

Trade and firm behavior in open economies.

Topics in International Economics

Course Programme - Module(I)

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The aim of this short module is threefold.

First, to review the intersection between countries and firms (and market structure) in order to frame the causes and the consequences of international trade.

Second, to focus upon firm heterogeneity and its consequences by using some cases of efficiency gains due to trade liberalization in developing countries.

Third, to frame the economic interpretation of the multilateral and regional trade system in order to offer the empirical landscape of trade policy today, comparing more and less advanced countries.

This module introduces students to the theories of international trade, with a special focus on the role of firms. After a short assessment of traditional theories of international trade and on key empirical regularities, we move on to trade from the point of view of individual firms. First, we focus on the determinants of the decisions of firms to trade and the role of heterogeneity between firms in shaping these decisions as well as on its consequences. Second, we recall the major challenges facing developing countries by looking at firm distribution and misallocation in developing countries and at the four related cases of trade liberalization. Third, we overview the economic interpretation of multilateral trading system and the landscape of empirical results on trade policy today.

Textbooks and prerequisites. There is no assigned textbook for the course. Basic well-known textbooks useful for a browsing are Krugman and Melitz (2012) and Feenstra and Taylor (2014). They are usually utilized in most 3-year programmes. Basic intermediate textbooks: Markusen et al. (1995) especially Ch. 1-5. It is assumed that students are well acquainted with the material covered in basic and basic-intermediate trade textbooks. Reference textbooks are Helpman and Krugman (1985) and for bringing theories to data Feenstra, Robert C. (2004). Non technical overviews are in: Helpman (2011) and WTO (2008). One website is very useful: Professor Alan V. Deardorff, University of Michigan, has developed a valuable glossary Deardorff's Glossary of International Economics, available on-line. WTO website is essential for the economics of multilateral trading system. VOXEU is a useful info source for results of recent research. **Assessment** There is a final written exam about this Module.

The following information is related to the Trento module. (*) are compulsory readings. (OW) are overview readings. Readings without * means optional readings. Additional readings are reported in the slides.

TOPIC1: Trade facts, questions and methods.

Trade facts and trade data. The great trade collapse, macro and micro questions. Causes and consequences of trade: countries and firms. The GFT Theorem and the law of CA. Integration of trade disintegration of production. Trade data: goods, services, tasks and trade in value added.

Review of the basic theories and implications Markusen et al. (1995) especially Ch. 1-5 (OW) WTO (2008) part C-D-E, pp. 27-144.

(OW) Helpman (2011) chapter 1-3.

(OW) Baldwin (2016).

Other references on trade facts and empirics: WTO (2013) selected parts; WTO (2017) Facts and news on recent research results as reported by VoxEU (TradeTopic). Measuring trade in value added: An OECD-WTO joint initiative.

TOPIC2: Krugman (1979), its extensions. Facts about exporting firms

Imperfect competition with differentiated goods, free entry and IRS as a source of trade. Monopolistic competition with differentiated products: The NEW theory. Differentiated products and love for variety. Gains from variety. The home market effect in presence of trade costs.

(*) Krugman (1979)

(OW) Helpman (2011) chapter 4.

(OW) A survey of empirical results is in WTO(2008).

(*) Melitz, M. (2008)

(OW) Bernard Andrew, J. Bradford, Stephen Redding and Peter Schott (2007)

Krugman Paul R. (1980)

Other references or reference textbook: Helpman and Krugman (1985).

Students interested about the New Economic Geography can find in WTO(2008) an excellent short part(a short overview) on the approach (pp.81-98).

TOPIC2BIS: From institutions to comparative advantage. The institutional comparative advantage.

What are the consequences of trade when comparative advantage is partly shaped by institutional features? Any reverse causality?

(*) Nunn and D.Trefler (2014)

(*) Nunn (2007)

TOPIC3: Trade Liberalization and efficiency Gains. Some cases in Developing Countries

Overview of firm distribution and misallocation in developing countries. Major challenges facing developing countries. 4 cases about Trade Liberalization, Efficiency, Quality, and other Macroeconomic Consequences.

(*) Tybout (2000)

(*) Hsieh and Klenow (2009)

(*) Rodrik (2015)

Tybout (2003)

Hsieh and Olken (2014)

CASES:

Chile:(*) Pavnick (2002);

Argentina:(*) Bustos, Paula (2011);

India:(*) Topalova and Khandelwal (2011);

Mexico:(*) Verhoogen (2008);

Sub Saharian countries:(*) Van Biesebroeck and Zaurino (2019);

TOPIC4: The effect of import competition from low wage countries on advanced economies- Positive and negative effects.

Exports from low-wage countries, particularly China. Negative effects on labor market outcomes in a wide range of countries. Positive effects: reallocation of resources from

the less productive to the more productive firms, and within-firm technology and quality upgrading.

Positive: (*) Bloom et al. (2016). Amiti and Khandelwal (2013).

Negative (*) Autor and Hanson (2013).

Other references to labor market outcomes in a wide range of countries, for instance Fernandes and H.Tang (2014), an in selected parts of World Bank (2016), WTO (2017).

TOPIC5: The multilateral(regional) trading system. A discussion

MTS and the economic readings of MTS. Is multilateralism dead today?

Theoretical modelling:

(*) Bagwell and Staiger (2004), especially ch. 2;

(*) Bagwell and Staiger (2015);

(*) Baldwin (2011).

TOPIC6: The empirical landscape of trade instruments, today. A discussion on the results for advanced and less advanced countries.

On the empirical landscape of trade instruments. Countries, firms and policies behind the border.

Empirics of:

(*) Bown (2014);

(*) Bown and Crowley (2016).

References

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