



B.E. International Program

Faculty of Economics, Thammasat University



Course Outline

EE 451: International Trade Theory and Policy

Semester: 2/2011 (January 10 – May 20, 2012)

Instructor: Assoc. Prof. Dr. Chayun Tantivasadakarn, Room 8, Fourth floor,
The 60th Year Building

Time: Tuesday and Thursday, 8:00 – 9:30 AM

Room: Room 303, Faculty of Economics

Prerequisite: EE311

Evaluation:

Quiz and Assignment	15%
Midterm Exam	35%
Final Exam	50%

Important Dates:

Class begins	January 10, 2012
Midterm exam	Tuesday, February 28, 2012, 8:00-9:30AM.
Class withdrawal	March 15 – 21, 2012
Class ends	April 26, 2012
Final exam	Sunday May 6, 2012, 9:00-12:00AM.

(No lectures during the midterm week Feb 27 – Mar 3, 2012)

Main text:

Feenstra, R.C.; and A.M. Taylor (2008) International Economics. Worth
Publisher: New York. (FT)

Alternative texts:

- Appleyard, D.R.; A.J. Field, Jr.; and S.L. Cobb (2006) *International Economics*, 5th ed., McGraw-Hill: Singapore. (AF)
- Krugman, P.R. and Obstfeld, M. (1997) *International Economics, Theory and Policy*, 4th edition, Harper Collins Publishers, New York. (KO)
- Markusen, J.R.; James R. Melvin; William H. Kaempfer and Keith E. Maskus (1995) *International Trade: Theory and Evidence*, McGraw-Hill, New York. (MMKM)
- van Marrewijk, Charles (2002). *International Trade and the World Economy*. Oxford University Press: Oxford. (M)
- Salvatore, Dominick (1995) *International Economics*, 5th ed., Prentice Hall International Editions, London. (S)
- Other supplements as assigned in class

Interactive Excel Exercises:

There will be 10 Interactive Excel Exercises located in <ftp://econ.tu.ac.th/class/archan/Chayunt> Each exercise contains a mathematical model in which the user can change some parameters that determine the behavior of model to change the equilibrium results and answer accompanies questions. Each exercise also includes a short explanation worksheet to help the user to understand the underlying theory related to the exercise.

Topics:

1. Introduction 1.5 hr.
 - 1.1. Merchandise Trade and Trade in Services
 - 1.2. The Purpose of International Economic Theories and PoliciesRead: FT ch.1, AF ch. 1, M ch. 1, KO ch. 1, MMKM ch. 1, S ch. 1

2. Early Trade Theories and The Classical Trade Theory 6 hr.
 - 2.1. Mercantilism
 - 2.2. Adam Smith and Absolute Advantage
 - 2.3. David Ricardo and Comparative Advantage
 - (a) Assumptions
 - (b) Production Possibility Frontiers
 - (c) Gains from Trade
 - 2.4. Measuring trade advantage: The Balassa Index
 - 2.5. Extensions and Tests of the Classical Trade ModelRead: FT ch 2-5, AF ch. 2-4, M ch. 2-3, KO ch 2, MMKM ch. 7 and 14.3, S ch. 2
P. Krugman, "Ricardo's difficult idea" at <http://web.mit.edu/krugman/www/ricardo.htm>

3. Neoclassical Trade Theory 4 hr.
 - 3.1. Basic Tools
 - (a) The Theory of Consumer Behavior
 - (b) The Production Theory
 - (c) The Edgeworth Box Diagram and The Production Possibility Frontier

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3.2. Gains from Trade in Neoclassical Theory

- (a) Autarky Equilibrium
- (b) Production and Consumption Gains from Trade

3.3. Offer Curves and Terms of Trade [Chacholiades, M. (1990) *International Economics*, ch. 6]

Read: AF ch. 5-7, M ch. 4-6, KO ch 3, MMKM ch. 2-5, S ch.3-4

4. Factor Endowments and the Heckscher-Olin Model 8 hr.

- 4.1. Assumptions
- 4.2. Factor Abundance
- 4.3. Commodity Factor Intensity
- 4.4. The Heckscher-Olin Theorem
- 4.5. The Factor Price Equalization Theorem
- 4.6. Stolper-Samuelson Theorem
- 4.7. Rybczynski Theorem
- 4.8. Empirical Tests of the Heckscher-Olin Theorem
 - (a) The Leontief Paradox
 - (b) Suggested Explanations for The Leontief Paradox

Read: FT ch. 4, AF ch. 8-9, M ch. 7, KO ch 4, MMKM ch. 8-9 and 14.4, S ch. 5

5. International Factor Movement 3 hr.

- 5.1. Capital Movement
- 5.2. Labor Movement

Read: FT ch. 5, AF ch. 12, KO ch 7, S ch.12

+++++ Midterm +++++

6. Alternative Theories and Intra-Industry Trade 6 hr.

- 6.1. Specific-Factors Model
- 6.2. Intra-Industry Trade
- 6.3. The Imitation Lag Hypothesis and The Product Cycle Theory
- 6.4. The Kemp Model and External Economies of Scale
- 6.5. Internal Economies of Scale with Imperfect Competition

Read: ST ch. 3 and 6, AF ch. 10, M ch. 9-10 and 15, KO ch 6, MMKM ch. 11-13, S ch.6

7. Foreign Outsourcing of Goods and Services 1.5 hr.

Read: ST ch.7

8. Trade Policy 9 hr.

- 8.1. Arguments for Protection
- 8.2. Import Tariffs and quotas under perfect competition
 - (a) Measurement of Tariffs and Effective rate of protection
 - (b) Import tariff for a small country
 - (c) Import tariff for a large country
 - (d) Import quotas
- 8.3. Import Tariffs and quotas under imperfect competition

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8.4. Production Subsidy

8.5. Export Taxes and Subsidies

Read: FT ch. 8-10, AF ch. 13-16, M ch. 8 and 11, KO ch 8, MMKM ch. 8.5, 15-16,
S ch. 8-9

8.6 Trade and Environment

Read: FT ch. 11

9. International Trade Institution and Economic Integration 4.5 hr.

9.1. World Trade Organization

9.2. Types of Economic Integration

9.3. The Static Effects

(a) Trade Creation and Trade Diversion

(b) The Second Best Theory

9.4. The Dynamic Effect

9.5. Regional Agreements: ASEAN, APEC, ASEM

9.6. Bilateral Agreements

Read: ST ch. 11, AF ch. 18, M ch. 12-13, S ch. 9-10, KO ch 9 and 11, MMKM ch.18

10. Economic Growth and International Trade 3 hr.

10.1. Classifying the Trade Effects of Economic Growth

10.2. Sources of Growth and the Production-Possibilities Frontier

10.3. Factor Growth, Trade and Welfare

(a) The Small-Country Case and the Rybczynski Theorem

(b) The Large-Country Case

Read: AF ch. 11, M ch. 16, KO ch 5, MMKM ch. 8.5 and 23, S ch.7