Course Requirement: No prerequisite, but students are expected to have the knowledge of the first-year graduate micro and macro sequences.

Course Description and Outline: Unlike a typical international trade course taught by others, my course emphasizes less on explaining the patterns and volume of trade per se and more on understanding how relative economic performances across countries and regions are affected by the interdependence caused by the fact that they trade with each other. The following outline is too ambitious for a semester, so that I will have to be more selective, but it should give you some ideas about this course.

Part I: A General Theory of Competitive Trade
Topic 1 Review: Duality Theory of Consumption and Production
Topic 2 Gains from Trade and Patterns of Trade
Topic 3 Some Comparative Statics

Part II: Competitive Trade: Ricardian Theory
Topic 4 Basics (2 Countries, No Trade Costs, Homothetic Demand, Exogenous Technologies)
Topic 5 Introducing Trade Costs
Topic 6 Non-Homothetic Preferences and North-South Trade
Topic 7 Multi-Country Extensions and Bilateral Trade

Part III: Competitive Trade: Factor Proportion Theory
Topic 8 Ricardo-Viner (Specific Factors) Model
Topic 9 Heckscher-Ohlin Model and Its Generalization
Topic 10 Models with Partially Mobile Factors
Topic 11 Factor Proportion-cum-Technological Heterogeneity

Part IV: Scale Economies, Product Differentiation, & Imperfect Competition
Topic 12 Endogenizing Technologies: External Economies & Increasing Returns
Topic 13 Competitive Trade with Nonconvex Technologies
Topic 14 Monopolistic Competition, Intra-industry Trade, and Gravity Equations
Topic 15 Trade Costs, Agglomeration, and Economic Geography
Topic 16 Monopolistic Competition with Heterogeneous Firms
Topic 17 Some Oligopoly Models of Trade

Part V: Trade Dynamics
Topic 18 Short-Run vs. Long Run: Structural Adjustments
Topic 19 Growth and Trade: Learning By Doing
Topic 20 Growth and Trade: Factor Accumulation
Topic 21 Growth and Trade: Innovation

Part VI: Intertemporal Trade
Topic 22 Dynamics of the Current and Trade Accounts
Topic 23 Risk, Diversification, and Asset Trade
Topic 24 Financial Frictions and International Capital Flows

Evaluation: 30%: Midterm; Thursday, March 20, during regular lecture hours
50%: Final Exam; Thursday, May 15, during regular lecture hours
20%: Class Participation
Textbooks: No textbook is used. But, the reading list refers to the following books, which are useful to own.

Dixit and Norman, Theory of International Trade Cambridge University Press
Feenstra, Advanced International Trade, Princeton University Press.
Grossman and Rogoff (eds.), Handbook of International Economics III, North-Holland
Helpman and Krugman, Market Structure and Foreign Trade MIT Press
Jones and Kenen (eds.), Handbook of International Economics I, North-Holland
Krugman, Rethinking International Trade MIT Press
Obstfeld and Rogoff, Foundations for International Macroeconomics, MIT Press.

Reading List: The essential readings are in bold. At least in the first half of the course, I teach mostly out of my own Lecture Slides, in which I try to give a unified treatment of the existing literature. These slides are constantly added and/or revised, and I will make them available on my homepage, http://faculty.wcas.northwestern.edu/~kmatsu/. In the second half of the course, however, I teach more directly out of selected articles.

Part I: A General Theory of Competitive Trade

Topic 1. Review; Duality Theory of Production and Consumption
Topic 2. Gains from Trade and Patterns of Trade

Matsuyama Trade Lecture Slides
Dixit and Norman, Theory of International Trade Chs. 3 and 4.
Ethier, W. "Higher Dimensional Issues in Trade Theory," Ch. 3.2 Handbook I
Feenstra, Chs. 1 and 6

Topic 3. Some Comparative Statics

Dixit and Norman, Ch.5
Bhagwati-Brecher-Hatta, “General Theory of Transfers and Welfare,” AER Sep 1983, in Bhagwati, Readings Ch. 27

Part II: Competitive Trade: Ricardian Theory

Overview:

Topic 4 & 5.  Basics

**Matsuyama, Trade Lecture Slides**
Krugman, P. *Rethinking International Trade* Ch. 10, “A Technology Gap Model…”

Topic 6.  Non-Homothetic Preferences and North-South Trade

**Matsuyama, Trade Lecture Slides**
Stibora and de Vaal, "Trade Policies in a Ricardian Model with a Continuum of Goods under Nonhomothetic Preferences," JDE.
Flam-Helpman "Vertical Product Differentiation and North-South Trade," AER Dec 1987
Stokey, "The Volume and Composition of Trade between Rich and Poor Countries," REStud Jan 1991

Topic 7.  Multi-Country Extensions and Bilateral Trade

**Matsuyama, Trade Lecture Slides**

Part III:  Competitive Trade: Factor Proportions Theory

Topic 8.  Ricardo-Viner (Specific Factors) Model

**Matsuyama, Trade Lecture Slides**
Jones, “A Three Factor Model in Theory, Trade, and History,” in Essays
Ruffin and Jones, JET 1977.

Topic 9.  Heckscher-Ohlin Model and Its Generalizations

**Matsuyama, Trade Lecture Slides**
Helpman and Krugman, Market Structure and Foreign Trade Ch. 1
Feenstra, Chs. 2 and 3.

Topic 10. Models with Partially Mobile Factors

Mussa
Grossman
Ruffin
Ohnsorge and Trefler, “International Trade with Heterogeneous Workers,” JPE Nov 2007

Topic 11. Factor Proportion-cum-Technological Heterogeneity

Matsuyama, Trade Lecture Slides
Feenstra, Chapter 4
Zhu and Trefler “Trade and Inequality in General Equilibrium,” JIE 2005
Matsuyama, “Beyond Icebergs,” RESStud, Jan 2007

Part IV: Scale Economies, Product Differentiation, and Imperfect Competition

Topic 12. Endogenizing Technologies: External Economies and Increasing Returns

Matsuyama, Trade Lecture Slides
Either, “Decreasing Cost in International Trade and Frank Graham’s Argument for Protection,” Ecta 1982

Topic 13. Competitive Trade with Nonconvex Technologies

Matsuyama, Trade Lecture Slides

Topic 14. Product Differentiation, Gains from Variety and Intra-Industry Trade

Matsuyama, Trade Lecture Slides
Feenstra, Ch. 5
Krugman, , Rethinking International Trade Ch. 1; “Increasing Returns, Monopolistic Competition, …” JIE 1979
Krugman, *Rethinking International Trade* Ch. 3; “Intraindustry Specialization, and Gains from Trade,” JPE 1981
Matsuyama, “A Chamberlain-Ricardo Approach,” in progress
Markusen, “Explaining the Volume of Trade: An Eclectic Approach" AER Dec 1986
Leamer and Levinsohn, "International Trade Theory: Evidence," Handbook III, Ch.3
Romalis, “Factor Proportions and Structure of Commodity Trade,” AER 2004
Hanson and Xiang, “Home-Market Effect and Bilateral Trade Patterns,” AER Sep 2004
Broda and Weinstein, “Globalization and Gains from Variety” QJE

**Topic 15. Trade Costs, Agglomeration, and Economic Geography**

*Overview*

**Matsuyama, Trade Lecture Slides**

**Nontraded Differentiated Goods**


*Trade Costs in Differentiated Goods: Home Market Effect*

Krugman, *Rethinking International Trade* Ch. 2; “Scale Economies, Product Differentiation, …,” AER 1980
Helpman-Krugman, 1985
Matsuyama, "Geography of the World Economy"
Behrens, et. al.

*Trade Costs in Differentiated Goods: Agglomeration and Economic Geography*

Puga, “The Rise and Fall of Regional Inequalities.” EER,

**Topic 16: Monopolistic Competition Models with Firm Heterogeneity**
Helpman-Melitz-Yeaple, “Export vs FDI with Heterogenous Firms” AER March 2004
Chaney, “Liquidity Constrained Exporters,”

Topic 17: Some Oligopoly Models of Trade
Brander-Krugman, “A Reciprocal Dumping Model…,” JIE 1983, in Rethinking International Trade, Ch. 5 etc.
Helpman and Krugman, Market Structure and Foreign Trade Ch. 5
Neary, RESstud

Part V: Trade Dynamics

Topic 18. Short Run vs. Long Run: Structural Adjustments
Neary, P, “Short-Run Capital Specificity….” EJ 1978, also in Bhagwati, Readings Ch. 5
Matsuyama, "Increasing Returns, Industrialization and Indeterminacy of Equilibrium" QJE May 1991

Topic 19 Growth and Trade: Learning-By-Doing
Krugman, Rethinking International Trade Chs. 7; “Narrow Moving Band, the Dutch Disease, …” JDE, 1987.
Young, QJE May 1991
Lucas, “Making a Miracle,” Ecta

Topic 20 Growth and Trade: Factor Accumulation

Acemoglu, Growth Manuscript, Ch. 18-19
Findlay, A chapter in Handbook I
Smith, A chapter in Handbook I
Stiglitz,
Findlay, R., “Factor Proportions and Comparative Advantage in the Long Run, Bhagwati, Readings Ch. 6.
Matsuyama, "Life-Cycle Saving and Comparative Advantage in the Long Run," EL
Krugman, *Rethinking International Trade* Ch. 6, “Trade, Accumulation, and Uneven Development,” JDE 1981
Ventura, “Growth and Interdependence,” QJE

**Acemoglu and Ventura, World Income Distribution, QJE 2002**
Baldwin and Martin, “Agglomeration and Regional Growth,” *Handbook of Regional and Urban Economics*
Ventura, “A Global View of Economic Growth,” in *Handbook of Economic Growth*

**Topic 21**  
Growth and Trade: Innovation

**Acemoglu, Growth Manuscript, Ch. 18-19**
Acemoglu and Zilibotti, “Productivity Differences,” QJE 2001
Acemoglu, “Patterns of Skill Premia,” *RESTud* April 2003

Diwan and Rodrik, “Patents, Appropriate Technology, and North-South Trade,” JIE 1991

**Part VI:**  
Intertemporal Trade

**Topic 22**  
Dynamics of the Current and Trade Accounts

**Obstfeld and Rogoff, Foundations of Open Economy Macroeconomics, Chs. 1-3.**
Obstfeld and Rogoff, "Intertemporal Approach to the Current Account," *Handbook III*, Ch. 11.
Matsuyama, K. “Current Account Dynamics in a Finite Horizon Model,” JIE November 1987

**Topic 23**  
Risk, Diversification, and Asset Trade

Obstfeld, and Rogoff, *Foundations of Open Economy Macroeconomics*, Ch. 5
Newberry and Stiglitz, “Pareto-Inferior Trade,” *RESTud*

**Broner-Ventura, “Globalization and Risk-Sharing,”**

**Topic 24.**  
Financial Frictions and International Capital Flows

Obstfeld and Rogoff, Foundations of Open Economy Macroeconomics, Chs. 6

Matsuyama, “Credit Market Imperfections and Patterns of Trade and Capital Flows,” JEEA April-May 2005

Wynne, “Wealth as a Determinant of Comparative Advantage,” AER Mar 2005

Manova,
Vogel, JIE Apr 2007


Acemoglu and Zilibotti, JPE 1997

Martin and Rey, “Globalization and Emerging Markets: With or Without Crash,” AER.

Caballero and Krishnamurthy, JME
