

## **Pure Theory of International Trade (DI 611)**

**Instructors:** Professor Alokesh Barua and Dr. Aparna Sawhney

**Pre-requisite:** Basic *Microeconomic Theory* and *International Trade*

(Students who do not have adequate background in Microeconomic/ Trade Theory would be required to cover supplementary basic readings in the first five weeks of the semester.)

This course will cover the fundamentals of the pure theory of international trade including the classical and neo-classical trade theories, the development of imperfect competition in trade, trade and technology, positive trade policy analysis, factor market imperfections and gains from trade. The study of the theoretical trade models will be supplemented with empirical literature.

### **Required textbooks:**

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

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

The modules and readings are as follows:

### **Introduction**

- Elhanan Helpman (1999) “The Structure of Foreign Trade”, *Journal of Economic Perspective* 13(2): 121-144.

### **I. Classical and Neoclassical Theories of Trade**

Bhagwati, Panagariya and Srinivasan (1998) Chapters 1- 2, and 5-6.

Feenstra (2004) Chapter 1

- Joan Robinson (1946) “The Pure Theory of International Trade”, *Review of Economic Statistics*, Volume 14(2): 98-112.
- Paul A. Samuelson (1949) "International Trade and Factor Prices Equalization Once Again", *The Economic Journal*: 181-197.
- Robert A. Mundell (1957) “International Trade and Factor Mobility”, *American Economic Review* 47(3): 321-335.

- Jagdish N. Bhagwati (1964), "The Pure Theory of International Trade: A Survey", *The Economic Journal*, Volume 74 (293): 1-84 (pages 1-29).

## II. Testing of Trade Models

Bhagwati, Panagariya and Srinivasan (1998) Chapter 8.

Feenstra (2004) Chapter 2

- Edward Leamer (1980) "The Leontief Paradox, Reconsidered" *Journal of Political Economy* 88: 495-503.
- Alan Deardorff (1984) "Testing Trade Theories and Predicting Trade Flows" in R.W. Jones and P.B. Kenen ed. *Handbook of International Economics*, Volume 1: 467-517.
- Daniel Trefler (1995) "The Case of Missing Trade and Other Mysteries", *American Economic Review* 85: 1029-46.

## III. Technology and Trade

### *III.1 Technological Change and Pattern of Trade*

- Jagdish N. Bhagwati (1964), "The Pure Theory of International Trade: A Survey", *The Economic Journal*, Volume 74: 1-84 (pages 41-44)
- S.B. Linder (1961) *An Essay on Trade and Transformation*, Wiley, New York: Chapter 3.
- M V. Posner (1961) "Technological Change and International Trade", *Oxford Economic Papers*, Volume 13(3): 323-341.
- 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.
- Don Davis (1995) "Intra-industry trade: a Heckscher-Ohlin-Ricardo Approach", *Journal of International Economics*, Volume 39(3-4): 201-226.

### *III.2 Scale Economies and Trade*

Bhagwati, Panagariya and Srinivasan (1998) Chapter 11

Feenstra (2004) Chapter 5

- Paul Krugman (1980) "Scale Economies, Product Differentiation and the Pattern of Trade", *American Economic Review*, Volume 70(5): 950-959.

- P. R. Krugman (1991) Increasing Returns and Economic Geography, *Journal of Political Economy*, Volume 99: 483-499.

#### IV. Gains from Trade and Strategic Trade Policy

Bhagwati, Panagariya and Srinivasan (1998) Chapters 18, 19, 21 and 30.

- P. A. Samuelson (1956) "Social Indifference Curves", *The Quarterly Journal of Economics* Volume 70(1): 1-22.
- P. A. Samuelson (1962) "The Gains from International Trade Once Again", *The Economic Journal*, Volume 72 (288): 820-829.
- Jagdish N. Bhagwati (1964), "The Pure Theory of International Trade: A Survey", *The Economic Journal*, Volume 74: 1-84 (pages 54-78)
- Jeffrey Frankel and David Romer (1999) Does Trade Cause Growth, *American Economic Review*, 379-399.
- Robert Feenstra (2006) "New Evidence on the gains from trade", *Review of World Economics* 142: 617-641.

Readings on Strategic Trade Policy will be assigned in the class

**Course Evaluation** The course grade will be based on the performance in assignments and examinations. The component weights will be as follows:-

*Midterm Examination (30%), Assignments (30) and Final Examination (40%).*