

## Syllabus (v.1 -- preliminary)

**Econ 5560: Advanced International Trade and Investment**  
**Hong Kong University of Science and Technology**  
**School of Business and Management**  
**Department of Economics**  
**Professor Edwin L.-C. Lai**  
**Fall 2022**

Pre-requisites: ECON 5210 AND ECON 5220

Exclusions: ECON 6120C, ECON 6120D, ECON 6120R, ECON 613F

Previous Code: ECON 6120G

Class time and location: Tu 3:00PM-6:50PM; Rm: CYT G001  
Instructor: Professor Edwin L.-C. LAI, Department of Economics  
Office location: LSK 6008  
Office Hours: Mo 4:30PM-6:00PM, or by appointment  
Office Phone: 2358-7611  
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Teaching Assistant: Ding DONG  
Office location: TBA  
Office hours: TBA  
Phone: TBA  
Email: TBA

### **Course Description and Objectives**

This is an advanced course on the economics of international trade and foreign direct investment (FDI). In this course, students are guided to learn the traditional and recent literature in the theory and empirical work in international trade. The aim is to facilitate students to carry out research in the area of trade and macroeconomics. New developments in the field will be discussed.

### **Learning Outcome**

Upon completing the course, students should be able to:

1. have an in-depth understanding of some recent path-breaking papers in international trade.
2. be familiar with the recent literature in international trade so that they can begin to carry out independent research in the areas of international trade and macroeconomics.
3. understand the recent trade theories and recent empirical work on trade.

### **Teaching Approach**

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

<b>Teaching and Learning Activities</b>	<b>Roles in the Course</b>	<b>Course Learning Outcome addressed</b>
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Lectures with in-class discussions	Explain key concepts and models to students	1, 2, 3
Homework assignments	Practice problem solving, apply models to analyze current economic issues	1, 2, 3

### Assessment:

There is no examination. Assessment is based on performance in problem sets (30%), class presentation (60%) and participation (10%).

### Problem sets:

There will be about four problem sets given to you as the course proceeds. The TA will grade them and answer keys will be distributed.

### Class Presentation

Each student is required to present a certain number of papers in class. The number of presentations per student depends on the number of students in the class.

### Undergraduate level material

Students who have not taken undergraduate level international trade or who need to refresh their memory of the UG international trade course material are requested to read Chapters 3 to 12 (especially Chapters 3, 5 and 6) of the following undergraduate textbook:

Krugman, Obstfeld and Melitz, *International Trade: Theory and Policy*, eleventh or later edition, Pearson Publisher (abbreviated as KOM)

The book should be available in the university library.

### Useful graduate level textbook:

Robert C. Feenstra, Advanced International Trade, second edition, Princeton University Press (abbreviated as F)

### General References

AK. Dixit and V. Norman, Theory of International Trade, 1980, Cambridge University Press. (abbreviated as DN)

Elhanan Helpman and Paul Krugman, Market Structure and Foreign Trade, MIT Press, 1985. (abbreviated as HK)

Paul Krugman, Rethinking International Trade, MIT Press, 1990 (abbreviated as K)

Gopinath, G., Helpman, E. and Rogoff, K., (eds). 2014. Handbook of International Economics Vol. 4, Elsevier/North Holland.

Gopinath, G., Helpman, E. and Rogoff, K., (eds). 2022. Handbook of International Economics Vol. 5 (International Trade), Elsevier/North Holland.

### Papers and Notes

Some papers and notes are uploaded to Canvas.

### **Topics intended to be covered**

Comparative advantage, gains from trade and Ricardian model

**KOM ch. 3;**

**F pp.1-4**

**Notes**

Internal economies, imperfect competition and trade

**F pp.137-146, 165-169**

**KOM Ch. 8**

**Notes**

The gravity model

**F pp.146-153 (general), 161-163 (using fixed effects)**

**KOM ch. 2**

**Notes**

Factor-Proportions model (Heckscher-Ohlin model)

**KOM ch. 5 (and appendix)**

**F pp.4-35**

**Notes**

Heckscher-Ohlin model: empirical evidence

**F pp.35-61**

**Notes**

Many goods and factors: theory

**KOM ch 4, or chapter on Specific Factors Model in older edition**

**F pp.64-75, 88-93**

**Notes**

Many goods and factors: empirical evidence

**F pp.93-97**

**Notes**

Trade and Geography (time-permitting)

### **Papers that may be covered in the lectures**

Eaton, J. and S. Kortum, "[Technology, Geography, and Trade](#)," *Econometrica* (Sept. 2002).

Melitz, M.J., "[The Impact of Trade on Intra-Industry Reallocations and Aggregate](#)

[Industry Productivity](#),” *Econometrica* (Nov. 2003).

R. Dornbusch, S. Fischer and P. Samuelson, “[Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods](#),” *American Economic Review* 1977, 823-839. (Main results are discussed without going into the detail of the proofs.)

P. Krugman, “[Increasing returns, monopolistic competition, and international trade](#),” *Journal of International Economics* 1979. (1979 JIE)

P. Krugman, “[Scale economies, product differentiation and the pattern of trade](#),” *American Economic Review* 1980. (Main results are discussed without going into the detail of the proofs.)

Anderson, James and Eric Van Wincoop, “[Gravity with Gravitas: A Solution to the Border Puzzle](#),” *American Economic Review* 2003, 93: pp.170-192. (Main results are discussed without going into the detail of the proofs.)

Arkalokis, Costas; Costinot Arnaud and Rodriguez-Clare Andres, “[New Trade Models, Same Old Gains](#),” *American Economic Review*, 2012. (Main results are discussed without going into the detail of the proofs.)

Robert Koopman, Zhi Wang, and Shang-Jin Wei (2014), “[Tracing Value-Added and Double Counting in Gross Exports](#)” *American Economic Review*, 104(2): 459–494. (Main results are discussed without going into the detail of the proofs.)

COSTINOT, A. and RODRIGUEZ-CLARE, A. (2014), “Trade Theory with Numbers: Quantifying the Consequences of Globalization”, in Gopinath, G., Helpman, E. and Rogoff, K., (eds), *Handbook of International Economics*, vol. 4, chapter 4, pp. 197-261, Amsterdam: Elsevier/North Holland.

Head, Keith and Thierry Mayer. 2014. "Gravity Equations: Workhorse, Toolkit, Cookbook." in Gopinath, G., Helpman, E. and Rogoff, K., (eds), *Handbook of International Economics* Vol. 4, Elsevier/North Holland, pp.131-195.

Costinot, Arnaud, David Donaldson and Ivana Komunjer, “[What goods do countries trade: A quantitative exploration of Ricardo’s ideas](#),” *Review of Economic Studies* 2012.

Melitz, Marc and Gianmarco Ottaviano, “[Market Size, Trade, and Productivity](#),” *Review of Economic Studies*, 2008, vol. 75, pp.295-316.

Chaney, Thomas. 2008. “[Distorted Gravity: The Intensive and Extensive Margins of International Trade](#).” *The American Economic Review*, Vol. 98, No. 4 (Sep., 2008), pp. 1707-172

Andrew Bernard, Bradford Jensen, Stephen Redding, and Peter Schott, “[Comparative Advantage and Heterogeneous Firms](#),” *Review of Economic Studies* 73(1), pp.31-66, 2007

Caliendo, Lorenzo and Fernando Parro. 2015. "Estimates of the Trade and Welfare Effects of NAFTA." *Review of Economic Studies*.

Andrei Levchenko and Jing Zhang. 2016. The evolution of comparative advantage: Measurement and welfare implications. *Journal of Monetary Economics*, [Volume 78](#), April 2016, Pages 96-111.

### **Papers that students can choose for class presentation**

(Note: For some of the papers, you only need to present part of it, as the paper is too long.)

F. Alvarez and R. E. Lucas (2007), "[General Equilibrium Analysis of the Eaton-Kortum Model of International Trade](#)," Journal of Monetary Economics, 54(6), pp.1726-1768.

Chor, Davin (2010) "[Unpacking Sources of Comparative Advantage: A Quantitative Approach](#)", Journal of International Economics, Vol. 82, No. 2, pages 152-167.

Andrew Bernard, Jonathan Eaton, Bradford Jensen, Samuel Kortum, "[Plants and Productivity in International Trade](#)," AER, 2003 93(4):1268-1290.

R. Johnson and G. Noguera (2017) "A Portrait of Trade in Value-added over Four Decades," The Review of Economics and Statistics, 99 (5).

Simonovska, Ina and Michael Waugh. 2014. "The Elasticity of Trade: Estimates and Evidence." Journal of International Economics, 92(1), 34-50.

Eaton, J., Kortum, S., 1999. International technology diffusion: theory and measurement. International Economic Review 40, 537–570.

A. Costinot, "An elementary theory of comparative advantage," Econometrica 2009, 1165-1192.

P. Krugman, "[Increasing Returns and Economic Geography](#)," JPE, Volume 99, Issue 3, Jan 1991

Papers listed in "[Papers that may be covered in the lectures](#)" but not covered in the lectures.

### **Papers that are useful references but may or may not be covered in the lectures nor suitable for class presentation as they are too old, too difficult, too simple, too long or too short**

D. Donaldson, "The Gains from Market Integration," Annual Review of Economics 2015, 619-647.

D. Autor, D. Dorn, and G. Hanson, "The China shock: Learning from labor-market adjustment to large changes in trade," Annu Rev Econ 2016, 205-240.

K. Bagwell and R. Staiger, "The World Trade Organization: Theory and practice," Annu. Rev. of Econ, 2010, 223-256.

Freund C, Ornelas E. 2010. Regional trade agreements. Annu. Rev. Econ., 139–166

Costinot, Arnaud. (2009) "[On the Origins of Comparative Advantage](#)", Journal of International Economics, Vol. 77, No. 2, pages 255-264.

ARKOLAKIS, C., A. COSTINOT, D. DONALDSON, AND A. RODRIGUEZ-CLARE (2012): "The Elusive Pro-Competitive Effects of Trade," *Review of Economic Studies*.

Melitz, Marc J. and Stephen J. Redding. 2014. "Missing Gains from Trade?" *American Economic Review Papers and Proceedings*, 104(5), 317-321.

Melitz, Marc J. and Stephen J. Redding. 2015. "New Trade Models, New Welfare Implications." *American Economic Review*, 105(3), 1105-1146.

Antras, Pol and Alonso de Gortari. 2020. "On the Geography of Global Value Chains." *Econometrica*, Volume 88, Issue 4, July 2020, Pages 1553-1598.

Armington, P. 1969. "A theory of demand for products distinguished by place of production." *International Monetary Fund Staff Paper*, XVI (1969), pp. 159–178.

Frankel J.A., Romer D.H. 1999. Does trade cause growth? *Am. Econ. Rev.* 89:379–99

K. Matsuyama, "[Ricardian trade theory](#)," in L. Blume and S. Durlauf, eds., the *New Palgrave Dictionary of Economics*, 2nd Edition, Macmillan.

R. Dekle, J. Eaton, and S. Kortum, Samuel "Unbalanced Trade," *AER* 2007, 351-355.

Robert C. Johnson "[Five Facts about Value-Added Exports and Implications for Macroeconomics and Trade Research](#)", *Journal of Economic Perspectives*—Volume 28, Number 2—Spring 2014—Pages 119–142

Kei-Mu Yi, "[Can Vertical Specialization Explain the Growth of World Trade?](#)" *Journal of Political Economy*, Vol. 111, No. 1 (February 2003), pp. 52-102

E. Helpman, "The structure of foreign trade," *Journal of Economic Perspectives* 1999, 121-144.

D. Trefler, "[International factor price differences: Leontief was right!](#)" *Journal of Political Economy* 1993, 961-987

Trefler, D., "[The Case of the Missing Trade and other Mysteries](#)," *American Economic Review* (Dec. 1995).