

Syllabus for lecture: Trade Policy

Spring term 2021 – subject to small ongoing changes

Lecture:	Prof. Dr. Philip Sauré Time: Monday, 2:15 – 3:45 pm Location: online class until further notice
Tutorial I:	Nhi Nguyen Time: Wednesday, 12:15 – 1:45 pm Location: online class until further notice
Tutorial II:	Nhi Nguyen Time: Tuesday, 6:15 -7:45 pm Location: online class until further notice

Trade policy comprises all government policies targeted at cross-border trade flows and typically consist of import tariffs or other trade-restricting barriers. The course introduces the core topics and objectives of trade policy, such as terms-of-trade manipulation, rational for trade agreements, infant industries protection and lobbying activities. Selected current policy topics in trade policy will be discussed in light of theories and empirical regularities. Time permitting, the course reviews some of the principles of international trade agreements and assesses them in view of current theories and findings. On the technical side, the course develops the theories with the help of partial and general equilibrium models, as usually employed in international trade. Prior knowledge from international trade courses are therefore not mandatory but very helpful. Empirical work mostly rely on panel data analyses.

Textbooks

Feenstra, Robert C. Advanced international trade: theory and evidence. Princeton university press, 2016.

I. Preliminaries [Motivation and analytical tools]

Required readings

MWG: Chapter 15 (pp. 515 – 521)

Dornbusch, Rudiger, Stanley Fischer, and Paul Anthony Samuelson. "Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods." American Economic Review 67.5 (1977): 823-839.

Optional readings

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

Anderson, James E., and Eric Van Wincoop. "Gravity with gravitas: a solution to the border puzzle." American Economic Review 93.1 (2003): 170-192.

II. Import Tariffs and Optimal Trade Policy [The rational for trade policy]

Required readings

Feenstra, p 137 - 147

Broda, C., Limao, N., and Weinstein, D. E. (2008). Optimal tariffs and market power: the evidence. *American Economic Review*, 98(5), 2032-65.

Optional readings

Broda, Christian, and David E. Weinstein (2006). "Globalization and the Gains from Variety." *The Quarterly journal of economics* 121.2 pp. 541-585

Bagwell, K., and Staiger, R. W. (2011). What do trade negotiators negotiate about? Empirical evidence from the World Trade Organization. *American Economic Review*, 101(4), 1238-73.

Cagé, J., and Gadenne, L. (2018). Tax revenues and the fiscal cost of trade liberalization, 1792–2006. *Explorations in Economic History*, 70, 1-24.

III. Trade Policy in General Equilibrium

Required readings

Kennan, John, and Raymond Riezman. "Do big countries win tariff wars?" *International Economic Review* (1988): 81-85.

McLaren, John. "Size, sunk costs, and Judge Bowker's objection to free trade." *The American Economic Review* (1997): 400-420

Optional readings

Antràs, P., & Chor, D. (2021). *Global Value Chains*, mimeo

Lerner, Abba P. "The symmetry between import and export taxes." *Economica* 3.11 (1936): 306-313.

Lindé, Jesper, and Andrea Pescatori. "The Macroeconomic Effects of Trade Tariffs: Revisiting the Lerner Symmetry Result." *IMF Working Paper* (2017).

Maggi, Giovanni, and Andres Rodriguez-Clare. "The value of trade agreements in the presence of political pressures." *Journal of Political Economy* 106.3 (1998): 574-601.

Gopinath, G., and Rigobon, R. (2008). "Sticky borders." *Quarterly Journal of Economics*, 123(2), 531-575.

Bonadio, B., A. M. Fischer, Philip Sauré, "The Speed of Exchange Rate Pass-Through", *Journal of the European Economic Association* 2020

Feenstra pp. 224 – 239

Brander, J. A., & Spencer, B. J. (1984). Trade warfare: tariffs and cartels. *Journal of International Economics*, 16(3-4), 227-242.

IV. Dynamic Aspects of Trade Policy [Dynamically optimal trade policy]

Required readings

Krugman, Paul 1987. "The narrow moving band, the Dutch disease, and the competitive consequences of Mrs. Thatcher: Notes on trade in the presence of dynamic scale economies." *Journal of Development Economics* 27.1-2 41-55.

Luzio, Eduardo, and Shane Greenstein 1995. "Measuring the performance of a protected infant industry: the case of Brazilian microcomputers." *The Review of Economics and Statistics* 622-633.

Optional readings

Baldwin, R. E. (1969). The case against infant-industry tariff protection. *Journal of Political Economy*, 77(3), 295-305.

Yanikkaya, H. (2003). Trade openness and economic growth: a cross-country empirical investigation. *Journal of Development economics*, 72(1), 57-89.

Lee, Jong-Wha. "Government interventions and productivity growth." *Journal of Economic Growth* 1.3 (1996): 391-414.

Sauré, Philip 2007. "Revisiting the infant industry argument." *Journal of Development Economics* 84.1 104-117.

David, H., David Dorn, and Gordon H. Hanson. "The China syndrome: Local labor market effects of import competition in the United States." *American Economic Review* 103.6 (2013): 2121-68.

Bloom, Nicholas, Mirko Draca, and John Van Reenen 2016. "Trade induced technical change? The impact of Chinese imports on innovation, IT and productivity." *The Review of Economic Studies* 83.1

Syropoulos, C. 2002. Optimum tariffs and retaliation revisited: how country size matters. *The Review of Economic Studies*, 69(3), 707-727.

V. Political Pressure and Trade Policy [Trade policy with lobby groups]

Required readings

Grossman, Gene M., and Elhanan Helpman: "Protection for Sale." *The American Economic Review* 84.4 (1994): 833-850.

Goldberg, Pinelopi Koujianou, and Giovanni Maggi. "Protection for sale: An empirical investigation." *American Economic Review* 89.5 (1999): 1135-1155.

Optional readings

McLaren, John. "The political economy of commercial policy." *Handbook of Commercial Policy*. Vol. 1. North-Holland, 2016. 109-159.

Gawande, Kishore, and Usree Bandyopadhyay 2000. "Is protection for sale? Evidence on the Grossman-Helpman theory of endogenous protection." *Review of Economics and Statistics* 82.1: 139-152.

Mitra, Devashish. "Endogenous lobby formation and endogenous protection: a long-run model of trade policy determination." *American Economic Review* 89.5 (1999): 1116-1134.

Imbs, J., & Mejean, I. (2015). Elasticity optimism. *American Economic Journal: Macroeconomics*, 7(3), 43-83.

Ossa, Ralph 2011. "A "new trade" theory of GATT/WTO negotiations." *Journal of Political Economy* 119.1 122-152.

Nicita, Alessandro, Marcelo Olarreaga, and Peri A. Silva. 2018 "Cooperation in WTO's tariff waters." *Journal of Political Economy*.

Lee, Jong-Wha, and Phillip Swagel. "Trade barriers and trade flows across countries and industries." *Review of Economics and Statistics* 79.3 (1997): 372-382.

VI. Trade Agreements [time permitting]

Required readings

Feenstra, pp. 311-317

Baier, Scott L., and Jeffrey H. Bergstrand 2007. "Do free trade agreements actually increase members' international trade?." *Journal of International Economics* 71.1 72-95.

Optional readings

Rose, Andrew K 2004. "Do We Really Know That the WTO Increases Trade?." *American Economic Review* 98-114.

Tomz, Michael, Judith L. Goldstein, and Douglas Rivers 2007. "Do we really know that the WTO increases trade? Comment." *The American Economic Review* 97.5 2005-2018.

Carrere, Céline 2006. "Revisiting the effects of regional trade agreements on trade flows with proper specification of the gravity model." *European Economic Review* 50.2 223-247.

Subramanian, Arvind, and Shang-Jin Wei 2007. "The WTO promotes trade, strongly but unevenly." *Journal of International Economics* 72.1 151-175.

Magee, Christopher 2008. "New measures of trade creation and trade diversion." *Journal of International Economics* 75.2 349-362.

Handley, Kyle, and Nuno Limão 2013. Policy uncertainty, trade and welfare: theory and evidence for China and the US. No. w19376. National Bureau of Economic Research

Bagwell, Kyle, and Robert W. Staiger 2001. "Domestic policies, national sovereignty, and international economic institutions." *Quarterly Journal of Economics* 116.2 519-562.

Sauré, Philip 2014. "Domestic policies in self-enforcing trade agreements." *European Economic Review* 68 19-30.

Yarbrough, Beth V., and Robert M. Yarbrough 1986. "Reciprocity, bilateralism, and economic 'hostages': Self-enforcing agreements in international trade." *International Studies Quarterly* 30.1 7-21.

Bagwell, Kyle, and Robert W. Staiger 2006. "Will international rules on subsidies disrupt the world trading system?." *The American Economic Review* 96.3 877-895.

Ederington, Josh 2001. "International coordination of trade and domestic policies." *The American Economic Review* 91.5 1580-1593.

Brou, Daniel, and Michele Ruta 2013. "A commitment theory of subsidy agreements." *The BE Journal of Economic Analysis & Policy* 13.1 239-270.