

Fall Quarter 2002  
M W 9-10:50  
12:00  
BUNCHE 2249

Instructor: Edward Leamer  
Office Hours: M W 11:00 -  
AGSM C507

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### ***Course Description***

This course in international micro economics addresses an explicit set of questions, uses theory that is judged by its usefulness in answering the questions, and presents whatever empirical evidence is relevant, in light of the questions and the theory.

### **Questions:**

Interest in international economics comes first from the fact that governments reserve the right to intervene in cross-border transactions in special ways not applicable to internal commerce, and second from the fact that the effects of internal policy measures including educational subsidies, social security, the income tax and so on, are all influenced by international “leakages.” As markets become more global, more policies come under the heading of international economics.

More specifically, international economics deals with the design of tariff and nontariff barriers, the control of international migrant and capital flows, and the taxation of foreign-source earnings of multinational corporations to improve economic efficiency and/or to redistribute income. International economics also deals with the design of labor market interventions, educational subsidies and industrial policies to enhance global competitiveness and increase the gains from trade and affect the distribution of income which is partly determined by external competition.

### **Theoretical Frameworks**

Four theoretical frameworks are considered for answering these questions. The frameworks are: The Ricardian model with technological differences among countries, the short-run Ricardo-Viner model with sector-specific capital or labor, the Heckscher-Ohlin model with factor supply differences among countries, and Chamberlainian models with economies of scale, product differentiation and strategic interactions.

### ***Course Objectives***

My goal is to have all students attain a firm grasp of the questions that drive the subject of international economics, the theoretical frameworks that are used and the empirical evidence. I will not emphasize the other highly important topics such as: developing a feel for when one model should be used instead of another, or recognizing potential research topics, or doing research.

### ***Texts at the Bookstore***

Bhagwati, J., Arvind Panagariya, and T.N. Srinivasan, **Lectures on International Trade**, Second Edition Cambridge: M.I.T. Press, 1998.  
Leamer, Edward E., ed. **Worth Series in Outstanding Contributions: International Economics**, Worth Publishers, 2001.

### **Feenstra Text and Problems**

Feenstra, Robert **Advanced International Trade: Theory and Evidence**, to be published by Princeton University Press in fall 2003. Chapters available in pdf form at:

<http://www.econ.ucdavis.edu/faculty/fzfeens/textbook.html>

We will use this book and its exercises and during the year accumulate comments to be sent to Professor Feenstra.

### **Highly Recommended Books**

Wong, Kar-Yui, **International Trade in Goods and Factor Mobility**, The MIT Press, 1995.  
Bhagwati, Jagdish N., **International Trade: Selected Readings**, Cambridge: M.I.T. Press, Second edition, 1987. (READINGS)  
Grossman, Gene M., ed., **Imperfect Competition and International Trade**, The MIT Press, 1992.

Additional valuable books:

Vousden, Neil, **The economics of trade protection**, Cambridge University Press, 1990.  
Jones, Ronald and Peter B. Kenen, **Handbook of International Economics, Volume I**, Amsterdam: North Holland Publishing Co., 1984.  
Grossman and Kenneth Rogoff, eds., **Handbook of International Economics, Volume 3**, Amsterdam: North-Holland Publishing Company, 1995.  
Greenaway, David and L. Alan Winters, **Surveys in International Trade**, Oxford: Basil Blackwell, 1994.  
Dixit, A.K. and V. Norman, **Theory of International Trade**, Cambridge University Press, 1980.

Dixit and Norman is a standard reference in the field, but I am not a big fan of its use of duality, with which I am not very comfortable. The Vousden book is a good alternative since it focuses on the central issue: What happens if governments intervene in international commerce?

In order that you do not lose track of the issues in all the theory, you might want to take a look at recent issues of the annual:

#### **The World Development Report**

A book to which I will refer occasionally is (pdf images on the Internet)

Leamer, Edward E., **Sources of International Comparative Advantage**, Cambridge: M.I.T. Press, 1984.

### **Course Requirements: Participation, Homeworks, Top Ten Lists and Final**

Grades will be based on class participation, on several homework assignments, on lists of ideas and facts, and on a final exam. The lists of top **ten ideas** and **top ten facts** are handed in the last day of class. The timing of homework assignments will be announced as the quarter progresses.

### **Reading List**

Readings organized by session are reported on the Reading list. The list includes also some additional references that are not required but which may be useful for this course or for some future assignments. The required readings cover all the papers in my readings book, all the chapters of Feenstra's new book, plus some additional references that I will put on reserve.

**It is important that the readings be done prior to the class schedule since we will spend class time trying to interpret and to make sense of these readings.**

**No Class on Wed. Oct. 16 and Wed. Nov. 13**