

Econ 475
International Trade Theory
Fall 2020

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SCHEDULE

Section 1: Tuesday, Thursday 2:00 – 3:20, McGlothlin-Street Hall 20

Section 2: Tuesday, Thursday 3:30 pm – 4:50 pm, McGlothlin-Street Hall 20

Classes will be via Zoom between August 19th and September 7th. You have to login to Zoom with your W&M account.

- [Zoom link for Section 1.](#)
- [Zoom link for Section 2.](#)

Classes in-person will be recorded, but **I will take attendance.**

OFFICE HOURS

Due to the current health-related events, I will hold office hours using Zoom. The dates of the office hours are:

- Tuesday, 9:00 am – 10:00 am
- Thursday, 9:00 am – 10:00 am
- By appointment

Extra office hours will be held for one of the assignments and they will require appointments. Such office hours will be considered for the grading of that assignment.

TEXTBOOK

Feenstra, R., and Taylor, A. *International Trade*. Worth MacMillan. (Available in the bookstore)

Additional readings will be posted in Blackboard as needed

COURSE GRADE

Homework (4)	5%
Policy-relevant data exercises (3)	15%
Exam 1	25%
Exam 2	25%
Policy memo	25%
First draft: 5 points	
Final version: 20 points	
Attendance	5%

RELEVANT DATES FOR ASSIGNMENTS

Homeworks.

- a. Problem set 1. September 4th
- b. Problem set 2. September 25th
- c. Problem set 3. October 30th
- d. Problem set 4. November 15th

Policy-relevant data exercises.

- a. Data exercise 1. September 11th
- b. Data exercise 2. October 16th
- c. Data exercise 3. November 8th

Exams. The dates of the exams will be the following:

- a. Midterm Exam. October 6th for both sections.
- b. Final Exam.
 - Section 1 (2:00 pm – 3:20 pm). November 18th, 2:00 pm.
 - Section 2 (3:30 pm – 4:50 pm). November 20th, 2:00 pm.

Policy memos.

- a. Memo for Trade Policy Recommendation.
 - **First draft**. October 23rd. (I strongly advise you to make an appointment with the Writing Resources Center and go over your draft before you send it to me).
 - **Final version**. November 13th.

Extra points. The extra points will be given for:

- **Short videos submitted to Blackboard participating in a discussion (1 or 2 points).** To get those points, the assignment will have to be done in pairs! Details regarding the video assignments will be explained when we finish each part of the course.
- **The Best Policy Memo (5 points).** If the policy memos of two teams tie, then I will give points to both teams.

RELEVANT ADMINISTRATIVE DATES

First day of classes. August 19th

Last day of classes. November 13th

Last day to add/drop. August 28th.

Last day to withdraw from a full-term course. October 12th.

TOPICS OF THE COURSE

Part A. Classical international trade models

1. **The Ricardian Model.** Why do nations trade with each other? This is the first trade theory that attempted to explain why countries trade (the concept was later used to explain intranational trade).
In the book: Chapter 2. Trade and Technology: The Ricardian Model.
2. **Specific-Factors Model.** A model that explains why there are winners and losers from trade.
In the book: Chapter 3. Gains and Losses from Trade in the Specific-Factors Model
3. **Heckscher-Ohlin-Vanek Model.** Why does the size of endowments (labor, capital, land) explain what a country exports? What happens if the size of endowments changes? What occurs with returns to endowments when international prices change? The convergence of factor prices.
In the book: Chapter 4. Trade and Resources: The Hecksher-Ohlin Model.
4. **Labor and Capital Mobility.** If labor flows freely between countries, what are the impacts? What about capital? What are the role and the impact of migration?
In the book: Chapter 5. Movement of Labor and Capital Between Countries.

Part B. New International Trade Models

5. **Increasing Returns to Scale, Monopolistic Competition, The Role of Firms in Trade.** If two countries are like, should they trade with each other? How increasing returns to scale impact international trade? Which firms export and import goods?

In the book: Chapter 6. Increasing Returns to Scale and Monopolistic Competition.

6. **Globalization and Development. How Outsourcing Impacts Developing Nations.** Why multinational corporations allocate their production in different countries? What is the impact of this on the payments to labor? What is the impact of multinational corporations in developing nations?

In the book (partially): Chapter 7. Offshoring of Goods and Services. I will add some readings in this section.

Part C. International Trade Policy

7. **Trade Policy under Perfect Competition.** Impacts of tariffs, export taxes, export subsidies, and quotes on domestic and international prices and output.

In the book: Chapter 8: Import Tariffs and Quotas Under Perfect Competition.

8. **Strategic Trade Policy.** Industry protection. Subsidies to specific sectors. Infant industry argument. Import substitution model: Asian vs. Latin American experience.

In the book (partially): Chapter 10. Export Subsidies in Resource-Based and High Technology Industries. I will add some readings in this section. I will add some readings in this section.

9. **Trade Agreements.** Why trade agreements exist. The role of the World Trade Organization. The North American Free Trade Agreement and The European Union. The political economy of free trade agreements.

In the book: Chapter 11. International Agreements: Trade, Labor and the Environment. I will add some readings in this section. I will add some readings in this section.

Part D. New Topics on International Trade

10. **Cities, Regions, and Economic Geography.** Using classical models to explain domestic trade, the specialization of cities, and trade within cities.

Reading material: It will be uploaded to Blackboard.

11. **Globalization and Development.** How does globalization impact developing economies? What is the relationship between international trade and economic growth? The impacts of International Trade in low-income households of developing nations.

Reading material: It will be uploaded to Blackboard.

GENERAL INSTRUCTIONS FOR ASSIGNMENTS

General instructions. Problem sets and policy memos are due by 11:59 pm (see information for the dates below). The submission of all assignments is electronic: you will solve the assignment in paper by handwriting (a tablet is acceptable), and you should scan or take a clear picture of the homework assignment. I do NOT accept late assignments.

EXAMS

My exams. I test mathematical theory, economic intuition and your capacity to explain economic concepts concisely. I use real business or real policy issues. Why? i) your job as a future economist is to explain difficult concepts to your future bosses or clients, based on real life events. ii) a good economist knows theory, intuition and has very good [communication skills](#).

Some friendly advice. I strongly advice you to do the following things to do well in my exams:

- i. **Start studying 2 weeks before the exam.** No, I am not joking about this. You should slowly start reviewing the material a couple of hours per day. A few days before the exam you might increase the number of hours. Why? You have many assignments and responsibilities, the material is extensive, and I will ask detail questions. Therefore, studying two or three days before the exam might result in a poor performance.
- ii. **Create a cloud of ideas.** Make a list or a cloud of ideas of all the topics. This will allow your brain to organize all the material.
- iii. **Solve the practice exam under test conditions.** Sit down in your desk and solve the practice exam in 80 minutes. Then verify which topics you struggle with.

HOMEWORKS

The problem sets in this class will have standard theoretical questions. My advice for the problem sets is the following:

- a. I encourage you to work in groups, but every student should submit their homework individually. Create a small group at the beginning of the semester, work on the problem sets alone, and discuss between each other solutions.
- b. Come to office hours

Homeworks are graded with the scale: check +, check, check-. Although their grading weight is small, they can represent the difference between a B+ and A-.

POLICY RELEVANT DATA EXERCISES

The questions in the data exercises will reflect the importance of data when you work with International Trade topics. I encourage you to reach out to me if you have questions about a) datasets b) how to properly adjust the data c) the objective of the homework. This component of the homework is **not** like working with Applied Econometrics data on software packages (Stata, R). It rather highlights the importance of making concise and easy-to-understand graphs that illustrate a relevant trade policy event.

You will submit the answers in slides using the Google Docs package. The best way to think about this is to imagine you are doing an executive presentation for an internship. The answers of the assignment require a few sentences and graphs.

I grade these assignments based on the following elements: a) the graphs are correct b) the information is presented in a concise and professional style c) the conclusions of the graphical analysis are correct. I grade these assignments with detail.

POLICY MEMO

The Policy Memo corresponds to the second part of the class. There are many types of Policy Memos, but the one I chose for this class is “Memo for Policy Recommendation”.

The main objective of this assignment is to simulate what would be your job as Economist/Policy Analyst if you would need to provide relevant and rigorous information to a high ranking official (e.g. Senior Advisor to the President, Congresswoman, Minister of Economy and Trade in a developing nation, Director-General of the World Trade Organization).

A common job of a Junior Economist/Policy Analyst is to inform senior officials about very technical topics that have a high impact. These senior officials are experts on specific areas, but a) they have very little time, b) they are subject to high political pressure to make informed decisions regarding very technical concepts c) they strongly rely on their advisory teams. Hence, a policy memo needs to be based on highly informed and technical expertise.

The policy memo will correspond to trade policy actions from the real world. I build these assignments based on both real-life events and policies regarding different policy actions. The policy memo must be concise, rigorous, and driven by economic theory. There is no space for “cheap talk”, “editorial opinions” or “claims that are not backed up by evidence”.

Example of a policy memo assignment

Your work for an international trade expert who will provide testimony to the U.S. Senate Committee on Health, Education, Labor, and Pensions. The testimony is about the following topic: the Trump Administration is considering the end of the OPT program, which allows international students with specific visas to work for 1 year after they finish their undergraduate or graduate degrees (with an extension of 2 extra years if they have a STEM degree).

The Chairman of the U.S. Senate Committee has declared publicly that he is in favor of the program. Your job is to write a trade policy memo that explains his position from an economic point of view. More specifically

- a) *How the policy of ending OPT would impact the comparative advantage of the USA in specific sectors*
- b) *Why the OPT program benefits the exports of software services.*

Caveat: Given that this is expert testimony, it is possible to use “technical terms”, as the theoretical concepts we have seen in class. Make sure you explain in a clear way the economic definitions you will use. It also expected that you use some basic data.

General Instructions for the Policy Memo

1. Main instructions.

- a. The policy memo must be written in pairs.
- b. The memo must be submitted using your Google Docs account of William & Mary. I will create a file in Blackboard that can be accessed using your W&M account only.
- c. You will submit a first draft (October 23rd) and a final version (November 13th). Both are graded, but the rubric will be different.
- d. When you submit your first draft, I will schedule office hours with each team. Attendance to those office hours will be considered when I grade the memo.

2. The nature of the assignment. I take this assignment as seriously as an exam. Therefore, I grade it very rigorously. I will post a rubric in Blackboard.

3. Feedback from Students Writing Center. I strongly encourage you to make an appointment with the center at least 1 or 2 weeks before you submit your first draft.

4. Feedback from the instructor. My job is to provide you with feedback about the assignment. I will ask you to submit a draft of this assignment.

- a. The first draft will be considered when I grade the policy memo. If you write the policy memo one day before the deadline or if its quality is very low, I will notice it and your grade will be negatively impacted.

- b. I will schedule individual 20-minute meetings after you submit the memo via Zoom. Prepare questions for me.
5. **How to get a good grade.** My experience with assignments like this one is that they require feedback from the instructor even when you think that the assignment is very good. If you leave this assignment to the last minute, there is a high likelihood that you will obtain a low grade.
6. **How to submit the policy memo.** I will create Google Docs for every pair of students. Once you have the first draft, email me and write in the subject “Policy Memo – Last Name of Student 1 – Last Name of Student 2”.
 - a. You can submit the first draft before the deadline.
 - b. If you do submit the first draft before the deadline, I can provide extra feedback (this feedback is independent of the office hours after the deadline) which will be useful to get a better grade.

IMPORTANT ANNOUNCEMENTS

Health circumstances

I understand that it might be possible that health-related circumstances can prevent you from submitting an assignment or being present in an exam. If this is the case, I will provide accommodations. These accommodations can be only be accessed with the submission of proper documentation. Please contact the [Student Health Center](#) for any health issues that prevent you from attending class or submitting assignments.

Mental health

The current pandemic can impact the mental health of any student. If you are experiencing distress, I encourage you to contact the [Counseling Center](#). It is completely normal to talk with a mental health expert and I encourage you to do so if you feel overwhelmed or anxious by the current circumstances.

Extenuating non-health circumstances caused by pandemic COVID-19

If there is an extenuating circumstance that prevents you from attending class for more than two weeks (e.g. a family member is hospitalized, there is an issue with your student visa, you have to take an international flight due to an emergency, you have to move out of an apartment due to COVID-19), please do the following:

- Contact me via email
- If the issue is health-related, please contact the [Student Health Center](#)
- If the issue is related to your visa, please contact the [Reves Center](#)
- For any other issues, please contact the [Dean of Students](#) office

Student Accessibility Services

William & Mary accommodates students with disabilities in accordance with federal laws and university policy. Any student who feels they may need an accommodation based on

the impact of a learning, psychiatric, physical, or chronic health diagnosis should contact Student Accessibility Services staff at 757-221-2512 or at sas@wm.edu to determine if accommodations are warranted and to obtain an official letter of accommodation. For more information, please see www.wm.edu/sas.

Honor Code

"The College of William & Mary has had an honor code since at least 1779. Academic integrity is at the heart of the College, and we all are responsible for upholding the ideals of honor and integrity. The student-led honor system is responsible for resolving any suspected violations of the Honor Code, and I will report all suspected instances of academic dishonesty to the honor system. The Student Handbook (www.wm.edu/studenthandbook) includes your responsibilities as a student and the full Code. Your full participation and observance of the Honor Code is expected. To read the Honor Code, see www.wm.edu/honor"

RULES

- **Honor Code.** I take very seriously the Honor Code in this class. If I suspect plagiarism or cheating in any of the assignments, I will follow the [guidelines](#) established by the Dean of Students.
- **Electronic devices.** Please silence your cell phones, pagers, tablets, sports bands, Tamagotchis, etc. It is obvious if you are watching YouTube videos on your phone, laptop, or tablet. It distracts your classmates and the instructor. Please refrain from doing so.
- **Homeworks.** I expect you to work together but submit the assignment individually.
- **Submission of assignments.** The submissions of the assignments will be online. The assignment should be submitted by 11:59 pm of the day specified in the syllabus, or by the instructor in case there were any adjustments.
- **Policy-relevant data exercises.** I expect you to work by yourself on this assignment. If there are issues regarding how to access data or how to interpret a graph, you should come to office hours or email me. Why? The objective of the data exercises is to replicate a work assignment you would do in a job as a analyst working on economic issues.
- **Policy memos.**
 - o I expect you to work exclusively with your work partner.
 - o I will revise very carefully this assignment; with the level of detail and attention an exam is evaluated (you can consider this assignment as a third exam).
 - o You can obtain feedback from the Writing Resources Center and me. For this assignment, I want the teams to work by themselves.
 - o I will evaluate the knowledge and the participation of both students in the Policy Memo. If I find out that only one student wrote the entire Policy Memo, I will reduce the grade of both students.

- Students must show up for Policy Memo office hours in pairs. I will not provide feedback to only one student (unless there is a special accommodation due to health or special personal circumstances). Not attending the special office hours for the Policy Memo will impact your grade negatively.
- **Exams.**
 - Bring a scientific non-graphing calculator to the exam. I do not allow graphing calculators in the exam
 - You should work in the exam alone.
 - I expect the exam to be closed book (unless otherwise indicated).
 - If we switch to online courses, there might be adjustments to these rules.
 - You should turn off your phones during the exam.