

## **International Trade (ECON 5440)**

**2024-2025 Term 1**

### **Class time and location**

Time: ELB302, Mon 9:30 - 12:15,  
2/9, 9/9(change), 16/9, 23/9, 30/9, 7/10, 14/10, 21/10, 28/10, 4/11, 11/11, 18/11, 25/11

### **Instructor**

Dan Lu ELB 911  
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### **Course requirements and grading**

Your final grade will be based on:

Referee reports and in class discussion	30%
Homework	30%
Presentation	40%

Referee reports: For a paper that we will cover at length in each class, you should send me a brief report by email the day before the class. The report should be 2 paragraphs at most describing the idea and contribution of the paper: in the first part of the report, for theoretical papers, you should have a verbal summary of the model, describing the reasoning. For empirical ones, you should describe the method, the data used and the robustness of the results. In the second part, you should think about how the paper contributes to the literature or relates to other papers we may have studied.

Presentation: 30 minutes presentation in class at the end of the semester

### **Readings**

Most of the readings are journal articles and working papers.

For books on Trade, I recommend:

Elhanan Helpman and Paul R. Krugman. *Market Structure and Foreign Trade*. Cambridge: MIT Press, 1985.

Jonathan Eaton and Sam Kortum. *Technology in the Global Economy: A Framework for Quantitative Analysis*.

### **Academic honesty**

The Chinese University of Hong Kong places very high importance on honesty in academic work submitted by students and has a policy of zero tolerance on academic dishonesty. Details on university policy and regulations on honesty in academic work, and the disciplinary guidelines and procedures applicable to breaches of such policy and regulations can be found at <http://www.cuhk.edu.hk/policy/academichonesty/>.

## **Tentative Schedule (the materials and the order may be subject to change)**

1. Introduction: the macro and micro facts and modeling
2. Ricardian models and applications; quantitative trade analysis
  - Dornbusch, Fisher, and Samuelson, "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review*, 1977: 823-839.
  - Eaton, J. and S. Kortum, "Technology, Geography and Trade," *Econometrica*, September 2002, Vol. 70, No. 5, 1741-1780.
  - Alvarez, Fernando and Robert E. Lucas, "General Equilibrium Analysis of the Eaton-Kortum Model of International Trade," *Journal of Monetary Economics*, 2007.
  - Dekle, Eaton, and Kortum, "New Approaches to International Trade, Unbalanced Trade," *AER Papers and Proceedings*, 2007.

### Economic geography, trade and migration

- AHLFELDT, G. M., S. J. REDDING, D. M. STURM, AND N. WOLF (2012): "The Economics of Density: Evidence from the Berlin Wall."
- REDDING, S. J. (2014): "Goods Trade, Factor Mobility and Welfare."
- Allen, T., and C. Arkolakis (2014): "Trade and the topography of the spatial economy," *Quarterly Journal of Economics*.
- Allen, T., C. Arkolakis, and Y. Takahashi (2014): "Universal gravity."
- Lorenzo Caliendo, Max Dvorkin, and Fernando Parro, "Trade and Labor Market Dynamics: General Equilibrium Analysis of the China Trade Shock"

### 3. Firm level model of trade (monopolistic competition; firm heterogeneity)

- KRUGMAN, P. (1979): "Increasing Returns Monopolistic Competition and International Trade," *Journal of International Economics*, 9(4), 469–479. 8.4.1
- Krugman, P., "Scale Economies, Product Differentiation and the Pattern of Trade," *American Economic Review*, 1980.
- Anderson, J. and E. van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle," *American Economic Review*, 2003.
- Melitz, Marc J., "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 71:6, pp. 1695-1725, 2003.
- Chaney, Thomas, "Distorted Gravity: Heterogeneous Firms, Market Structure and the Geography of International Trade," *American Economic Review*, 2005.
- Bernard, Andrew B., Stephen Redding, Peter K. Schott, "Comparative Advantage and Heterogeneous Firms," *Review of Economic Studies*, 2004.
- Melitz and Ottaviano, "Market Size, Trade, and Productivity," *Review of Economic Studies*, 2008.
- Hopenhayn, Hugo, "Entry, Exit, and Firm Dynamics in Long Run Equilibrium," *Econometrica*, 60: 621-653, 1992.

### Firm level facts in international trade

- Bernard, A. B., and J. B. Jensen, “Exporters, Jobs, and Wages in US Manufacturing: 1976-1987,” *Brooking Papers: Microeconomics*, pp. 67-119, 1995.
  - Bernard, A. B., J. Eaton, B. Jensen, and S. Kortum, “Plants and Productivity in International Trade,” *American Economic Review*, 93(4), 1268-1290, 2003.
  - Clerides, S. K., S. Lach, and J. R. Tybout, “Is Learning by Exporting Important? Micro-Dynamic Evidence from Colombia, Mexico, and Morocco,” *The Quarterly Journal of Economics*, pp. 903-947, 1998.
  - Eaton, Kortum and Kramarz, “An anatomy of International Trade, Evidence from French firms,” 2005.
  - Lu, Dan, “Exceptional Exporter Performance? Evidence from Chinese Manufacturing Firms,” 2010.
  - Pavcnik, N., “Trade Liberalization, Exit, and Productivity Improvements: Evidence from Chilean Plants,” *The Review of Economic Studies* 69, January 2002, pp. 245-76.
4. Firms import behavior, intermediate inputs import and firm productivity
- Amiti, M., and J. Konings, "Trade liberalization, intermediate inputs, and productivity: Evidence from Indonesia", *American Economic Review*, 2007.
  - Goldberg, P., Khandelwal, A., Pavcnik, N. and Topalova, P., "Imported intermediate inputs and domestic product growth: Evidence from india", *The Quarterly Journal of Economics*, 2010.
  - Gopinath, G., and B. Neiman, "Trade Adjustment and Productivity in Large Crises", 2011.
  - Halpern, L., M. Koren, and A. Szeidl, "Imported Inputs and Productivity", *American Economic Review*, 2011.
  - Dan Lu, Asier Mariscal and Luis Fernando Mejia, “How Firms Accumulate Inputs: Evidence from Import Switching”
  - Kugler and Verhoogen, “Plants and Imported Inputs: New Facts and an Interpretation” *American Economic Review*, 2009.
5. Model Characterization; welfare analysis
- Arkolakis, C., Costinot, A. and Rodriguez-Clare, A., “New Trade Models, Same Old Gains?” *American Economic Review*, 2011.
6. Trade and misallocations
- Hsieh, Chang-Tai and Peter J Klenow. 2009. “Misallocation and manufacturing TFP in China and India.” *The Quarterly journal of economics* 124 (4):1403–1448.
  - Yan Bai, Keyu Jin and Dan Lu, “Misallocation Under Trade Liberalization”
  - Restuccia, Diego and Richard Rogerson. 2008. “Policy distortions and aggregate productivity with heterogeneous establishments.” *Review of Economic dynamics* 11 (4):707–720.
  - Arkolakis, Costas, Arnaud Costinot, Dave Donaldson, and Andrés Rodríguez-Clare. 2018. “The elusive pro-competitive effects of trade.” *The Review of Economic Studies* 86 (1):46–80.

- Bai, Chong-En, Chang-Tai Hsieh, and Zheng Michael Song. 2019. “Special deals with Chinese characteristics.”
  - Baqaee, David Rezza and Emmanuel Farhi. 2020. “Productivity and Misallocation in General Equilibrium.” Tech. rep., Quarterly Journal of Economics.
  - David, Joel M and Venky Venkateswaran. 2017. “The sources of capital misallocation.”
  - Edmond, Chris, Virgiliu Midrigan, and Daniel Yi Xu. 2018. “How costly are markups?”
7. Trade policies/guest lecture
  8. Presentations