

The Chinese University of Hong Kong
Econ 5440: International Trade
Fall 2020

Instructor:

Professor Liugang Sheng
Department of Economics
Chinese University of Hong Kong

Office: Esther Lee Bldg 929
Email: lsheng@cuhk.edu.hk
Phone: 3943-8231

Time and Location: Mon 9:30am-12:15pm Online through Zoom
Class date: 14/09/2020- 14/12/2020

Office Hours: Mon 4pm-5pm by appointment on Zoom

Course Website: Access through CUSIS

Textbook:

- Robert Feenstra: Advanced International Trade: Theory and Evidence, Princeton University Press, 2015. Second edition (the first edition is also ok).
- Treb Allen and Costas Arkolakis: Elements of Advanced International Trade, manuscript.
- Liugang Sheng and Hongyan Zhao, Changes in the China-U.S. Economic Relations (中美经贸变局), in Chinese, 2020, Peking University Press.

This course offers theoretical, empirical and current topics in international trade. It covers studies of positive issues, such as: Why do countries trade? What goods do countries trade? How does open to trade shape countries' industrial structure and global production sharing? The course also concerns the normative issues, such as; is trade beneficial to everyone, or are there winners and losers? What is the impact of trade on economic growth, wage inequality and poverty? All these issues will be discussed both from theory and empirics, as well as at country, industry and firm level. In particular, we will also discuss the ongoing US-China trade war.

Learning Outcomes:

After completing this course, the students are expected to:

1. Acquire advanced knowledge in theoretical and empirical analysis of international trade;
2. Develop skills in theoretic modeling and empirical analysis of trade;
3. Obtain preparations for conducting independent research in trade.

Grading:

Your overall performance will be determined by **homework (15%)**, **replication report (20%)**, **presentation (20%)**, and **open-book final exam (45%)**. No reschedule of the

final exam will be given, but the weight could be reallocated to other parts if you could not take it with my approval.

Presentation: each student selects a paper on international trade, and presents in class for about 20-30 minutes. I will give some papers but you can also propose your own with my approval.

Schedule

Presentation: In class **on 7/12/2020**

Final exam: **14/12/2020**

Due day for **replication report: 21/12/2020**

Attendance

Please attend the regular class on zoom and any announcement in the class is formal, you should take the responsibility if you miss the lecture.

Contingency

We may switch back to face-to-face class when the pandemic is under control, and then the final exam can be close-book and in classroom. The teacher keeps the right to adjust the syllabus if the situation of pandemic changes.

Academic Honesty

For guidelines on academic honesty, students are referred to Honesty on Academic Work: A Guide for Students and Teachers at the following URL:

<http://www.cuhk.edu.hk/policy/academichonesty/>

Lecture Outlines: (11 weeks)

Section I: Neoclassical Theories of Trade (4 weeks)

1. Introduction (0.5 week)
2. Ricardian Model (0.5 week)
3. The Heckscher-Ohlin Model (Feenstra, Ch 1-2) (1.5 weeks)
4. Trade in intermediate goods and wage inequality (Feenstra, Olin-lecture) (1.5 weeks)

Section II: “New” and “New New” Trade Theory (6 weeks)

5. Increasing Returns and the Gravity Equation-Krugman model (1 week)
6. New Economic Geography (0.5 week)
7. Heterogeneous firms-Melitz model (2003) (2.5 weeks)
8. Eaton and Kortum (2002) framework (2 weeks)

Section III: The US-China Trade War (1 week)

9. The US-China Trade War: the causes and consequences

Reference

Neoclassical Theories of Trade

(*) Dornbusch, R., Fischer, S. and Samuelson, P., 1977. Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods. *American Economic Review*, 1977, pp. 823-839.

Costinot, A., Donaldson, D. and Komunjer, I., 2012. What goods do countries trade? A quantitative exploration of Ricardo's ideas. *Review of Economic Studies*, Vol. 79(2), pp. 581-608.

Chor, D., 2010. Unpacking sources of comparative advantage: A quantitative approach. *Journal of International Economics*, Vol. 82(2), pp. 152-167.

Goldberg, P. and Pavcnik, N., 2007. Distributional effects of globalization in developing countries. *Journal of Economic Literature*, Vol. 45(1), pp. 39-82.

Offshoring Theory

(*) Feenstra, R. and Hanson, G., 1999. The impact of outsourcing and high-technology capital on wages: Estimates for the United States, 1979-1990. *Quarterly Journal of Economics*, Vol. 114(3), pp. 907-940.

Feenstra, R., 2010. *Offshoring in the global economy*. Olin Lecture, MIT Press.

(*) Grossman, G. and Rossi-Hansberg, E., 2008. Trading tasks: A simple theory of offshoring. *American Economic Review*, Vol. 98(5), pp. 1978-1997.

(*) Hsieh, C. and Woo, K., 2005. The impact of outsourcing to China on Hong Kong's labor market *American Economic Review*, Vol. 95(5), pp. 1673-1687.

The “New” Trade Theory

(*) Krugman, Paul R. "Increasing returns, monopolistic competition, and international trade." *Journal of international Economics* 9.4 (1979): 469-479.

Krugman, Paul. "Scale economies, product differentiation, and the pattern of trade." *The American Economic Review* 70.5 (1980): 950-959.

Dixit, Avinash K., and Joseph E. Stiglitz. "Monopolistic competition and optimum product diversity." *The American Economic Review* 67.3 (1977): 297-308.

Gravity equation

Anderson, James E., 1979. A theoretical foundation for the gravity equation, *American Economic Review*, 69, 106-116.

Anderson, James E. and Eric van Wincoop., 2003. Gravity with Gravitas, *American Economic Review*, 93, 170-92.

Helpman, E., Melitz M., and Rubinstein, Y., 2008. Estimating trade flows: trading partners and trading volumes, *Quarterly Journal of Economics*, 123, 441-487.

(*) Keith Head, Thierry Mayer, 2013. "Gravity Equations: Workhorse, Toolkit, Cookbook", *Handbook of International Economics Vol. 4* forthcoming.
Companion website: <https://sites.google.com/site/hiegravity/data-sources>

New Economic Geography

Krugman, Paul, 1991. Increasing Returns and Economic Geography, *Journal of Political Economy*, 99(3), 483-99.

(*) Redding, S. and Venables, A., 2004. Economic geography and international inequality. *Journal of international Economics*, Vol. 62(1), pp. 53-82.

Redding, S. and Sturm, D., 2008. The costs of remoteness: Evidence from German division and reunification. *American Economic Review*, Vol. 98(5), pp. 1766-1797.

Costinot, A. & Donaldson, D., 2012. How Large are the Gains from Economic Integration? Theory and Evidence from U.S. Agriculture, 1880-2002. MIT working paper.

Redding, S. J., 2009. Economic Geography: A review of the theoretical and empirical literature. Centre for Economic Performance, LSE.

Heterogeneous Firms

Theory

Arkolakis, C., 2010. Market Penetration Costs and the New Consumers Margin in International Trade. *Journal of Political Economy*, Vol. 118(6), pp. 1151-1199.

Bernard, A., Redding, S. and Schott, P., 2008. Comparative advantage and heterogeneous firms. *Review of Economic Studies*, Vol. 74(1), pp. 31-66.

Chaney, T., 2008. Distorted gravity: The intensive and extensive margins of international trade. *American Economic Review*, Vol. 98(4), pp. 1707-1721.

(*) Melitz, M., 2003. The impact of trade on intra-industry reallocations and aggregate industry productivity. *Econometrica*, Vol. 71(6), pp. 1695-1725.

Arkolakis, C., Costinot, A. and Rodríguez-Clare, A., 2012. New trade models, same old gains? *American Economic Review*, 102(1), pp.94-130.

Empirics

Bernard, A., Eaton, J., Jensen, B., and Kortum, S., 2003. Plants and Productivity in International Trade, *American Economic Review*, vol. 93(4), pp. 1268-1290.

(*) Lileeva, A. and Trefler, D., 2010. Improved access to foreign markets raises plant-level productivity... for some plants, *Quarterly Journal of Economics*, Vol. 125(3), pp. 1051-1099.

Bustos, P., 2011. Trade liberalization, exports, and technology upgrading: Evidence on the impact of Mercosur on Argentinian firms, *American Economic Review*, Vol. 101(1), pp. 304-340.

Hummels, D. and Klenow, P., 2005. The variety and quality of a nation's exports, *American Economic Review*, pp. 704-723.

Surveys

Bernard, A., Jensen, J., Redding, S., and Schott, P., 2007. Firms in international trade, *Journal of Economic Perspectives*, Vol. 21(3), pp. 105-130.

Bernard, J., Redding, S., and Schott, P., 2011. The empirics of firm heterogeneity and international trade, *Annual Review of Economics*, Forthcoming.

(*) Redding, S., 2011. Theories of heterogeneous firms and trade, *Annual Review of Economics*, 3, 77-105.

Eaton-Kortum Model

(*) Eaton, J. and Kortum, S., 2002. Technology, Geography, and Trade, *Econometrica*, Vol. 70(5), pp. 1741-1779.

Alvarez, F. and Lucas, R., 2007. General equilibrium analysis of the Eaton-Kortum model of international trade, *Journal of Monetary Economics*, Vol. 54(6), pp. 1726-1768.

Caliendo, Lorenzo, and Fernando Parro. "Estimates of the Trade and Welfare Effects of NAFTA." *The Review of Economic Studies* (2014)

Eaton, J., Kortum, S., Neiman, B. and Romalis, J., 2016. Trade and the global recession American Economic Review, vol. 106, no. 11.

Multinationals and Organization of the Firm

(*) Helpman, E., Melitz, M. J. and Yeaple, S. R., 2004. Export versus FDI with heterogeneous firms. American Economic Review, 2004, Vol. 94(1), pp. 300-316.

(*) Antràs, P. and Helpman, E., 2004. Global sourcing. Journal of Political Economy, Vol. 112(3), pp. 552-580.

Antràs, P., 2005. Incomplete Contracts and the Product Cycle. American Economic Review, Vol. 95(4), pp. 1054-1073.

Antràs, P. and Chor, D., 2012. Organizing the global value chain. Forthcoming, Econometrica.

The US-China Trade War

Ossa, R., 2014. Trade wars and trade talks with data. American Economic Review, 104(12), pp.4104-46.

Fajgelbaum, Pablo D., Pinelopi K. Goldberg, Patrick J. Kennedy, and Amit K. Khandelwal. "The return to protectionism." The Quarterly Journal of Economics 135, no. 1 (2020): 1-55.

Guo, M., Lu, L., Sheng, L. and Yu, M., 2018. The Day After Tomorrow: Evaluating the Burden of Trump's Trade War. Asian Economic Papers, 17(1), pp.101-120.

Amiti, M., Redding, S.J. and Weinstein, D., 2019. The impact of the 2018 trade war on US prices and welfare (No. w25672). National Bureau of Economic Research working paper.

Cavallo, A., Gopinath, G., Neiman, B. and Tang, J., 2019. Tariff Pass through at the Border and at the Store: Evidence from US Trade Policy. Working paper.

Sheng, Liugang, Hongyan Zhao, and Jing Zhao, 2019. Why Will Trump Lose the Trade War? China Economic Journal, volume 12, issue 2. Pp. 137-159.