams and other exercises | 60% | 4.5 | 0.18 | 2, 3, 1, 4, 20, 19, 21, 11, 9, 12, 13, 15, 5, 14, 16, 18, 17, 8, 24, 10, 23, 22, 6, 7 |

Bibliography

Main text:

International Economics: Theory and Policy.
Krugman, Obstfeld and Melitz,
Pearson-Addison Wesley, (10th Edition).

Complementary references:

World trade and payment: An introduction.
Caves, Frankel and Jones,
Addison-Wesley, (10th Edition).

Advanced International: Trade Theory and Evidence.
Robert C. Feenstra,
Princeton University Press, (2nd Edition)