

UNIVERSIDADE DO PORTO
FACULDADE DE ECONOMIA

Advanced Economic Analysis: Trade Policy

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Scope and Objectives

A country's integration and interaction with the global economy depend crucially on its trade policy. This course is designed for graduate students interested in understanding the central issues in international trade policy. The main objectives are to learn (i) the basic tools used to examine the impact of trade policy on various important economic outcomes under different market structures (ii) whether trade policy can effectively address economic distortions (iii) why trade policy is controversial and how it is determined by political economy considerations (iv) the economic motives for multilateral trade liberalization. Throughout we will combine theory and evidence and highlight how their interaction can provide insights on a variety of important economic outcomes.

Pre-requisites and Requirements

- Background in graduate Microeconomics and International Trade is highly recommended
- Advance reading of key material (listed below with a “*”) is highly recommended
- I will assign exercises to reinforce your understanding of lectures and complement it
- There will be a final exam approximately one month after the end of the course

Reading list: basic material and notes

We will make use of articles and chapters from different books. You should have access to all the key readings (denoted with a “*”) either electronically or via the library.

Highly recommended

- Feenstra, R.C. 2004. *Advanced International Trade, Theory and Evidence*. Princeton Univ. Press. (F)

Very Useful

- Bagwell, Kyle and Robert Staiger. 2002. *The Economics of the World Trading System*, MIT Press. (BS)
- Bhagwati, Jagdish; Panagariya, Arvind and T. N. Srinivasan. 1998. *Lectures in International Trade*, 2nd ed. MIT Press (BPS)
- Choi, K.E. and J. R. Harrigan. 2004. *Handbook of International Trade*, vol I. Blackwell. (CH)
- Helpman, Elhanan and Paul Krugman. 1989. *Trade Policy and Market Structure*. MIT Press. (HK)
- Grossman, G. and K. Rogoff, eds. 1995. *Handbook of International Economics*, Vol III, Elsevier (GR)

Notes for the reading list

- “X Ch. #”: Refers to chapter # in book (X), as abbreviated in the list above.
- Required readings are denoted by “*”. Reviews denoted by “r” provide context for the topic. The remaining readings provide additional insights in case you are particularly interested in that topic.
- The blue titles indicate online availability (you must access some from a campus connection).

Advanced Economic Analysis: Trade Policy Course Outline and Readings

1. Instruments, measurement and basic effects

1.1 Perfect competition: effects on welfare and prices of goods

* F ch. 7 (p. 209-220); ch 8 (254-259, p. 281-285)
HK ch 2

1.2 Imperfect competition and strategic trade policy

* F ch. 7 (p. 221-233, 240-251) and ch. 8 (p. 259-271, 286-297)
HK chs. 3 , 6 and 7

1.3 Estimating price effects of trade policy

*F ch. 7 (p. 233-40) and ch. 8 (p. 271-81)
r Feenstra, R.C. 1995 in GR ch. 30.

Feenstra, R. C. 1989. "[Symmetric Pass-through of Tariffs and Exchange-Rates under Imperfect Competition - an Empirical-Test.](#)" *Journal of International Economics*, 27(1-2), 25-45.

2. Welfare and optimal policy targeting

*Bhagwati, Jagdish and Ramaswami, V.K. 1963. "[Domestic Distortions, Tariffs and the Theory of Optimum Subsidy.](#)" *Journal of Political Economy*, 71, 44-50.

BPS ch. 20-28

Krishna, P. and A. Panagariya. 2000. "[A unification of second best results in international trade.](#)" *Journal of International Economics* 52 , 235 -257

Advanced Economic Analysis: Trade Policy Course Outline and Readings (ctd)

3. Political economy of trade policy

* F ch. 9

3.1 Unilateral motives

- *r Rodrik, D. 1995. "Political Economy of Trade Policy" in GR, p.1457-94.
- * Grossman, G. and E. Helpman. 1994. "[Protection for Sale](#)." *American Economic Review*, 84: 833-850.
- * Goldberg, P. K. and G. Maggi. 1999. "[Protection for sale: An empirical investigation](#)." *American Economic Review* 89(5): 1135-1155.
- Mayer, W. 1984. "[Endogenous Tariff Formation](#)." *American Economic Review* 74(5): 970-985.

3.1 Multilateral (and unilateral) motives

- * Bagwell, K. and R. W. Staiger. 1999. "[An economic theory of GATT](#)." *American Economic Review* 89(1): 215-248.
- * Broda, C, N. Limão and D. Weinstein. 2008. "[Optimal Tariffs and Market Power: The Evidence](#)." *American Economic Review*.
- r Bagwell, K. and R. W. Staiger, 2009, [The WTO: Theory and Practice](#), mimeo. October 2009 BS, chs. 2,3,4,5,6
- r Staiger, R. W. 1995. "International Rules and Institutions for Trade Policy" in Handbook V. 3 1495-1551.
- Bagwell, K. and R. W. Staiger.. "[What do trade negotiators negotiate about? Empirical evidence from the World Trade Organization](#)." 2006. NBER Working Paper 12727.

4. Estimating trade policy impacts on trade and growth [time permitting]

4.1 Trade flows

- * Subramanian, A. and S.J. Wei. 2007. "[The WTO Promotes Trade, Strongly but Unevenly](#)," *JIE*, 72 (1), 151-75.
- * Trefler, D. 1993. "[Trade Liberalization and the Theory of Endogenous Protection - an Econometric Study of United-States Import Policy](#)." *Journal of Political Economy* 101(1): 138-160.

4.2 Growth and Productivity

- r Rodriguez, F. and Dani Rodrik. 2000. "Trade Policy and Economic Growth: A Skeptic's Guide to Cross-National Evidence." *NBER Macroeconomics Annual*, Vol. 15, (2000), pp. 261-325
- r Tybout, J.R. 2004. "[Plant and firm level evidence on new trade theories](#)" in CH