B.E. International Program

Faculty of Economics, Thammasat University

Course Outline

EE 451 International Trade Theory and Policy

Semester 1/2013 (August 13 – November 30, 2013)

Number of credits: 3 credits

Lecture Time: Wednesday and Friday, 8.00 – 9.30 AM

Lecture Venue: 206, 2nd floor, Faculty of Economics
Thammasat University, Tha Prachan campus

Instructor: Assoc. Prof. Chayun Tantivasadakarn
Room 8, Fourth floor, The 60th Year Building
Office hours : Wednesday and Friday, 1.00 – 3.00 PM

Prerequisite: *EE311*

Course Description

International trade theories; Basic factors for international trade; Outcomes from trade, such as production outcome, commodities price, resource allocation, and factors of production price; The analysis of the policies and regulations in international trade; The economic integration; Foreign investments.

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; Willium 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 Policies
   Read: 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 Model
   Read: 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
   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
   - 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

Evaluation:

Quizzes	5%
Group report	10%
Midterm Exam	35%
Final Exam	50%

Important Dates

Class begins	August 13, 2013
Adding and Dropping Course	August 13 – 27, 2013
Midterm Exam	**October 2, 2013 ; 8.00 – 09.30 AM**
Course Withdrawal with "W"	October 16 – 21, 2013
Last day of classes	November 30, 2013
Final Exam	**December 9, 2013 ; 1.30 – 4.30 PM**