Course title: **Theory of International Trade (IE 407)**
Course type: ***Core***
Course instructor: **Aparna Sawhney**
Credits: **4**
Lecture hours: **4 hours/week**
Pre-requisite courses: ***Microeconomic Theory*** and ***Mathematical Economics***

Course Objectives: To provide a sound theoretical foundation in international economics through the study of models explaining pattern of international trade across countries.

Learning Outcomes: Students will be prepared for advanced study/ research in international economics/ trade; as well as work on trade policy analysis.

Evaluation: Midterm 50%, End term 50%

Course content: The course will begin with the fundamentals of the classical and neo-classical trade theories, as well as analyses of trade policy interventions, gains from trade, domestic distortions, and the effect of technological change. The course will also cover new trade models incorporating imperfect competition and heterogeneous firms.

Textbooks:

Jagdish Bhagwati, Arvind Panagariya and T.N. Srinivasan (1998) *Lectures on International Trade*, MIT Press, 2nd edition.

Robert C. Feenstra (2004) *Advanced International Trade: Theory and Evidence*, Princeton University Press, (Indian edition 2007).

The modules and basic readings are outlined below. Additional readings will be given in class.

Introduction: *Evolution of trade and trade theories*

- *World Trade Report 2013*: pages 5-17.
- *World Development Report 2020: Trading for Development in the Age of Global Value Chains*, pages 14-34.
- Elhanan Helpman (1999) "The Structure of Foreign Trade", *Journal of Economic Perspective* 13(2): 121-144.

Module I: ***Trade theories*** - Ricardo, Heckshcher-Ohlin, Stolper-Samuelson and Rybzynski Theorems. Specific-factors model. Empirics and Leontief's Paradox, HOV model, Leamer's and Trefler's Theorem.

- Bhagwati-Panagariya-Srinivasan Chapters 1-7
- Feenstra Chapter 1-2

Module II: ***Gains from Trade, Commercial Policy, and Economic Growth*** – normative issues of welfare, policy interventions in terms of tariffs, taxes and subsidies, Metzler paradox; immiserizing growth.

- Samuelson, P. A (1939), "The Gains from International Trade", *Canadian Journal of Economics and Political Science* 5: 195- 205.
- P. A. Samuelson (1962) "The Gains from International Trade Once Again", *The Economic Journal*, Volume 72 (288): 820-829
- Bhagwati-Panagariya-Srinivasan Chapters 12, 17-19, 29

Module III: ***Market imperfections/ Distortions*****–** sub-optimality of free trade equilibrium in presence of monopoly power in trade and domestic distortions.

- Bhagwati-Panagariya-Srinivasan Chapters 20-23, 26

Module IV: ***Trade and Technology*** **-** Alternatives to the standard trade theories including the product cycle and technology gap models, intra-industry trade.

- S.B. Linder (1961) *An Essay on Trade and Transformation*, Wiley, New York: Chapter 3.
- Posner (1961) "International Trade and Technical Change", *Oxford Economic Papers*,
- R. Vernon (1966), "International Investment and International Trade in Product Cycle", *Quarterly Journal of Economics*, Volume 80(2): 190-207.
- Ronald W. Jones (1970) "The Role of Technology in the Theory of International Trade", in Raymond Vernon ed. *The Technology Factor in International Trade*, NBER and Columbia University Press: 73-90

Module V: ***Imperfect Competition and Intra-Industry Trade*****-**The rise of new theories of intra-industry trade under imperfect competition and firm heterogeneity.

- P. Krugman (1980) "Scale economies, product differentiation and the pattern of trade, *American Economic Review*70(5): 950-959.
- Marc J. Melitz and Daniel Trefler (2012) "Gains from Trade when Firms Matter", *Journal of Economic Perspectives*, Volume 26(2): 91-118.