

# International Trade Policy

4<sup>th</sup> module, 2023-2024

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## Course information

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**Course Website:** my.nes.ru

**Instructor's Office Hours:** by appointment

**Class Time:** Friday, 11:45-13:15

**Room Number:** TBA

**TAs:** Altana Davydova

## Course description

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**The objective of this course:** the course is designed to provide students with the ability to conduct an economic analysis of policy issues related to international trade.

**The learning goal:** at the end of the course the students will be able to analyze the economic implications of various instruments of trade policy, trace the origins of various processes of international (global or regional) economic integration, and to discuss their implications for the international patterns of product specialization.

**Course methodology:** the course begins with a discussion of the effects of various trade policy instruments and includes applications of several cases. It proceeds to a discussion of the arguments for and against protection and managed trade. Special attention is paid to issues of trade policy and political economy of trade protection. We analyze the rationale for a World Trade Organization, custom unions and actual experience, and whether preferential trade agreements undermine or promote the multilateral trading system. Trade policy related economic sanctions will be discussed as well.

**The following methods and forms of study** are used in the course

- lectures (2 lectures per week)
- seminars (1 per week)
- written home assignments (2-3 per course)
- presentation and discussion of a trade policy issue

## Course requirements, grading, and attendance policies

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**Presentation on trade policy issue**

Group of up to 2 students (tbc) prepares and argues their position on the pre-approved trade policy topic. The rest of class and the audience will challenge their arguments. Both the presentation and Q&A will be accounted for the grade.

The general topic for presentations this year is: Multilateralism vs. Regionalism

Important dates for presentation

- 4<sup>th</sup> week of the module – the topic of the presentation should be approved
- Last week of the module – presentation

Students sit final exam. The final grade for the course consists of 20% of the grade for the home assignments, 20% for presentation and discussion (conditional on the presence during presentation seminar) and of 60% of the grade for the end-of-term exams.

Final exam format: closed book+ A4; 2 hours; exit – no; questions – yes.

## **Sample tasks for course evaluation**

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### **Sample topics of presentations**

Small country in PTA

Turkey and EU

WTO & Environment

Liberalization and employment

Boeing vs. Airbus

Ireland vs. EU

Trade wars and conflicts

Friend-shoring

EAEU-China cooperation

### **Sample: Final exam**

You have 2 hours. please, keep your answers brief and clear.

Necessary conditions for a satisfactory grade are positive points for three questions:

Good luck!

**Problem 1 (20 points)** Indicate whether you AGREE or DISAGREE with the statements below and explain your position. The answers will not be accounted without a proper explanation.

1) (10 points) Tariffs in less developed countries intended to promote their domestic industries may, in fact, inhibit the development of their most efficient industries.

2) (10 points) Import demand elasticities are important determinants of industry level of protection.

### **Problem 2. (15 points)**

Mexican producers use imported computer chips worth of \$ 700 and imported matrix displays worth of \$ 900 for the production of laptops, the world price of which is \$ 2,200.

a) What will be the effective level of protection in laptop producing industry if Mexico introduces an ad valorem tariff of 30% on the import of laptops?

b) What will be the effective level of protection in laptop producing industry, if in addition to the ad valorem tariff of 30% on import of laptops import tariffs of 10% on computer chips and 25% on matrix displays are set?

**Problem 3. (30 points)**

Ararat is a small country. Its meat products are supplied by competitive firms that are organized in the Meat Producers Association (MPA, for short). The association seeks to maximize aggregate profits  $\Pi(p)$  of its members, where  $p$  is the domestic price of meat.

The government of Ararat imposes quotas on the imports of meat. The quotas are owned by a large group of individuals who are not organized.

**A)** What is the domestic price of meat when the MPA lobbies for quotas?

After many efforts, the quota owners banded together and formed the Meat Importers Association (MIA, for short). The aim of the association is to lobby for quotas so as to maximize quota rents.

**B)** How will meat imports change as a result of the MIA's lobbying efforts? What will happen to the domestic price of meat?

**Problem 4. (35 points)**

**A)** Why might countries engage in preferential trade agreements?

**B)** Consider Eurasian economic union (EAEU) and specify which arguments are relevant to each member country.

**C)** Discuss positive and negative effects of EAEU on member countries.

**D)** What other potential options for trade integration were available for member countries of EAEU?

**E)** What are the main problems the EAEU faces today?

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**Course materials**

**Required textbooks and materials**

There is no formal textbook for the course, I will refer in some cases to the following monographs and papers:

Dixit, Avinash and Victor Norman, Theory of International Trade: A Dual, General Equilibrium Approach, Cambridge University Press, 1980 (DN)

Krugman, P., M. Obstfeld, M. Melitz, International Economics: Theory and Policy, Pearson Education, 2011 (KO)

N. Vousden, The economics of protection, Cambridge University Press, 1990 (V)

Feenstra R. (F), Advanced International Trade: Theory and Evidence, Princeton University Press, 2004

Krugman, Paul R. (K): Rethinking International Trade. Cambridge, MA: The MIT Press 1990.

R. Jones, P. Kenen, Handbook in International Economics, Vol. I, Amsterdam, North Holland (JK)

G. Grossman, K. Rogoff, Handbook in International Economics, Vol. 3, North Holland, 1996 (GR)

Gopinath, G., E. Helpman and K. Rogoff (eds.), Handbook of International Economics, Vol. IV, (Amsterdam, North Holland, 2014) (HB4)

E. Helpman and P. Krugman (HK) Trade policy and market structure, MIT Press, 1989

M. Morkre and D. Tarr (MT) (1980) The Effects of Restrictions on United States Imports: Five Case Studies and Theory, Bureau of Economics Report to the Federal Trade Commission, Washington, D.C.: U.S. Government Printing Office, June, 1980

Bernard, Jensen, Redding, Schott (2011), "The empirics of firm heterogeneity and international trade", NBER WP17627

Costinot, Rodríguez-Clare (2014) "Trade Theory with Numbers: Quantifying the Consequences of Globalization", in Gopinath, Helpman, Rogoff (eds.) *Handbook of International Economics*, vol. IV

Bagwell, Staiger (2010) "The World Trade Organization: Theory and Practice", *Annual Review of Economics*, 2:223–56

Dixit, Avinash and Victor Norman, *Theory of International Trade: A Dual, General Equilibrium Approach*, Cambridge University Press, 1980

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## **Course content and additional materials**

### **Pareto Gains from Trade**

Dixit&Norman (DN), Chapter 3, pp. 74-81.

Akerlof, George, Andrew Rose, Janet Yellen and Helga Hessenius, "East Germany in from the Cold: The Economic Aftermath of Currency Union," *Brookings Papers on Economic Activity*, 1991, vol. 1.

Costinot, Rodríguez-Clare (2014) "Trade Theory with Numbers: Quantifying the Consequences of Globalization", in HB4

### **Import Tariffs, Dumping**

Feenstra (F), Ch. 7

Brander, James A. and Barbara J. Spencer. "Trade Warfare: Tariffs and Cartels." *Journal of International Economics*, Vol. 16, No. 3, (May 1984), pp. 227-242

Feenstra, Robert, 1989, "Symmetric Pass-through of Tariffs and Exchange Rates under Imperfect Competition: An Empirical Test", [\*Journal of International Economics\*](#), 27(1-2), 25-45

Lerner, A. 1936. The Symmetry between Export and Import Taxes. *Economica* 3: 306-313.

Feenstra, Ch. 7

Brander, James and Paul Krugman, 1983, "A 'Reciprocal Dumping' Model of International Trade", [\*Journal of International Economics\*](#), 15(3-4), 313-321,

Hansen, Wendy and Thomas Prusa, 1995, "The Road Most Traveled: The Rise of Title VII Protection", *The World Economy*, 18(2), 295-313

### **Import Quotas, Export Subsidies**

Feenstra, Ch. 8

Feenstra, Robert, 1992, "How Costly is Protectionism?", [\*Journal of Economic Perspectives\*](#), 6: 159-78

Feenstra, Robert, 1988, "Quality Change under Trade Restraints: Theory and Evidence from Japanese Autos", [\*The Quarterly Journal of Economics\*](#), vol. 103(1), pages 131-46

Eaton, Jonathan and Gene Grossman, 1986, "Optimal Trade and Industrial Policies under Oligopoly", [\*The Quarterly Journal of Economics\*](#), 101(3).

Irwin, Douglas, 1991, "Mercantilism as Strategic Trade Policy: The Anglo-Dutch Rivalry for the East India Trade", [\*Journal of Political Economy\*](#), 99(6), 1296-314,

### **Trade Policy and Perfect Competition**

Baldwin, R. 1969. The Case Against Infant Industry Protection. [\*Journal of Political Economy\*](#) 77: 295-305.

Bhagwati, J. 1965. On the Equivalence of Tariffs and Quotas. In R. Baldwin, ed., *Trade, Growth, and the Balance of Payments*, North-Holland.

Bhagwati, J. 1971. The Generalized Theory of Distortions and Welfare. In J. Bhagwati, R. Mundell, R. Jones, and J. Vanek, eds., *Trade, Balance of Payments, and Growth*, pp. 69-90.

Bhagwati, J. 1982. Directly-unproductive, Profit-seeking (DUP) Activities, *Journal of Political Economy*, 90: 988-1002.

Corden, M. 1984. The Normative Theory of International Trade. In Jones and Kenen, eds., Handbook of International Economics, Vols. 1 and 2. North-Holland.

### **Trade Policy and Imperfect Competition**

Feenstra, R. 1988. Quality Change under Trade Restraints in Japanese Autos. *The Quarterly Journal of Economics*, 103: 131-146.

Knetter, M. 1989. Price Discrimination by U.S. and German Exporters. *American Economic Review*, 79: 198-210.

Brander, J. 1995. Strategic Trade Policy. In Grossman and Rogoff, eds., Handbook of International Economics, Vol. 3. North-Holland.

Koujianou, P. 1995. Product Differentiation and Oligopoly in International Markets: The Case of the U.S. Automobile Industry. *Econometrica*, 63: 891-951.

Berry, S., J. Levinsohn, and A. Pakes. 1999. Voluntary Export Restraints on Automobiles: Evaluating a Strategic Trade Policy. *American Economic Review*, 89(3): 400-430.

Felbermayr, G., B. Jung and M. Larch, "Optimal Tariffs, Retaliation, and the Welfare Loss from Tariff Wars in the Melitz Model," *Journal of International Economics*, 89: 13-25, 2013.

Balistreri, E.J., R.H. Hillberry and T.F. Rutherford, "Structural Estimation and Solution of International Trade Models with Heterogeneous Firms," *Journal of International Economics*, 83: 95-108, 2011.

Ossa, Ralph, 2014, "Trade Wars and Trade Talks with Data," *American Economic Review* 104(12): 4104-46.

### **Preferential Trade Areas**

Feenstra, Ch. 6

R. Baldwin and A. Venables, "Regional Economic Integration," in G. Grossman and K. Rogoff, eds, Handbook of International Economics, vol.3, North Holland, 1996.

K. Bagwell and R.W. Staiger, "An Economic Theory of the GATT", *American Economic Review*, 1999

M. Kemp and H. Wan, "An Elementary Proposition Concerning the Formation of Custom Unions", *Journal of International Economics*, 1976

M. Kemp and H. Wan, "The Comparison of Second-Best Equilibria, The Case of Custom Unions", *Journal of International Economics*, 1981

Dee, Gali "The Trade and Investment Effects of Preferential Trading Agreements", 2003, NBER 10160.

Antràs, Staiger (2012) "Offshoring and the Role of Trade Agreements", *American Economic Review*, 102(7): 3140-3183

### **WTO, history and principles**

Helpman, E., 1995, "Politics and Trade Policy", NBER Working Paper 5309

Bagwell, K., Staiger, R. W., 2004, "Enforcement, Private Political Pressure And The GATT/WTO Escape Clause", NBER Working Paper 10987

Horn, H., Mavroidis P. C., 2001, "Economic and Legal Aspects of the Most Favoured Nation Clause", CEPR Discussion Paper Series 2859

P. Krugman, "Is Bilateralism Bad?", in E. Helpman and A. Razin, International Trade and Trade Policy, The MIT Press, 1991.

P. Krugman, "Regionalism Versus Multilateralism: Analytical Notes" in J. De Melo and A.

Panagariya eds., New Dimensions in Regional Integration, Cambridge University Press, 1993

Bhagwati, Jagdish. "Regionalism versus multilateralism." *World Economy* 15.5 (1992): 535-556.

Maggi, Staiger (2012) "Trade Disputes and Settlement." Working paper  
Bagwell, Staiger (2011) "What Do Trade Negotiators Negotiate About? Empirical Evidence from the World Trade Organization", *American Economic Review*, 101 : 1238–1273

### **Russian WTO Accession**

Jesper Jensen, Thomas Rutherford and David G. Tarr (2007), "The Impact of Liberalizing Barriers to Foreign Direct Investment in Services: The Case of Russian Accession to the World Trade Organization," *Review of Development Economics*, 11 (3), pp. 482-506

Thomas Rutherford and David G. Tarr, 2008, Regional Household and Poverty Effects of Russia's Accession to the World Trade Organization, [World Bank Policy Research Working Paper No. 4570](#)

David Tarr (2007), "Russian WTO Accession: What has been Accomplished, What can be expected?" *Eurasian Geography and Economics*,

David Tarr, Natalya Volchkova, 2010, "Russian Trade and Foreign Direct Investment Policy at the Crossroads" , in Ausland in S.Guriev, A. Aslund and A. Kuchins (eds.) *Russia after the Global Economic Crisis*

### **Political Economy of Protection**

Feenstra, Ch.9

V, pp. 177-203

D.Rodrik, "The political Economy of Trade Policy", in GR Helpman, E., 1995, "Politics and Trade Policy", NBER Working Paper 5309

P. Goldberg and G. Maggi, "Protection for Sale: An Empirical Investigation," *American Economic Review*, Dec. 1999, crp. 1135-1155.

Trefler (1993) "Trade liberalization and the theory of endogenous protection: an econometric study of US import policy", *Journal of Political Economy*, Vol. 101, N. 1

Gawande and Bandyopadhyay (2000) "Is protection for sale? Evidence on the Grossman-Helpman theory of endogenous protection", *Review of Economics and Statistics* 82 (1)

Grossman, Gene M. and Elhanan Helpman, "Protection for Sale," *American Economic Review*, 1994.

Grossman, Gene M. and Elhanan Helpman, "The Politics of Free Trade Agreements," *American Economic Review*, 1995.

Helpman, Elhanan, "Politics and Trade Policy," in David M. Kreps and Kenneth F. Wallis (eds.), *Advances in Economics and Econometrics: Theory and Applications* (New York and Cambridge: Cambridge University Press), 1997, pp. 19-45.

Grossman, Gene M. and Elhanan Helpman, 2005, "A Protectionist Bias in Majoritarian Politics," [The Quarterly Journal of Economics](#), 120(4), 1239-1282

Mitra, Daveshin, Dimitrios D. Thomakos and Mehmet A. Ulubasoglu, 2002, "'Protection for Sale' in a Developing Country: Democracy versus Dictatorship," *Review of Economics and Statistics*, 84(3), 497-508

### **Global Value Chains (time permitting)**

Global value chains in a changing world, Deborah K. Elms and Patrick Low (eds), WTO, 2013

Autor, D.H.; Levy, F.; Murnane, R.J. 2003. "The Skill Content of Recent Technological Change: An Empirical Exploration", *Quarterly Journal of Economics*, 118(4): 1279–333.

Johnson, R.C.; Noguera, G. 2011. "Accounting for Intermediates: Production Sharing and Trade in Value Added", *Journal of International Economics*

### **Natural resource curse: economic policy challenges (time permitting)**

- Auty, R.M. (2001), 'The Political Economy of Resource-Driven Growth', *European Economic Review* 45, p. 839-846
- Bravo-Ortega, C. and De Gregorio, J. (2003), 'The Relative Richness of the Poor? Natural Resources, Human Capital and Economic Growth', World Bank Working Paper
- Hutchison, M.M. (1994), 'Manufacturing Sector Resiliency to Energy Booms: Empirical Evidence from Norway, the Netherlands, and the United Kingdom', *Oxford Economic Papers*, New Series, 46 (2), p. 311-329
- Sachs, J. and A. Warner (1995), 'Natural Resource Abundance and Economic Growth', NBER working paper 5398, Cambridge, MA.
- Sachs, J. and A. Warner (1999b), 'The Curse of Natural Resources', *European Economic Review* 45, p. 827-838
- Sala-i-Martin, X. and Subramanian, A, (2003), 'Addressing the Natural Resource Curse: An Illustration from Nigeria', IMF Working Paper 03/139
- Suslova E., N. Volchkova (2007) "Human Capital, Industrial Growth and Resource Curse" , CEFIR WP
- Wijnbergen, S. (1984a), 'The "Dutch Disease": A Disease After All?', *The Economic Journal* 94, p. 41-55

### **Economic sanctions**

- Baliga, Sandeep and Tomas Sjöström, 2022. Optimal Coercion. Northwestern University Working paper
- Crozet, Matthieu & Julian Hinz, 2020. "Friendly fire: the trade impact of the Russia sanctions and counter-sanctions," *Economic Policy*, CEPR;CES;MSH, vol. 35(101), pages 97-146.
- Felbermayr, Gabriel, Aleksandra Kirilakha, Constantinos Syropoulos, Erdal Yalcin, Yoto V. Yotov/ 2020. "The global sanctions data base", *European Economic Review*, Volume 129
- Felbermayr, Gabriel & Syropoulos, Constantinos & Yalcin, Erdal & Yotov, Yoto, 2020. "On the Heterogeneous Effects of Sanctions on Trade and Welfare: Evidence from the Sanctions on Iran and a New Database," School of Economics Working Paper Series 2020-4, LeBow College of Business, Drexel University.
- Gurvich E. & I. Prilepskiy., 2016. "The impact of financial sanctions on the Russian economy," *VOPROSY ECONOMIKI*, N.P. Redaktsiya zhurnala "Voprosy Ekonomiki", vol. 1
- Korhonen, Iikka & Heli Simola & Laura Solanko, 2018. "Sanctions and countersanctions – effects on economy, trade and finance," *Focus on European Economic Integration*, Oesterreichische Nationalbank (Austrian Central Bank), issue Q3-18, pages 68-76
- Sturm, John, 2022. A Theory of Economic Sanctions as Terms-of-Trade Manipulation, MIT Working Paper
- Sturm, John, 2023. How Should Sanctions Account for Bystander Countries? AEA Papers and Proceeding

### **Academic integrity policy**

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Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.