

Syllabus (v.2)

ECON 5510: International Trade
Hong Kong University of Science and Technology
School of Business and Management
Department of Economics
Spring Semester 2022
Credit hours: 2

Class sessions: 4, 11, 18, 25 April, 2, 9, 16 May, 2022 (Total 7 sessions)

Each session will be 3 hours 50 minutes long (Mon. 2:00-5:50pm)

Pre-requisites: (ECON 5130 Microeconomic Analysis or ECON 5210 Microeconomic Theory I) and (ECON 5140 Macroeconomic Analysis or ECON 5250 Macroeconomic Theory I)

Exclusions: ECON 5560 Advanced International Trade and Investment

or ECON 6120C International Trade I

or ECON 6120D International Trade II

or ECON 613F International Trade

Class time and Classroom location: Monday 2:00pm-5:50pm, Room 5508 Academic Building

Instructor: Professor Edwin LAI, Department of Economics

Office location: LSK 6008

Office Hours: Tuesday, Thursday 2:30pm-3:30pm, or by appointment

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Teaching Assistant: Paul Wang

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Course Description

International trade has become more and more important, as transportation costs and artificial trade barriers keep falling over time. The world is more and more integrated through trade. Trade also plays a very important role in the development of many emerging economies, such as China. This course discusses the determinants of the pattern of international trade, why nations trade, what they trade, the gains from trade, and the distributional effects of trade. Then, we go on to analyze the motives, consequence and welfare implications of trade policies, and political economy of trade, such as free trade agreements, and the World Trade Organization.

Course Objectives

This course helps students to understand theories of international trade and trade policy. The theories can help one to understand gains from trade, the determinants of trade pattern, geography and trade, the income distribution effects of trade, and effects of trade policy.

Learning outcomes

On successful completion of the course, students will be able to:

1. Understand the theories behind gains from trade, comparative advantage and trade, economies of scale and trade, distributional effects of trade, and trade policy. In some cases, you would be guided to understand how to take the theory to the data and estimate the model empirically.
2. Apply the theory to analyze gains from trade, what determines comparative advantage, how comparative advantage determines trade pattern, how increasing returns to scale determines trade pattern, how trade affects factor returns and the effects of trade policy

Teaching Approach

This course is primarily delivered through lectures, class discussion, and homework

| Teaching and Learning Activities | Roles in the Course | Course Learning Outcome addressed |
|------------------------------------|---|-----------------------------------|
| Lectures with in-class discussions | Explain key concepts and models to students; apply models to explain the real world | 1, 2 |
| Homework assignments | Practice applying the theory to analyze problems | 2 |

Reading Material

Reference textbook:

Krugman, Obstfeld and Melitz, *International Trade: Theory and Policy*, 11th or later edition (abbreviated as KOM) (Only chapters 3, 5, 6, 8, 9 and 10 will be covered)

Paper:

Paul Krugman, "Increasing returns, monopolistic competition, and international trade," *Journal of International Economics* 1979 (referred to as "Krugman 1979 JIE")

Supplementary textbook (you can find it in the library):

Feenstra, Robert C. and Alan M. Taylor, *International Economics*, 2nd or later edition, Worth Publishers (referred to as "Feenstra and Taylor")

Assessment

| Assessment Activities | Weighting | Relevant information | Course learning outcomes assessed |
|-----------------------------------|------------------|--|--|
| Final Examination | 65% | Date: 16 May | 1, 2 |
| Homework assignments (about four) | 25% | Need to submit, and will be graded | 1, 2 |
| Participation | 10% | Attendance, asking and answering questions in class and tutorial | 1, 2 |

The final examination is about 3 to 4 hours long (length to be determined), and will cover all the material taught in the course. The final examination will be held in the last class.

About four problem sets (homework assignments) will be given. When a problem set is due and submitted, the answers would be disclosed. Thus, no late submission will be accepted.

Student participation is taken seriously. Attendance will be taken in each class. Students are expected to have read the relevant material before coming to class, and to come prepared with questions. It must be emphasized that participation is not simply being there but also asking and answering questions.

Plagiarism and cheating

Plagiarism and cheating in exams, tests and assignments are serious offences. The university takes these cases seriously. If you are found guilty, you can be failed for the class and even expelled from the university.

If there is evidence that you copy problem set answers from each other or some leaked answer key, that is considered cheating as well.

Topics

1. Labor Productivity and Comparative Advantage: The Ricardian Model

- KOM Chapter 3

2. Resources and Trade: The Heckscher-Ohlin Model

- KOM Chapter 5 (including the appendix and the postscript at the end of the book)

3. The Standard Trade Model

- KOM Chapter 6

4. Firms in the Global Economy: Export Decisions, Outsourcing, and Multinational Enterprises

- KOM Chapter 8 (including the postscript at the end of the book)

- Krugman 1979 JIE (paper) (may skip this if there is a shortage of time)

5. The Instruments of Trade Policy

- KOM Chapter 9

6. The Political Economy of Trade Policy

- KOM Chapter 10

Econ 5510 Spring 2022 Schedule

| <u>Session</u> | <u>Month</u> | <u>Day of month</u> | <u>Day of week</u> | <u>Topic</u> | <u>Problem set due</u> |
|----------------|--------------|---------------------|--------------------|--------------|------------------------|
| 1 | April | 4 | Mon | Topic 1 | |
| 2 | | 11 | Mon | Topic 2 | PS1 due today |
| 3 | | 18 | Mon | Topic 3 | |
| 4 | | 25 | Mon | Topic 4 | PS2 due today |
| 5 | May | 2 | Mon | Topic 5 | |
| 6 | | 9 | Mon | Topic 6 | PS3 due today |
| 7 | | 16 | Mon | Final Exam | PS4 due on 13 May |

PS1: Topic 1

PS2: Topics 2, 3

PS3: Topic 4, 5

PS4: Topic 6

Final exam: All topics