

# Trade Policy

Summer 2024

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## Organization

### Lecture:

Instructor: Prof. Dr. Philip Sauré

Time: Wednesday, 14:15 – 15:45

Location: 00 211 HS I

### Tutorial:

Instructor: Shaeyan, Mohsen

Time: Thursday, 16:15 – 17:45

Location: 00 211 HS I

For all organizational issues, please see also Jogustine – in case of discrepancies, Jogustine is always the principle source of information.

All course material will be available through the JGU LMS (Moodle).

## Course Description

Trade policy comprises all government policies targeted at cross-border trade flows, typically consisting 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, rationales for trade agreements, infant industries protection and lobbying activities. For all of these topics, we develop theories and discuss them in the light of data, applying rigorous empirical analysis. To give additional life to the theories, selected current policy topics in trade policy will be covered and discussed to the core course material. Time permitting, the course reviews some of the principles of international trade agreements and assesses them in view of current theories and empirical findings.

## Course requirements

Regarding methodology and tools, the course follows the standards in international trade and develops theories with the help of micro-founded partial and general equilibrium models. Empirical work will rely on cross-section and panel data analysis. Prior knowledge from international trade and econometric or statistical courses are therefore very helpful.

# Literature

## Textbooks

- Feenstra, Robert C. Advanced international trade: theory and evidence. Princeton university press, 2016. [FT]
- Mas-Colell, A., Whinston, M. D., and Green, J. R. (1995). Microeconomic theory (Vol. 1). New York: Oxford university press. [MWG]

### 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.

### 1. 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.
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### II 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., and 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., and Spencer, B. J. (1984). Trade warfare: tariffs and cartels. *Journal of International Economics*, 16(3-4), 227-242.

### III 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.

### IV 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., and 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.

## V 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 and Policy* 13.1 239-270.