

International Trade Policy ECO7332

Spring 2016

Instructor: Dr. James Lake

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Class meetings: Monday, Wednesday 9:30-10:50. Umphrey Lee 303.

Office Hours: Monday 12-1pm, Friday 10-11am, also by appointment. Umphrey Lee 301Z.

Course description

This is a course in international trade policy. Emphasis will be placed on optimal policy, the purpose and role of trade agreements, the political economy of trade policy and the distributional impacts that trade has on labor markets.

Student learning objectives

- Demonstrate a strong ability to use economic theory to explain how political economy affects trade policy
- Demonstrate a strong ability to use economic theory to explain why countries form trade agreements
- Strengthen the ability to relate economic theory and empirical methods to new problems surrounding international trade

Course requirements and assessment

Naturally, I expect that you will attend all classes. Additionally, there are three requirements for the course.

1. Replication exercise (30%)

- You will replicate the results for one of the following papers that I will cover in class: (i) the empirical AER paper on trade policy by Chad Bown and Meredith Crowley or (ii) the theoretical JIE paper on trade agreements by Kamal Saggi and Murat Yildiz. You should use STATA for the former and Maple, which handles symbolic math, for the latter. Given the small size of our class, we can cover the basics of these programs in class if needed. I certainly anticipate this will be the case for Maple.
 - For the Bown & Crowley paper, you should replicate the tables in their paper. Note, the data and code is actually on the AER website. So, one would expect this to be a fairly straightforward task. However, a recent working paper by Andrew Chang and Philip Li at the Fed Board suggests it may not be entirely straightforward (<http://www.valuewalk.com/wp-content/uploads/2015/10/2015083pap.pdf>).

- * Even if the replication is rather straightforward, this exercise should at least give you some experience working with STATA including skills like documenting your code, integrating your code across multiple “do” files, generating presentable tables from your STATA output etc.
- * For the Saggi & Yildiz paper, you should replicate Propositions 1-4. To do this, you will need to use Maple in order to verify optimal tariffs and welfare rankings that underlie the various deviations needed to establish these propositions. You do not need to go through these computations by hand; this is not how the authors did it and neither should you.

2. Student presentation and discussion (40%)

- Over the last one-third to half of the course (5-6 weeks), students will present papers from the list outlined below.
- Each student will present three papers
 - Each presentation will be allotted one class (80 minutes). But, I’m hoping the earlier pace of the class allows some flexibility here.
 - When presenting the paper, treat it as if you are an a newly hired Assistant Professor teaching it to second year PhD students in an international trade field course.
 - * You should try to be clear about the question posed, how the question and results fit into the existing literature, the model (theoretical or empirical) used, the results and especially the key insight of the paper.
 - * You are not expected to understand everything in the paper, so it’s OK to point out areas of the paper where you didn’t follow or could not understand.
 - You must use some LATEX-based software to prepare your slides. You have a few options here:
 - * Use L^AT_EX itself via a L^AT_EX editor such as TexWorks (the software package MiK_TE_X will install everything that you need). L^AT_EX is free but is not a WYSIWYG program; that is, you don’t see your equations in the interface but rather you have to type your equations in code.
 - * Lyx. This is a free WYSIWYG program so you don’t have to worry about writing the L^AT_EX code and you can see your equations directly in the user interface. This is what I used as a PhD student and I still use it sometimes.
 - * Scientific Word/Workplace. Like Lyx, this is a WYSIWYG program. However, it is not free. Nevertheless, most of my co-authors use this and so this is what I mostly use now (including for this syllabus).
 - * You will end up writing your dissertation and giving presentations using L^AT_EX based software so it’s best to start using it sooner rather than later.

* Note, the presentation/slides part of L^AT_EX is called “beamer”.

3. Paper proposal (30%)

- The due date is May 31. So, you will have time to take in the whole course and think about potential ideas. I encourage you to come by my office and discuss any ideas that you have.
 - The paper should have two main parts. In total, you should have in mind a proposal of around 10 pages (but don’t take this as a hard rule).
- (a) Introduction that (i) clearly conveys the research question to be addressed, (ii) provides some brief motivation for why the question is interesting, (iii) places the question in the context of prior literature by explaining the key points or important prior papers in the literature and how the proposed question relates to these papers.
- (b) Methods section that outlines the proposed methodology that could be used to answer the research question.
- For an empirical paper proposal, this should include:
 - Real world data sources. These data sources should be publicly available unless, for example, you have particular connections in your home country that makes you think you can get access to useful data that is not publicly available. Getting access to such data is obviously not straightforward, but no impossible either (Mu Liu who is on the job market this year has access to some really neat Chinese firm level data).
 - Empirical models. You should outline what types of empirical specifications you would use, what potential problems you would have to deal with, how your empirical specifications help deal with these problems. Note, it’s OK if there are some tough empirical problems that you don’t know how to deal with. In this case, just outline why such problems are difficult to deal with.
 - For a more theoretical paper proposal, this should include:
 - A description of the basic structure of the model. Who are the different agents in the model? What are they maximizing? What are the key trade offs in the model? What are the key endogenous variables? If the model is game theoretic then who are the players? What are their strategies? What is the solution concept?
 - What type of results are you expecting to find and what is your intuition for why these results should play out in the context of your model?

University policies

Disability Accommodations

Students needing academic accommodations for a disability must first be registered with Disability Accommodations & Success Strategies (DASS) to verify the disability and to establish eligibility for accommodations. Students may call 214-768-1470 or visit <http://www.smu.edu/alec/dass.asp> to begin the process. Once registered, students should then schedule an appointment with the professor to make appropriate arrangements.

Religious Observance

Religiously observant students wishing to be absent on holidays that require missing class should notify their professors in writing at the beginning of the semester, and should discuss with them, in advance, acceptable ways of making up any work missed because of the absence.

Excused Absences for University Extracurricular Activities

Students participating in an officially sanctioned, scheduled University extracurricular activity should be given the opportunity to make up class assignments or other graded assignments missed as a result of their participation. It is the responsibility of the student to make arrangements with the instructor prior to any missed scheduled examination or other missed assignment for making up the work.

Plagiarism

All students are expected to abide by the SMU honor code <http://smu.edu/honorcouncil/>, including those sections related to plagiarism. Plagiarism is a serious academic offense and ignorance is not an excuse. Further information regarding plagiarism can be found at <http://smu.edu/honorcouncil/othersites.asp>. Consequences include failure of the particular assessment task in question, failure of the course and disciplinary referral to the SMU Honor council.

Course outline

1. The basics of trade policy

Feenstra, R. C., 2004. *Advanced international trade: theory and evidence*. Princeton University Press

2. A couple of seminal papers

Grossman, G., Helpman, E., 1994. Protection for sale. *American Economic Review* 84, 833–850

Bagwell, K., Staiger, R., 1999. An economic theory of GATT. *American Economic Review* 89 (1), 215–248

3. A few more papers

- Trade policy
Bown, C. P., Crowley, M. A., 2013. Self-enforcing trade agreements: evidence from time-varying trade policy. *The American Economic Review* 103 (2), 1071–1090
- Trade agreements
Saggi, K., Yildiz, H., 2010. Bilateralism, multilateralism, and the quest for global free trade. *Journal of International Economics* 81 (1), 26–37
- Empirical political economy of trade policy
Conconi, P., Facchini, G., Zanardi, M., 2014. Policymakers’ horizon and trade reforms: The protectionist effect of elections. *Journal of International Economics* 94, 102–118
- Labor market distributional effects of trade
Autor, D. H., Dorn, D., Hanson, G. H., 2013. The China syndrome: Local labor market effects of import competition in the United States. *The American Economic Review* 103 (6), 2121–2168

4. Student presentations

Note: A “*” indicates the paper has a substantial empirical component

Trade agreements

Bagwell, K., Staiger, R. W., 2012b. Profit shifting and trade agreements in imperfectly competitive markets*. *International Economic Review* 53 (4), 1067–1104

Cole, M. T., Zissimos, B., 2014. Too small to protect? the role of firm size in trade agreements. Mimeo

Maggi, G., Rodriguez-Clare, A., 2007. A political-economy theory of trade agreements. *The American Economic Review* 97 (4), 1374–1406

*Ossa, R., 2014. Trade wars and trade talks with data. *American Economic Review* 104 (12), 4104–4146

Empirical political economy of trade policy

*Bombardini, M., 2008. Firm heterogeneity and lobby participation. *Journal of International Economics* 75 (2), 329–348

Labor market distributional effects of trade

*Autor, David, H., Dorn, D., Hanson, G. H., 2015. Untangling trade and technology: Evidence from local labour markets. *The Economic Journal* 125 (584), 621–646

*Krishna, P., Senses, M. Z., 2014. International trade and labour income risk in the US. *Review of Economic Studies* 81 (1)

Global value chains

Costinot, A., Vogel, J., Wang, S., 2013. An elementary theory of global supply chains. *The Review of Economic Studies* 80 (1), 109–144

Complexity and trade

*Krishna, P., Levchenko, A. A., 2013. Comparative advantage, complexity, and volatility. *Journal of Economic Behavior & Organization* 94, 314–329

Reading guide

Empirical political economy of trade policy

*Baldwin, R. E., Magee, C. S., 2000. Is trade policy for sale? Congressional voting on recent trade bills. *Public Choice* 105, 79–101

*Bombardini, M., 2008. Firm heterogeneity and lobby participation. *Journal of International Economics* 75 (2), 329–348

*Bombardini, M., Trebbi, F., 2012. Competition and Political Organization: Together or Alone in Lobbying for Trade Policy? *Journal of International Economics* 87, 18–26

*Conconi, P., Facchini, G., Zanardi, M., 2012. Fast-track authority and international trade negotiations. *American Economic Journal: Economic Policy* 4, 146–189

*Conconi, P., Facchini, G., Steinhardt, M. F., Zanardi, M., 2013. The political economy of trade and migration: Evidence from the US Congress. Discussion Paper 2012-31. Norface, London

*Conconi, P., Facchini, G., Zanardi, M., 2014. Policymakers' horizon and trade reforms: The protectionist effect of elections. *Journal of International Economics* 94, 102–118

*Facchini, G., Mayda, A. M., Mishra, P., 2011. Do interest groups affect US immigration policy? *Journal of International Economics* 85, 114–128

*Gawande, K., Bandyopadhyay, U., 2000. Is protection for sale? Evidence on the Grossman-Helpman theory of endogenous protection. *Review of Economics and Statistics* 82, 139–152

*Gawande, K., Krishna, P., Olarreaga, M., 2012. Lobbying competition over trade policy. *International Economic Review* 53 (1), 115–132

*Gawande, K., Krishna, P., Olarreaga, M., 2015. A political-economic account of global tariffs. *Economics & Politics*

*Gawande, K., Krishna, P., Robbins, M. J., 2006. Foreign lobbies and us trade policy. *The review of Economics and Statistics* 88 (3), 563–571

*Kim, I. S., 2013. Political cleavages within industry: firm level lobbying for trade liberalization. Mimeo

*Lake, J., 2015. Revisiting the link between PAC contributions and lobbying expenditures. *European Journal of Political Economy* 37, 86–101

*Lake, J., Millimet, D. L., 2016. An empirical analysis of trade-related redistribution and the political viability of free trade. *Journal of International Economics* (forthcoming)

*Ludema, R., Mayda, A. M., Mishra, P., 2011. Protection for Free: The Political Economy of US Tariff Suspensions. Department of Economics, Georgetown University, Washington D.C

*Maggi, G., Goldberg, P. K., 1999. Protection for Sale: An Empirical Investigation. *American Economic Review* 89, 1135–1155

*Stoyanov, A., 2009. Trade policy of a free trade agreement in the presence of foreign lobbying. *Journal of international Economics* 77 (1), 37–49

Trade agreements and trade policy

The purpose of trade agreements

Antras, P., Staiger, R. W., 2012b. Trade agreements and the nature of price determination. *The American Economic Review*, 470–476

Antras, P., Staiger, R. W., 2012a. Offshoring and the role of trade agreements. *American Economic Review* 102 (7), 3140–3183

Bagwell, K., Staiger, R. W., 1990. A theory of managed trade. *American Economic Review* 80, 779–795

*Bagwell, K., Staiger, R., 2011. What do trade negotiators negotiate about? Empirical evidence from the World Trade Organization. *The American Economic Review* 101 (4), 1238–1273

Bagwell, K., Staiger, R. W., 2012a. The economics of trade agreements in the linear cournot delocation model. *Journal of International Economics* 88 (1), 32–46

Bagwell, K., Staiger, R. W., 2012b. Profit shifting and trade agreements in imperfectly competitive markets*. *International Economic Review* 53 (4), 1067–1104

*Bown, C. P., Crowley, M. A., 2013. Self-enforcing trade agreements: evidence from time-varying trade policy. *The American Economic Review* 103 (2), 1071–1090

*Beshkar, M., Bond, E., Rho, Y., 2015. Tariff binding and overhang: theory and evidence. *Journal of International Economics* (forthcoming)

Broda, C., Limao, N., Weinstein, D. E., 2008. Optimal tariffs and market power: the evidence. *The American Economic Review* 98 (5), 2032–2065

*Lake, J., Linask, M., K., 2015. Could tariffs be pro-cyclical? Mimeo

*Liu, X., Ornelas, E., 2014. Free trade agreements and the consolidation of democrac. *American Economic Journal: Macroeconomics* 6 (2), 29–70

Maggi, G., Rodriguez-Clare, A., 1998. The value of trade agreements in the presence of political pressures. *Journal of Political Economy* 106 (3), 574–601

Maggi, G., Rodriguez-Clare, A., 2007. A political-economy theory of trade agreements. *The American Economic Review* 97 (4), 1374–1406

Mrazova, M., 2011. Trade agreements when profits matter. Mimeo

Maggi, G., 2014. International trade agreements. In: Helpman, E., R. K., Gopinath, G. (Eds.), *Handbook of International Economics*. Vol. 4. North Holland: Amsterdam, pp. 317–390

Ossa, R., 2011. A new trade theory of GATT/WTO negotiations. *Journal of Political Economy* 119 (1), 122–152

*Ossa, R., 2014. Trade wars and trade talks with data. *American Economic Review* 104 (12), 4104–4146

*Ludema, R. D., Mayda, A. M., 2013. Do terms-of-trade effects matter for trade agreements? Theory and evidence from WTO countries. *The Quarterly Journal of Economics* 128 (4), 1837–1893

*Nicita, A., Olarreaga, M., Silva, P., 2013. Cooperation in WTO's tariff waters. Mimeo

Preferential trade agreements

Aghion, P., Antràs, P., Helpman, E., 2007. Negotiating free trade. *Journal of International Economics* 73 (1), 1–30

Bagwell, K., Staiger, R., 1997a. Multilateral tariff cooperation during the formation of Customs Unions.

Journal of International Economics 42 (1), 91–123

Bagwell, K., Staiger, R., 1997b. Multilateral tariff cooperation during the formation of free trade areas. *International Economic Review* 38 (2), 291–320

*Facchini, G., Silva, P., Willmann, G., 2015. The political economy of preferential trade arrangements: An empirical investigation. Mimeo

Furusawa, T., Konishi, H., 2007. Free trade networks. *Journal of International Economics* 72 (2), 310–335

Goyal, S., Joshi, S., 2006. Bilateralism and free trade. *International Economic Review* 47 (3), 749–778

Krishna, P., 1998. Regionalism and multilateralism: A political economy approach. *Quarterly Journal of Economics* 113 (1), 227–251

Lake, J., 2014. Why don't more countries form Customs Unions instead of Free Trade Agreements? The role of flexibility. Mimeo

Lake, J., 2016. Free Trade Agreements as dynamic farsighted networks. Mimeo

Lake, J., Roy, S., 2015. Are global trade negotiations behind a fragmented world of “gated globalization”? Mimeo

Lake, J., Yildiz, H., 2014. On the different geographic characteristics of free trade agreements and customs unions. Mimeo

Melatos, M., Woodland, A., 2007. Endogenous trade bloc formation in an asymmetric world. *European Economic Review* 51 (4), 901–924

Missios, P., Saggi, K., Yildiz, H., 2014. External trade diversion, exclusion incentives and the nature of preferential trade agreements. Mimeo

Missios, P., Yildiz, H. M., et al., 2015. Do south-south preferential trade agreements undermine the prospects for multilateral free trade? *Canadian Journal of Economics* (forthcoming)

Mrázová, M., Vines, D., Zissimos, B., 2012. Is the GATT/WTO's article XXIV bad? *Journal of International Economics* 89 (1), 216–232

Ornelas, E., 2005a. Rent destruction and the political viability of free trade agreements. *The Quarterly Journal of Economics*, 1475–1506

Ornelas, E., 2005b. Trade creating free trade areas and the undermining of multilateralism. *European Economic Review* 49 (7), 1717–1735

Ornelas, E., 2008. Feasible multilateralism and the effects of regionalism. *Journal of International Economics* 74 (1), 202–224

Riezman, R., 1999. Can bilateral trade agreements help to induce free trade? *Canadian Journal of Economics* 32 (3), 751–766

*Saggi, K., Stoyanov, A., Yildiz, H., 2015. Do free trade agreements affect tariffs of non-member countries? A theoretical and empirical investigation. Mimeo

Saggi, K., Woodland, A., Yildiz, H. M., 2013. On the relationship between preferential and multilateral trade liberalization: the case of Customs Unions. *American Economic Journal: Microeconomics* 5 (1), 63–99

Saggi, K., Yildiz, H., 2010. Bilateralism, multilateralism, and the quest for global free trade. *Journal of International Economics* 81 (1), 26–37

Seidmann, D., 2009. Preferential trading arrangements as strategic positioning. *Journal of International*

Economics 79, 143–159

Stoyanov, A., Yildiz, H., 2015. Preferential versus multilateral trade liberalization and the role of political economy. *European Economic Review* 80, 140–164

Underpinnings of trade policy

*Bown, C. P., Blanchard, E. J., Johnson, R. C., 2016. Global supply chains and trade policy. Mimeo

Beshkar, M., Bond, E. W., 2015. Cap and escape in trade agreements. Mimeo

Cole, M. T., Zissimos, B., 2014. Too small to protect? the role of firm size in trade agreements. Mimeo

Grossman, G., Helpman, E., 1994. Protection for sale. *American Economic Review* 84, 833–850

Empirical labor and trade

- *Acemoglu, D., Autor, D., 2011. Skills, tasks and technologies: Implications for employment and earnings. *Handbook of Labor Economics* 4, 1043–1171
- *Acemoglu, D., Autor, D., Dorn, D., Hanson, G. H., Price, B., 2015. Import competition and the great us employment sag of the 2000s. *Journal of Labor Economics* (forthcoming)
- *Artuc, E., Chaudri, S., McLaren, J., 2010. Trade shocks and labor adjustment: A structural empirical approach. *The American economic review* 100 (3), 1008–1045
- *Autor, D. H., Dorn, D., Hanson, G. H., 2013. The China syndrome: Local labor market effects of import competition in the United States. *The American Economic Review* 103 (6), 2121–2168
- *Autor, D. H., Dorn, D., Hanson, G. H., Song, J., 2014. Trade adjustment: Worker-level evidence. *The Quarterly Journal of Economics* 129 (4), 1799–1860
- *Autor, David, H., Dorn, D., Hanson, G. H., 2015. Untangling trade and technology: Evidence from local labour markets. *The Economic Journal* 125 (584), 621–646
- *Dix-Carneiro, R., 2014. Trade liberalization and labor market dynamics. *Econometrica* 82 (3), 825–885
- *Dix-Carneiro, R., Kovak, B. K., 2015. Trade reform and regional dynamics: evidence from 25 years of brazilian matched employer-employee data. Tech. rep
- *Ebenstein, A., Harrison, A., McMillan, M., Phillips, S., 2014. Estimating the impact of trade and offshoring on American workers using the current population surveys. *Review of Economics and Statistics* 96 (4), 581–595
- *Ebenstein, A., Harrison, A., McMillan, M., 2015. Why are American workers getting poorer? China, trade and offshoring. Mimeo
- *Helpman, E., Itskhoki, O., Muendler, M., Redding, S. J., 2012. Trade and inequality: From theory to estimation. Tech. rep., National Bureau of Economic Research
- *Krishna, P., Poole, J., Senses, M., 2012. Trade, labor market frictions, and residual wage inequality across worker groups. *The American Economic Review* 102 (3), 417–423
- *Krishna, P., Senses, M. Z., 2014. International trade and labour income risk in the US. *Review of Economic Studies* 81 (1)
- *Kovak, B. K., 2013. Regional effects of trade reform: What is the correct measure of liberalization? *The American Economic Review* 103 (5), 1960–1976
- *Lake, J., Millimet, D. L., 2015. Good jobs, bad jobs: What’s trade got to do with it? Mimeo
- *McLaren, J., Hakobyan, S., 2016. Looking for local labor market effects of NAFTA. *Review of Economics and Statistics* (forthcoming)
- *Menezes-Filho, N. A., Muendler, M.-A., 2011. Labor reallocation in response to trade reform
- *Topalova, P., 2007. Trade liberalization, poverty and inequality: Evidence from indian districts. In: *Globalization and Poverty*. University of Chicago Press, pp. 291–336