



# TOPICS IN INTERNATIONAL TRADE

(Master of Science in International Economics and Economic Policy)

**Lecturer:** Dany Jaimovich

**Office:** RuW 4.253

**Email:** jaimovich@econ.uni-frankfurt.de

**Web:** [www.wiwi.uni-frankfurt.de/abteilungen/ei/professoren/dany/home](http://www.wiwi.uni-frankfurt.de/abteilungen/ei/professoren/dany/home)

**Office Hours:** Tuesdays, 14:00-16:00 (appointment via email required).

**Teaching Assistant:** Katerina Gradeva

**Office:** RuW 4.259

**Email:** gradeva@wiwi.uni-frankfurt.de

**Office Hours:** Appointment via email.

**Lecture:** Thursdays 14:00pm - 15:45pm, RuW 4.202

**Review session (RS):** Mondays 10:15pm - 11:45pm, RuW 1.302; the following dates: 29/10/2012, 12/11/2012, 26/11/2012, 10/12/2012, 21/01/2013, 04/02/2013.

**Course support material:** Posted regularly on OLAT intranet.

## 1 Overview

While most theoretical trade models predict net win-win situations for international integration, many groups oppose free trade and globalization in general. Are they right or wrong? Who are the losers and who are the winners of economic integration? Are people in least developed countries victims of the world trade system? Should a country always aim for integration in the global economy? Should it promote the trade of goods, but limit immigration?

The purpose of this course is to shed some light on these issues by reviewing recent research on topics of the economics of globalization. The focus will be mainly (but not exclusively) on empirical studies related to: trade and development, migration, offshoring, the international trading system, and foreign aid.

## 2 Format

Lectures are expected to be interactive and not merely expository. For each session, students must read beforehand at least the mandatory material (marked with an \*). A complete understanding of the technical aspects of the papers is not necessary, but the student must be familiar with the subject in order to participate actively in the



discussions during the class. For each topic, a list of additional references is provided.

While normative discussion will be encouraged, the focus of the class will be on methodological aspects. It is not enough to like or dislike theory A or B, but understand how rigorous researchers have tried to test the theories with real world data. The most widely used econometric techniques for the analysis of data related to the course's topics will be described (and criticized) in lectures and review sessions. Students are welcome to propose the discussion of a particular empirical method of their interest.

Students will have to use data on their own to reproduce and expand previous results for the problem sets. The review sessions will take place in the computer lab, where students will have time to work in the problem sets under the supervision of the lecturer and/or the teaching assistant.

### 3 Requirements

It is assumed that students have prior knowledge of econometrics at the level of “Fundamentals of Econometrics” and knowledge of international trade theory at the level of “Fundamentals of International Economics”.

### 4 Evaluation

The final evaluation aims to quantify the in-depth understanding of the topics treated in the course. Therefore, various dimensions of students' performance will be considered: verbal discussion (class participation and student presentation), written analysis (final exam and referee report), and empirical analysis (problem sets).

- **Class participation (10%):** The grade is not related to warming a seat every week, but to an active participation in the debate of the topics, including classmates' presentations.
- **Referee report + presentation (20%):** Students have to choose a paper from the reading list (not discussed in the class) or propose any other paper related to the topics of the course. They have to prepare a short referee report (max. two pages) discussing the paper, and give a 15 minutes presentation for the rest of the class. Presentations will take place during the last lectures of the semester.\*

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\*The paper in which the referee report is based must be agreed with the lecturer before the Christmas break (first come, first served). The work can be done in groups of up to two students.



- **Problem sets (30%):** Students will be asked to work with data to replicate and expand results from previous research using STATA software. The expected outcomes are a short paper-like report (therefore results must be described and discussed) and a *do file*. There will be three problem sets during the semester. The first one is voluntary and will not be graded, and has the purpose of providing support for students with few previous experience in STATA and data analysis in general. The other two problem sets are mandatory.<sup>†</sup>
- **Final exam (40%)**

## 5 Topics and readings

### TOPIC 1 - An overview of international trade and globalization hypothesis: from Ricardo to Melitz, from List to Chomsky.

- (\*) WWW.DICTIONARYOFECONOMICS.COM (2008). “International trade theory” (James Anderson) and “Infant-industry protection” (Douglas Irwin). In *The New Palgrave Dictionary of Economics, 2nd Edition*
- (\*) Noam Chomsky on Bill Clinton, NAFTA, Paul Krugman, and Free Trade (Video, 1993) <http://www.c-spanvideo.org/program/52905-1>
- SEGERSTROM, P. (2010). Naomi Klein and the Anti-Globalization Movement, [www2.hhs.se/personal/segerstrom/naomiklein.pdf](http://www2.hhs.se/personal/segerstrom/naomiklein.pdf)
- CHANG, H. (2002). *Kicking Away the Ladder: Development Strategy in Historical Perspective*. London: Anthem Press
- HAUSMANN, R. and RODRIK, D. (2002). *Economic Development as Self-Discovery*. NBER Working Papers 8952

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<sup>†</sup>The work can be done in groups of up to two students.



**TOPIC 2 - Does trade openness promote growth and development? The “macro” evidence.**

- (\*) FRANKEL, J. A. and ROMER, D. (1999). Does trade cause growth? *American Economic Review*, **89** (3), 379–399
- (\*) RODRIGUEZ, F. and RODRIK, D. (2001). Trade policy and economic growth: A skeptic’s guide to the cross-national evidence. In *NBER Macroeconomics Annual 2000, Volume 15*, National Bureau of Economic Research, Inc, pp. 261–338
- FEYRER, J. (2009). *Trade and Income – Exploiting Time Series in Geography*. NBER Working Papers 14910
- HARRISON, A. and RODRIGUEZ-CLARE, A. (2009). *Trade, Foreign Investment, and Industrial Policy for Developing Countries*. NBER Working Papers 15261
- WACZIARG, R. and WELCH, K. H. (2008). Trade liberalization and growth: New evidence. *World Bank Economic Review*, **22** (2), 187–231
- HELPMAN, E., ITSKHOKI, O., MUENDLER, M.-A. and REDDING, S. J. (2012). *Trade and Inequality: From Theory to Estimation*. NBER Working Papers 17991

**TOPIC 3 - Does trade openness promote growth and development? The “micro” evidence.**

- (\*) WAGNER, J. (2007). Exports and productivity: A survey of the evidence from firm-level data. *The World Economy*, **30** (1), 60–82
- BALAT, J., BRAMBILLA, I. and PORTO, G. (2009). Realizing the gains from trade: Export crops, marketing costs, and poverty. *Journal of International Economics*, **78** (1), 21–31
- TOPALOVA, P. (2010). Factor immobility and regional impacts of trade liberalization: Evidence on poverty from India. *American Economic Journal: Applied Economics*, **2** (4), 1–41
- LUZIO, E. and GREENSTEIN, S. (1995). Measuring the performance of a protected infant industry: The case of brazilian microcomputers. *The Review of Economics and Statistics*, **77** (4), 622–33
- PAVCNİK, N. (2002). Trade liberalization, exit, and productivity improvement: Evidence from Chilean plants. *Review of Economic Studies*, **69** (1), 245–76



#### TOPIC 4 - The multilateral trade system and the rise of regionalism.

- (\*) BALDWIN and JAIMOVICH, D. (2012). Are free trade agreements contagious? *Journal of International Economics*, **88** (01), 1–16
- (\*) BALDWIN, R. I. and EVENETT, S. (2011). *Why world leaders must resist the false promise of another Doha delay: Introduction to the issues*. Voxeu.org e-books
- (\*) DICTIONARYOFECONOMICS.COM (2008). “World Trade Organization” (Robert Staiger) and “Regional and preferential trade agreements” (Pravin Krishna). In *The New Palgrave Dictionary of Economics, 2nd Edition*
- STIGLITZ, J. and CHARLTON, A. (2005). *Fair Trade for All : How Trade Can Promote Development*. Oxford University Press: New York
- BHAGWATI, J. (2008). *Termites in the Trading System: How Preferential Agreements Undermine Free Trade*. Oxford University Press
- SUBRAMANIAN, A. and WEI, S.-J. (2007). The WTO promotes trade, strongly but unevenly. *Journal of International Economics*, **72** (1), 151–175

#### TOPIC 5 - “It’s not wine for cloth anymore”: Offshoring, outsourcing and the XXI Century trade.

- (\*) GROSSMAN, G. M. and ROSSI-HANSBERG, E. (2006). The rise of offshoring: it’s not wine for cloth anymore. *Proceedings, Federal Reserve Bank of Kansas City*, pp. 59–102
- (\*) BALDWIN, R. (2009). *How many jobs are onshorable? Re-interpreting the Blinder numbers in the light of new trade theory*. Voxeu.org article, <http://www.voxeu.org/index.php?q=node/3659>
- BALDWIN, R. E. (2006). *Globalisation: the great unbundling(s)*. Economic council of finland
- BLINDER, A. S. (2006). Offshoring: The next industrial revolution? *Foreign Affairs*, **85** (2), 113–128
- GEISHECKER, I. and GRG, H. (2008). Winners and losers: a micro-level analysis of international outsourcing and wages. *Canadian Journal of Economics*, **41** (1), 243–270



## TOPIC 6 - “Perdido en el corazón de la grande Babylon”: The Economics of Migration.

- (\*) OTTAVIANO, G. and PERI, G. (2012). Rethinking the effect of immigration on wages. *Journal of the European Economic Association*, **10** (1), 152–197
- (\*) HANSON, G. H. (2009). The economic consequences of the international migration of labor. *Annual Review of Economics*, **1** (1), 179–208
- FELBERMAYR, G. J., GEIS, W. and KOHLER, W. K. (2010). Restrictive immigration policy in germany: pains and gains foregone? *Review of World Economics*, **146** (01), 1–21
- BORJAS, G. J. (2003). The labor demand curve is downward sloping: Reexamining the impact of immigration on the labor market. *The Quarterly Journal of Economics*, **118** (4), 1335–1374
- GIBSON, J. and MCKENZIE, D. (2011). *Eight Questions about Brain Drain*. IZA Discussion Papers 5730, Institute for the Study of Labor (IZA)
- MCKENZIE, D. and RAPOPORT, H. (2007). Network effects and the dynamics of migration and inequality: Theory and evidence from Mexico. *Journal of Development Economics*, **84** (1), 1–24

## TOPIC 7 - With a little help from my friends?: International aid, growth and development.

- (\*) ROODMAN, D. (2008). The anarchy of numbers: Aid, development, and cross-country empirics revised july 2004. *World Bank Economic Review*, **21** (2), 255–277
- (\*) “William Easterly” (video), MRUniversity: <http://mruniversity.com/william-easterly>
- (\*) “Jeffrey Sachs” (video), MRUniversity: <http://mruniversity.com/jeffrey-sachs>
- (\*) “How Can Policy and Aid Help in Bringing down World Poverty?” (video) [http://www-2.iies.su.se/Nobel2012/video\\_public\\_panel1.html](http://www-2.iies.su.se/Nobel2012/video_public_panel1.html)
- BURNSIDE, C. and DOLLAR (2000). Aid, policies, and growth. *American Economic Review*, **90** (4), 847–868
- RAJAN, R. G. and SUBRAMANIAN, A. (2011). Aid, Dutch disease, and manufacturing growth. *Journal of Development Economics*, **94** (1), 106–118



## TOPIC 8 - The “missing” trade: smuggling, tariff evasion and the informal international trade.

- (\*) FISMAN, R. and WEI, S.-J. (2004). Tax rates and tax evasion: Evidence from “missing imports” in China. *Journal of Political Economy*, **112** (2), 471–500
- (\*) JAVORCIK, B. S. and NARCISO, G. (2008). Differentiated products and evasion of import tariffs. *Journal of International Economics*, **76** (2), 208–222
- MISHRA, P., SUBRAMANIAN, A. and TOPALOVA, P. (2008). Tariffs, enforcement, and customs evasion: Evidence from India. *Journal of Public Economics*, **92** (10-11), 1907–1925

## 6 Topics for student’s presentation

### Trade, terrorism and war.

- MARTIN, P., MAYER, T. and THOENIG, M. (2008). Make trade not war? *Review of Economic Studies*, **75** (3), 865–900
- GLICK, R. and TAYLOR, A. M. (2010). Collateral damage: Trade disruption and the economic impact of war. *The Review of Economics and Statistics*, **92** (1), 102–127
- ACEMOGLU, D. and YARED, P. (2010). Political limits to globalization. *American Economic Review*, **100** (2), 83–88
- BLOMBERG, S. B. and HESS, G. D. (2006). How much does violence tax trade? *The Review of Economics and Statistics*, **88** (4), 599–612

### Learning by Exporting.

- DE LOECKER, J. (2007). Do exports generate higher productivity? evidence from Slovenia. *Journal of International Economics*, **73** (1), 69–98
- AW, B. Y., CHUNG, S. and ROBERTS, M. J. (2000). Productivity and turnover in the export market: Micro-level evidence from the republic of Korea and Taiwan (China). *World Bank Economic Review*, **14** (1), 65–90
- CRESPI, G., CRISCUOLO, C. and HASKEL, J. (2008). Productivity, exporting, and the learning-by-exporting hypothesis: direct evidence from UK firms. *Canadian Journal of Economics*, **41** (2), 619–638



### Trade and quality.

- MANOVA, K. and ZHANG, Z. (2009). *Quality Heterogeneity across Firms and Export Destinations*. NBER Working Papers 15342
- KUGLER, M. and VERHOOGEN, E. (2008). *The Quality-Complementarity Hypothesis: Theory and Evidence from Colombia*. NBER Working Papers 14418
- VERHOOGEN, E. A. (2008). Trade, quality upgrading, and wage inequality in the mexican manufacturing sector. *The Quarterly Journal of Economics*, **123** (2), 489–530

### Fair trade.

- DE JANVRY, A., MCINTOSH, C. and SADOULET, E. (2011). *Fair Trade and Free Entry: The Dissipation of Producer Benefits in a Disequilibrium Market*. Draft, University of California, Berkeley
- BECCHETTI, L. and COSTANTINO, M. (2008). The effects of fair trade on affiliated producers: An impact analysis on Kenyan farmers. *World Development*, **36** (5), 823–842

### Trade and environment

- CHINTRAKARN, P. and MILLIMET, D. L. (2006). *The environmental consequences of trade: Evidence from subnational trade flows*. Tech. Rep. 1
- FRANKEL and ROSE, A. K. (2005). Is trade good or bad for the environment? sorting out the causality. *The Review of Economics and Statistics*, **87** (1), 85–91
- TAYLOR, M. S. (2007). *Buffalo Hunt: International Trade and the Virtual Extinction of the North American Bison*. NBER Working Papers 12969

### Trade preferences

- FRAZER, G. and BIESEBROECK, J. V. (2010). Trade growth under the african growth and opportunity act. *The Review of Economics and Statistics*, **92** (1), 128–144
- COLLIER, P. and VENABLES, A. J. (2007). Rethinking trade preferences: How Africa can diversify its exports. *The World Economy*, **30** (8), 1326–1345
- GAMBERONI, E. (2007). *Do unilateral trade preferences help export diversification? An investigation of the impact of European unilateral trade preferences on the extensive and intensive margin of trade*. IHEID Working Papers 17-2007, Economics Section, The Graduate Institute of International Studies