

# International Trade

Dr. Ryan Safner

Fall 2016

ECON 324  
Rosenstock Hall 215  
TuTh 2:00 PM–3:15 PM

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*Hours:* MW 3:30 PM–5 PM

## 1 Course Description

“If goods do not cross borders, armies will.” — Frederic Bastiat

International trade, simply defined, is the movement of goods across political borders. However, this simple concept is both remarkably complex economically, and is a vital ingredient for human civilization to flourish. The biggest difference between the last 250 (or so) years and the entire remainder of human history is the dramatic scale by which we have extended the division of labor. The overwhelming majority of our ancestors mired in what we would today consider abject poverty (for them it was the norm), rarely ever travelled more than a few miles from their birthplace, and to obtain just the basic goods needed for human subsistence—food, clothing, shelter, medicine—they had to make these themselves. Today, each of us consumes a wealth of goods which requires millions of tasks to be performed by people across the globe that we will never meet, and each of us will contribute only a sliver of tasks required to produce wealth to be enjoyed by people across the world we will never meet.

In this course, we will look at trade from this broad framework of extending the division of labor for human betterment. At the same time, we will get into the weeds and survey theories (and evidence) for understanding international trade flows and foreign trade policy: the purposes for its existence, the gains (and costs) created, and the division of those gains among different groups. As these subjects often intersect with current geopolitical events, especially during election cycles, we will attempt to explain these events using economic theory. Nearly all international trade theories are extensions of basic microeconomics, so this class assumes you have met the **required prerequisite courses – ECON 205, 206, and 306.**

This course will have been successful if you are able to articulate basic theories of international trade, understand the political economy behind trade policy, and intelligently comment on trade-related current events.

My standard disclaimer: This class may challenge many of your existing beliefs and conceptions about how the world works, and how it should work. This is the most important

and exciting part of a liberal arts education. This does *not* mean that I want to make you to see everything “my way.” In fact, if you come out of this class thinking exactly like me, then I have probably failed you as a teacher. To the best of my ability, I keep my opinions to myself unless relevant for purposes of discussion, and I respect and invite you to reach your own conclusions on all matters.

If at any point you find yourself struggling in this course for any reason, please come see me. Do not suffer in silence! Coming to see me for help does not diminish my view of you, in fact I will hold you in *higher* regard for understanding your own needs and taking charge of your own learning. There are also a some fantastic resources on campus, such as the [Center for Academic Achievement and Retention \(CAAR\)](#) and the [Beneficial-Hodson Library](#).

In addition to Blackboard, you can find all course materials at [ryansafner.com](http://ryansafner.com).

I reserve the right to modify this syllabus with proper advance warning.

## 2 Course Readings

The following book is **required** and will be available from the campus bookstore.

1. Salvatore, Dominick, (2011). *Introduction to International Economics*, 3rd ed, USA: John Wiley & Sons, Inc. ISBN: 978-0470934890

This textbook has a good overview of the topics we will be covering, but also has some material we will not be covering (that would be covered in an international *finance* course). It also avoids excessive mathiness and modeling than other texts. However, it does not go into detail on some topics, which I will provide supplemental content for. Additionally, the 2nd and 3rd editions of this text do not appear to be very different, so feel free to buy the cheaper edition.

There are also required readings from scholarly articles and book chapters listed on the schedule below, which I will post on Blackboard. In addition, Marginal Revolution University has an excellent series of [videos on international trade](#) that will sync up well with our course. I reserve the right to post and require additional readings as necessary. Check Blackboard **frequently** for announcements and updates to assignments and grading.

## 3 Grading

Final course grades will be a weighted combination of the following assignments, to be described in detail below:

1	Participation	10%
2	Short Papers (5% each)	10%
n	Homeworks (average)	25%
1	Midterm	25%
1	Final	30%

All grades are based on the following traditional scale:

		A	93-100	A-	90-92
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B+	87-89	B	83-86	B-	80-82
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C+	77-79	C	73-76	C-	70-72
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D+	67-69	D	63-66	D-	60-62
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		F	0-59		

These grades are firm cutoffs, but I do of course round upwards ( $\geq 0.5$ ) for final grades. A necessary reminder, as an academic, I am not in the business of *giving* out grades, I merely report the grade that you *earn*. I will not alter your grade unless you provide a reasonable argument that I am in error (which does happen from time to time).

### Homeworks

There will be several homework assignments, often at the end of each unit. These questions will help check your understanding and mastery of the material, and will be a combination of quantitative, graph, and short answer questions of examples. These will also be good indicators of what to expect on the exams. You may collaborate with other students to work on problem sets, but *each person must turn in an individual homework*.

### Participation

At the end of most lessons, we will hold a discussion. During our discussions, we will follow the rules pioneered and perfected by the Liberty Fund seminars. I will provide you with a handout detailing the rules on the first discussion day. These discussions help shift the focus of the course away from me lecturing material at you more towards your learning and building upon material. This requires you to take ownership of your own learning. It is critical that you come to class having done the readings and are prepared for discussion. **You are required to email to me a list of 2-3 questions or points you want to discuss for each discussion day.** Everyone will receive a grade from 0-5 on each discussion day based on their participation. If I feel that students are not diligently doing the readings, *I reserve the right to implement readings-based quizzes and allocate some of the participation grade towards them.*

### Midterm

The midterm will be a combination of multiple choice, quantitative, graph, and short answer questions to ensure everyone is comprehending the basic material. This provides feedback both to you and to me that ensures everyone is progressing on schedule and apprehending the material. This is *critical*, as the rest of the course, and indeed, any future economics course you take, will build off of this foundation.

### Short Papers

There will be two short papers on assigned topics. The first will be early in the semester, covering topics from the first several weeks. The second will cover topics from the remaining weeks. I am looking for 3-5 page papers that explore subjects

prompted by questions that I will provide to you in advance. One of these can also serve as the impetus for your longer research paper, though I encourage you to take the less trodden path and research something unique and interesting to you.

### **Final**

On the college-determined date, that is **Thursday, December 15, from 12-2 PM**, we will have a comprehensive, closed-book, in-class final exam.

No extra credit is available.

## **4 Policies and Expectations**

**Attendance and Participation:** I expect you to attend class and to come having already done the reading assigned for that day. I will remind you in class and possibly through Blackboard or email which readings I want you to read for the next class. You are all adults and I will treat you as such. I do not take attendance, nor do I grade formally for participation but I strongly recommended you attend class and participate for your sake and the sake of your classmates. If you are too distracted or are not prepared to learn, I suggest you stay home, where you can check Facebook more efficiently. I reserve the right to boost the final grades of students that I believe have made consistent, quality contributions above and beyond their peers in class conversations by up to 2.5 points.

**Absences and Make-Ups:** You generally do *not* need to let me know if you are unable to make class, *unless* it is on the day of an exam. It will however, be your responsibility to acquire the notes from a classmate for any missed classes. If you are unable to attend an exam for a legitimate reason (e.g. sports/club events, traveling, illness, family issues), please notify me at least *one week* in advance, and we will schedule a make-up exam date. If you are ill or otherwise unable to attend on the day of the exam, contact me ASAP to make arrangements. Failure to do so, including desperate attempts to make arrangements only *after* the absence will result in a grade of 0 and little sympathy. I reserve the right to re-weight other assignments for students who I believe are legitimately unable to complete a particular assignment.

**Email Accounts:** Students must regularly monitor their Hood email accounts to receive important college information, including messages related to this class. Email through the Blackboard system is my main method of communicating announcements and deadlines regarding your assignments. *Do not reply to the automated Blackboard email.* My Hood email (safner@hood.edu) is the best means of contacting me. I will do my best to respond within 24 hours. If I do not reply within 48 hours, do not take it personally, and feel free to send a follow up email in case I missed your original message.

**Office Hours:** I am generally in my office Monday-Thursday during normal ‘business hours.’ You are always welcome to walk-in and chat about class, college, careers, or whatever you like. Please try to use the official office hours stated at the head of the syllabus if possible. If you need to meet at a different time, I request that you send

me an email or let me know after class so I know when to expect you. If you want to go over material from class, please have *specific* questions you want answered.

**Enrollment:** Students are responsible for verifying their enrollment in this class. The last day to add or drop this class **Tuesday, September 4.**

**Honor Code:** Hood College has an Academic Honor Code which requires all members of this community to maintain the highest standards of academic honesty and integrity. Cheating, plagiarism, lying, and stealing are all prohibited. All violations of the Honor Code are taken seriously, will be reported to appropriate authority, and may result in severe penalties, including expulsion from the college. See [here](#) for more detailed information.

**Accessibility and Students With Disabilities:** This course is intended to be accessible for all students, including those with mental, physical, or cognitive disabilities, illness, injuries, impairments, or any other condition that tends to negatively affect one's equal access to education. If at any point in the term, you find yourself not able to fully access the space, content, and experience of this course, you are welcome (and not required) to contact me by email, phone, or during office hours to discuss your specific needs. I also encourage you to contact the Office of Accessibility Services (301-696-3421 or [gmuier@hood.edu](mailto:gmuier@hood.edu)). If you have a diagnosis or history of accommodations in high school or previous postsecondary institutions, Accessibility Services can help you document your needs and create an accommodation plan. By making a plan through Accessibility Services, you can ensure appropriate accommodations without disclosing your condition or diagnosis to course instructors.

## 5 Class Schedule

The following schedule is a tentative outline of topics covered in the course. Expect to spend a week, on average, on each topic. The readings come from the textbook, along with scholarly journal articles that can be found on Blackboard under “Course Readings.” I may remove or post additional required readings, to be announced in advance.

### Unit 1: Causes of Trade & Models of Trade

1	THE SMITHEAN VIEW OF TRADE: THE DIVISION OF LABOR
Content	We start with a broad framework that goes back to the birth of economics as a discipline – how extending the division of labor promotes human flourishing through specialization and exchange.
Concepts	division of labor, specialization, division of knowledge
Readings	<ul style="list-style-type: none"><li>• Salvatore, Ch. 1; 2.3</li><li>• Smith, Adam, (1776). <i>Wealth of Nations</i>: Book I, Chapters 1-3</li><li>• Buchanan, James M. and Yong J. Yoon, (2002). “Globalization as Framed by the Two Logics of Trade,” <i>The Independent Review</i> 6(3): 399-405</li><li>• Munger, Michael, 2007. “I’ll Stick With These: Some Sharp Observations on the Division of Labor” Library of Economics and Liberty.</li><li>• Reed, Leonard, (1999[1958]). <i>I, Pencil</i>, Irvington-on-Hudson, NY: The Foundation for Economic Education, Inc. OR watch the <a href="#">video</a>.</li><li>• Boudreaux, Don, (2014). <i>The Hockey Stick of Human Prosperity</i>, <i>Marginal Revolution University</i>, Video.</li><li>• Boudreaux, Don, (2014). <i>Division of Labor: Burgers and Ships</i>, <i>Marginal Revolution University</i>, Video.</li><li>• Boudreaux, Don, (2014). <i>How the Division of Knowledge Saved My Son’s Life</i>, <i>Marginal Revolution University</i>, Video.</li></ul>
2	THE RICARDIAN VIEW OF TRADE: COMPARATIVE ADVANTAGE
Content	The “workhorse” model of trade is David Ricardo’s famous theory of comparative advantage. This helps explain the gains from trade, and which party should produce and exchange which goods, compared to producing everything on their own.
Concepts	autarky, comparative advantage, production possibilities frontier
Readings	<ul style="list-style-type: none"><li>• Salvatore, Ch. 2</li><li>• Boudreaux, Don, (2014). <i>Comparative Advantage and the Tragedy of Tasmania</i>, <i>Marginal Revolution University</i>, Video.</li></ul>
3	THE NEOCLASSICAL MODEL OF TRADE
Content	We build the standard model of trade by extending the simple Ricardian model with a few more realistic tweaks.
Concepts	diminishing returns, marginal rate of transformation, indifference curves, autarky, terms of trade, gravity model

Readings • Salvatore, Ch. 3

#### 4 THE HECKSHER-OHLIN MODEL OF TRADE

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Content Where does a country's comparative advantage *come from*? How does international trade affect incomes to factors of production in each country? The Heckscher-Ohlin model is a famous extension to the standard model that addresses these questions.

Concepts Heckscher Ohlin Model, specific factors model, Stolper-Samuelson theorem, Leontief paradox

Readings • Salvatore, Ch. 4.1-4.5  
• Leamer, Edward (1980), "The Leontief Paradox, Reconsidered," *Journal of Political Economy*, 88(3), pp. 495-503

#### 5 "NEW TRADE THEORY" AND OTHER MODELS OF TRADE

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Content There has been a mini-revolution in international trade research since the late 1970s, known collectively as "New Trade Theory," after the inability of standard trade theory and comparative advantage to explain certain observed trade patterns. By including things such as transportation costs, geography & locational advantages, and especially accounting for increasing returns to scale and imperfect competition, our explanatory power increases, but at the expense of generality or parsimony.

Concepts increasing returns to scale, imperfect competition, agglomeration, intra-industry trade

Readings • Salvatore, Ch. 4.6-4.10  
• Krugman, Paul (1980), "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review*, 70, pp. 950-959  
• Bernhofen, Daniel, John Brown, "An empirical assessment of the comparative advantage gains from trade: evidence from Japan," *American Economic Review*, 95 (1), 208-225  
• Trefler, Daniel (1995), "The Case of the Missing Trade and Other Mysteries," *American Economic Review*, 85(5), pp. 1029-46

### Midterm

#### 6 A BRIEF ECONOMIC HISTORY OF TRADE

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Content The history of trade is the history of civilizations. We take the briefest of looks at how long-distance trade shaped world history, sometimes for the better, sometimes for the worse. We also may examine some fundamental economic issues involved in trade.

Concepts

Readings • TBD

## Unit 2: Trade Policy

#### 7 TARIFFS

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Content	We analyze the economic effects of tariffs–taxes on imports or exports: what effects do tariffs have on economic efficiency and distribution of income within countries? What differences are there between small and large nations attempting such policy?
Concepts	tariff, consumer & producer surplus, optimum tariff, retaliation, effective protection
Readings	<ul style="list-style-type: none"> <li>• Salvatore, Ch. 5</li> </ul>
8	NON-TARIFF BARRIERS
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Content	Tariffs are not the only way to regulate or restrict trade – we look at other policies such as import quotas, export subsidies, industrial policy, as well as other contemporary political debates about dumping and outsourcing/offshoring, and their effects on efficiency and distribution.
Concepts	non-tariff barriers, quotas, export subsidies, cartels, dumping, outsourcing, offshoring
Readings	<ul style="list-style-type: none"> <li>• Salvatore, Ch. 6.1-6.4, 6.6-6.7</li> <li>• Feenstra, R.(1999), “How Costly is Protectionism?” <i>Journal of Economic Perspectives</i>, pp. 159-178</li> </ul>
9	INDUSTRIAL POLICY & STATE-LED DEVELOPMENT
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Content	Can governments pick winners and losers in markets to stimulate economic growth? The answer is not as clear cut as you would think. We look at interesting cases of apparent success: such as Singapore, Korea, Japan, and China.
Concepts	industrial policy
Readings	<ul style="list-style-type: none"> <li>• Gangotena, Santiago and Ryan Safner, (2016), “Learning By Doing: Who’s Learning? Who’s Doing? And Other Production Function Myths,” <i>Working Paper</i></li> <li>• Safner, Ryan (2014), “The Lion City: Understanding the Paradox of Modern Singapore,” <i>Working Paper</i></li> </ul>
10	THE POLITICAL ECONOMY OF TRADE POLICY
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Content	A large part of Adam Smith’s <i>Wealth of Nations</i> is devoted to refuting the fallacies of mercantilism and excessive trade protectionism. After looking at the effects of protectionism in lessons 6-7, we now ask - <i>why</i> do nations implement protectionist policies? In order to answer this, we must examine at political arguments for protectionism, and examine the political process that actually creates trade policy.
Concepts	public choice, concentrated benefits and diffuse costs, special interests, rent-seeking, infant-industries argument

- Krugman, P. R, (1993). “What Do Undergrads Need to Know About Trade?” *American Economic Review* 83(2): 23-26
- Bastiat, Frederic, (1995[1848]). “A Petition”, *Economic Sophisms*.
- Tullock, Gordon, (1967). “The Welfare Costs of Tariffs, Monopolies, and Theft,” *Economic Inquiry* 3(5): 224-232
- Riley, Bryan, (2011). “U.S. Trade Policy Gouges American Sugar Consumers” *Heritage Foundation* Backgrounder #2914 on Trade
- Goldberg, Koujianou, P. and G. Maggi (1999), ”Protection for Sale: An Empirical Investigation,” *American Economic Review*, 89 (5), pp. 1135-55

## Unit 3: Trade in Capital and Labor

### 11 THE BALANCE OF PAYMENTS

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- Content Individuals across countries rarely exchange strictly goods for goods, often money or financial assets are part of an exchange. Thus, we must look not just at the “real” side of international economics, but also at the monetary side and its effects on trade patterns.
- Concepts balance of payments, current account, capital account, trade deficit/surplus, capital inflow/outflows, foreign direct investment
- Readings
- Salvatore, Ch. 10
  - Bastiat, Frederic, (1995[1848]). “The Balance of Trade” *Essays*. Irvington-on-Hudson, NY: The Foundation for Economic Education, Inc;

### 12 FOREIGN EXCHANGE MARKETS & EXCHANGE RATES

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- Content In the modern world of mostly floating fiat currencies, how are exchange rates determined and how do they change? We may do a brief diversion on the nature and origin of money to answer this question.
- Concepts money, foreign exchange market, seigniorage, exchange rates, purchasing power, purchasing power parity, arbitrage, spot & futures markets, options, speculation
- Readings
- Salvatore, Ch. 11, 12.1-12.4

### 13 IMMIGRATION, CULTURE, & BORDERS

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- Content A major point of political tension today revolves around immigration, both legal and illegal. How does human migration for employment, residency, or other purposes have effects on individual and national welfare? What are the economic, political, and cultural effects of various policies at the border?
- Concepts
- Readings
- Klemens, Michael, 2011, “Economics and Emigration: Trillion Dollar Bills on the Sidewalk?,” *Journal of Economic Perspectives* 25(3): 83-106

## Unit 4: Globalization and its Discontents

### 14 TRADE AGREEMENTS & ECONOMIC INTEGRATION

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Content	Over the last 150 years or so, and especially in the last 50 years, countries have begun to coordinate their trade policies in various forms, to promote greater trade relations. We examine the history and the various types of trade agreements and economic unions and their dynamics. We give special attention to NAFTA and the European Union.
Concepts	trade agreements, free trade areas, customs union, common market, special economic zone, NAFTA, EU, GATT, WTO
Readings	• Salvatore, Ch. 7
15	NATIONALISM, POPULISM, AND BACKLASH
Content	We bring the course around full-circle, and end where we began – examining how greater international trade and extending the division of labor can improve human welfare. We now give special attention to fostering economic development in developing countries.
Concepts	import substitution, growth theory, export-oriented industrialization
Readings	• Salvatore, Ch. 8

Final Exam