INTERNATIONAL TRADE POLICY

Prof. Jan Jakub Michałek

Lecture; 30 hours
Spring semester

Course objective:

The course is the graduate lecture in international trade policy. Its focus will be on new trends in the theory of trade policy. The course is offered in English in the winter term. The objective of the course is to acquaint participants with international trade policy issues. The topics covered will include analysis of instruments of trade policy under perfect and imperfect competition, and the political economy of trade policy. Another objective of the course is to help students explore potential thesis topics in these areas.

Course outline:

The list of topics and papers is intended to provide a guide into several research areas. The course will cover only some of the papers and students are not required to read all the papers listed. The readings have been divided according to their importance, with two ** indicating the most important, one * indicating the next most important, and no stars indicating that the reading is for pleasure or adventure!

The course covers the following topics:

No. 1. Trade policy under perfect competition: tariffs

Basic tariff analysis: partial equilibrium approach: small and large country, general equilibrium effects, optimal tariff, effective rate of protection, infant-industry protection.

Background reading: Marrewijk, International Trade & World Economy, chap. 8, or Markusen, J. Marvin, W. Kaempfer, K. Maskus (1995) International Trade Theory and Policy, McGraw-Hill, chap. 15 p. 245-265.

Helpman E., Krugman P., 1998, *Trade policy and market structure*, chap. 2*

Bowen H.P., Hollander A., Viane J.M, (BHV), 1998, *Applied International Trade Analysis*, MacMillan Press, chap. 5.1.*

No. 2. Trade policy under perfect competition: non-tariff measures (QRs and VERs)

Non-tariff measures: Comparison of tariffs with quantitative restrictions (QR's) under perfect competition; import licensing, voluntary export restraints (VER's).

Background reading: J, Markusen et all., 1995, *International Trade Theory and Policy*, chap. 16: Quotas and other non-tariff measures, p. 268-288*

BHV, 1998, *Applied International Trade Analysis* chap. 5.2. p. 170-191**

E. Helpman, P. Krugman, 1989, *Trade Policy and Market Structure*, chap. 3**

C. Hamilton Carl, G. Reed, 1996, Economic Aspects of Voluntary Export Restraints, in:

Melo de J., Pfaff A., Tarr D., 1994, *Welfare cost and rent premia when quotas are not transferable*, *European Economic Review*, 38 (s. 577-585).

No. 3: Trade policy instruments under perfect competition: subsidies and anti-dumping
Dumping and A-D procedures, Reasons for dumping, production and export subsidies and countervailing duties.
Background reading: Marrewijk: chap. 11;
Lahiri S., Sheen J., 1990, On Optimal Dumping, *The Economic Journal*, vol. 100,**
chap. 14.3**
Rivera-Batiz L, Oliva M-A, 2003, *International Trade. Theory, Strategies and Evidence*. Oxford,. chap.14.3-14.4**

No. 4: The impact of technical standards on trade flows
The role of standards in international trade, standardization union, empirical estimates
Moenius, J. (1999), "Information versus Product Adaptation: The role of Standards in Trade", working paper no. 11/2499, University of California, San Diego.
Gandal, N., Shy, O., 2001, *Standardization policy and international trade*, Journal of International Economics, vol. 53, p. 363-383.
Brenton, P., Sheehy, J., Vancauteren, M., 2001, *Technical Barriers to Trade in the European Union: Importance for Accession Countries,* Journal of Common Market Studies 39, 2: 265-284.

No. 5: Import tariffs and monopolistic markets
Tariff against foreign monopoly, market equilibrium under domestic monopoly, rent extraction.
BHV, chap. 10.1. Trade policy under imperfectly competitive markets, p. 393-298**
Rivera-Batiz, Oliva M., 2003, chap. 13.8*

No. 6: Reciprocal dumping and import protection under oligopoly
Reciprocal dumping, impact on market structure, welfare analysis
Markusen J, et all. (1995) International Trade Theory and Policy, chap. 17
Brander J., Krugman P., 1983, A Reciprocal Dumping Model of International Trade, in: P. Krugman, Rethinking international trade, 1990, MIT Press, chap. 4, p. 53-62. Journal of International Economics.**
Rivera-Batiz, Oliva, chap. 14**,
BHV, chap. 10. Trade policy under imperfectly competitive markets, p. 393-411.*

No. 7: Strategic trade policy: competition under Cournot
Background reading (for classes 7 & 8):
Brander J., Spencer B., 1985, Export subsidies and market share rivalry, Journal of International Economics 18; p.83-100**
Rivera-Batiz L., Oliva M. (2003), *International Trade, Theory, Strategies and Evidence*, chap.: Competition and rivalry (7**);

No. 8: Strategic trade policy: competition under Bertarnd
Strategic trade policy depending on mode of competition (Bertrand competition);
Eaton J., Grossman G., 1986, Optimal trade and industrial policy under oligopoly, Quarterly Journal of Economics, p. 383-406.**
Rivera-Batiz L., Oliva M. (2003), *International Trade, Theory, Strategies and Evidence*, chap.: Strategies and Mode of Competition (8**);

No. 9: Strategic trade policy: competition and R&D rivalry

Krugman P., 1984, *Import Protection as Export Promotion: International Competition in the Presence of Oligopoly and Economies of Scale:* in H. Kierzkowski (ed.): Monopolistic competition and international trade, Clarendon Press, 1984, p. 180-193.
Rivera-Batiz L., Oliva M. (2003), *International Trade, Theory, Strategies and Evidence*, chap.: Innovation, Research and Learning (10**);

No. 10. Applied Trade Policy Analysis
Estimating trade effects, The Armington model (products differentiated according to the place of production), Framework for analysis under partial and general equilibrium
BHV, 1998, chap. 5.3*
Francois J. Reinhert: *Applied Methods for Trade Policy Analysis*, chap. 5**
Smith A.-Venables A., 1988, Completing the Internal Market in the European Community. Some Industry Simulations, *Research European Economic Review* 32 (7)*.

No. 11: Political economy: neo-classical approach and systematization
Background reading: Rodrik, D., 1995, *Political Economy of Trade Policy*, in: Grossman G., Rogoff K. (eds.), Handbook of International Economics, vol. III, Elsevier Science B.V., Amsterdam, p. 1458-1476
Krueger A., 1974, *The Political Economy of Rent Seeking Society.*, AER 64, no. 3 *
Findlay R., Wellisz S., 1982, *Endogenous Tariff, the Political Economy of Trade Restrictions and Welfare*, in J. Bhagwati (ed.) Import protection and export promotion, University of Chicago Press**
Feenstra R., 2004, *Advanced International Trade, Theory and Evidence*, Princeton Univ. Press, chap. 9, p. 300-304; (Median voter)**

No. 12: Political economy: probabilistic approach
Probabilistic approach to political economy, Protection for sale, endogenous lobbies.
Magee S., Brock W., Young L., 1992, *Black Hole Tariffs and Endogenous Policy Theory. Political Economy in General Equilibrium,* Cambridge Univ. Press, chap. 9, The 2x2x2 model of endogenous redistribution theory, p.122-137 and 299-305**
Grossman G., Helpman E., 1994, Protection for Sale, American Economic Review 84, 833-850.
Feenstra R., 2004, *Advanced International Trade, Theory and Evidence*, Princeton Univ. Press, chap. 9, p. 305-315; (Protection for sale, Endogenous Lobbies)**
Goldberg P., Maggi G., 1999, Protection for Sale: An Empirical Investigation, American Economic Review 89, 1135-1155. *

No. 13. Rules of international trading system
The principle of non-discrimination and reciprocity as the best rules for international trade negotiations.
Bagwell, K. Staiger R.W. (1999), *An Economic Theory of GATT*, American Economic Review*
Rivera-Batiz L, Oliva M., 2003, *International Trade* …, chapters 18.5-18.6**
Bagwell, K. Staiger R.W, 2002, *The Economics of the World Trading System,*
chapters 2,4,5,6.

No. 14 Multilateral trading system: the role of GATT/WTO
Advantage of international negotiation, basic principle of non-discrimination and reciprocity, “bound” tariffs, the role of GATT/WTO system in post war trade liberalization.

Hoekman B, Kostecki M, (2001), *Political economy of the World Trading System*, Oxford chapters: 5, 7 & 9.**

Suggested readings:

Background reading:

Those who did not attend undergraduate lectures on international trade are advised to consult selected chapters from:

- Krugman P, Obstfeld M.,(K&O) *International Economics, Theory and policy*, VI edition, Addisson Wesley Publishing Comp. 2003
- Marrewijk C. Van, *International Trade & World Economy*, Oxford Univ. Press, 2002.
- Markusen J., Marvin J., Kaempfer W., Maskus K., *International Trade Theory and Policy*, McGraw-Hill, (1995)
- Greenaway D., Winters A. (eds.), *Surveys in International Trade*, Blackwell, 1995.

The important advanced textbooks, which will be used during the course (some chapters will serve as a main reading) are:

- Rivera-Batiz L, Oliva M-A. (R-B-O), *International Trade. Theory, Strategies and Evidence.* Oxford Univ. Press, 2003.
- Feenstra R. C., *Advanced International Trade, Theory and Evidence*, Princeton Univ. Press 2004.
- Bowen H.P., Hollander A., Viane J.M (BHV), *Applied International Trade Analysis*, MacMillan Press, London, 1998.
- Helpman E., Krugman P., *Trade Policy and Market Structure*, MIT Press, 1989.
- Francois J., Reinhert K. (F-R), *Applied Methods for Trade Policy Analysis. A Handbook*, Cambridge Univ. Press, 1997.

Assessment:

Grading will be based on the final exam that will count for 50 % of the final grade and the research paper will count for the remaining 50 % (The outline and the first paper draft count a combined 20%, and the final version counts 30% towards the final grade). Sample areas to be covered by research papers include: specific aspects trade regulations under WTO; empirical evidence; tariffs vs. quantitative restrictions; VER and their economic importance: comparison with other trade policy instruments; subsidies vs. strategic subsidies: economic and legal evaluation of dumping, technical barriers to trade: standards and veterinary regulations; political economy: modeling process of political bargaining; empirical evidence of political economy modeling.