International Trade Theory

1. Description:
This course constitutes the first part of the graduate sequence in international trade (followed by International Trade Policy next term). While its focus is on recent trends in the theory of international trade the empirical validity of different theories is also explored. This course is designed mainly for Master of Arts in International Economics Program, however foreign exchange students visiting the Department of Economics at Warsaw University are also welcome to participate. Polish students with good knowledge of English from other specialization fields can enroll subject to instructor’s approval. The course is offered in the spring term. The class meets once a week for two hours.

2. Objectives:
The first objective of this course is to familiarize students with some recent developments in the theory of international trade. The topics covered will include increasing returns, imperfect competition, empirical tests, multinational enterprises, intermediate goods, economic geography, economic growth and environment. The second objective of the course is to help students explore potential thesis topics in these areas.

3. Topics:
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!

Topic 1. General equilibrium in the open economy

Class 1. Comparative advantage


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**Topic 2. Increasing returns**


**Class 2. Ricardian framework and increasing returns**


**Class 3. Heckscher-Ohlin framework and increasing returns**


**Topic 3. Imperfect competition**

**Background reading:** BHV, 1998, ch. 9 Imperfect Competition, 329 – 379.

**Class 4. Oligopolistic competition**


Class 5. Monopolistic competition

Topic 4. Empirical assessment

Class 6. Testing new trade theory

Topic 5. Foreign direct investment

Class 7. Vertical multinationals


Class 8. Horizontal multinationals


Markusen J.R., 2002, Multinational firms and the theory of international trade, ch. 6, A general-equilibrium monopolistic-competition model of horizontal multinationals,105-125.*

Class 9. Firm heterogeneity


Topic 7. Economic geography


Class 10. International location of production


**Topic 8. Economic growth**


**Class 11. International trade and economic growth**


**Class 12. Knowledge diffusion**


**Topic 9. Environment**


**Class 13. International trade and the environment**


4. Background reading:

5. Prerequisites:
In the course we will make use of general equilibrium theory and game theory. Therefore, a very good understanding of advanced microeconomics, as taught in the first term of the program, is crucial for mastering this course. Familiarity with international trade theory at an undergraduate level is helpful, although not required.

6. Exam:
Grading will be based on one, final exam given at the end of the course that will count for 100% of the final grade.