

Theory, Policy, and Empirics of International Trade (E371)

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Content & Objectives:

This course studies theoretical discussion of trade models. Students will learn why countries may benefit from participating in the international division through international trade based on comparative advantage. They will also develop an understanding of why these gains from trade are unevenly distributed between different parts of society, say workers and capital owners or entrepreneurs, and why some people may indeed lose from globalization, while others may gain. The course will also offer alternative explanations for the patterns of trade, including traditional theories of comparative advantage as well as modern theories that focus on increasing returns to scale and imperfect competition.

A further important goal is to understand the workings of international trade policy through tariffs and non-tariff barriers. The course will explain the effects of such policies on aggregate welfare of countries, as well as on the well-being of different individuals, like workers and capital owners. In addition, we shall also develop explanations for why governments behave as they do, imposing or reducing tariffs on some goods, but not on others. Finally, the course also identifies international policy-spillovers, meaning that one country's trade policy may have consequences for economic welfare in other countries.

Overall, the course will enable students to actively participate in an informed way in discussions about the driving forces and the effects of economic globalization: Moreover, the course will prepare students to attend more advanced courses on International Economics in graduate programs on the M.Sc. or M.A. level.

The course will be offered in the following way:

- Frank Stähler will be in charge of introducing trade models in his lectures.
- Camila Cisneros-Acevedo will offer a tutorial in which the theory and policy of international trade will be discussed and explained further using exercises; this tutorial will also prepare you for the final exam.

Prerequisites:

The course is meant for bachelor students with a major in Economics ("B.Sc. International Economic", "B.Sc. in International Business Administration", and "B.Sc. in Economics and Business Administration"). Formal entry requirements do not exist, but prior attendance of micro- and macro-economics courses at the intermediate level is recommended. The course will be taught in English.

Credits:

6 ECTS.

Method of Assessment:

Exam questions will be given in English, answers should also be written in English. Questions will be tutorial-like problems. You will have to choose 2 out of 3 problems to work on. The date of the written exam will be set by the Examination Office, and registration for the exam with the Examination Office is essential.

Theory lectures: Mondays 10:15-11:45 (room E03 in Mohlstr. 36)

1. Trade and technology: The Ricardian model
2. Factor endowments and trade 1: The Specific-factors model
3. Factor endowments and trade 2: The Heckscher-Ohlin model
4. The standard model of trade
5. New trade theory: Increasing returns to scale and imperfect competition
6. Trade policy under perfect competition
7. Trade policy under imperfect competition

Tutorials: Mondays 12:15-13:45 (room E03 in Mohlstr. 36)

1. Problem Set 1: Ricardo
2. Problem Set 2: Heckscher-Ohlin
3. Problem Set 3: The standard trade model
4. Problem Set 4: The Krugman model
5. Problem Set 5: Reciprocal dumping
6. Problem Set 6: Trade policy under perfect competition

Registration

Please register in [ILIAS](#). You should be able to access it using the following password **trade2026**. If you do not succeed, please email camila.cisneros-acevedo@uni-tuebingen.de with the subject line "E371", and she will help you. This will also allow you to access all types of course material. Lecturers will communicate to you via ILIAS in case there is a change of schedule. On June 8 we will have 2 tutorials, the first one starting at 10:15 and there will be no tutorial on 15 June.

Literature and readings

Reading recommendations on the empirics of international trade will be given in the respective lectures.

Good textbooks on undergraduate level on the theory of international trade are:

- Feenstra, R.C., Taylor, A.M., (2017), International Economics, 4rd ed., Macmillan (referred to as FT), and
- Krugman, P.R., Obstfeld, M., Melitz, M. (2018), International Trade: Theory and Policy, 11th ed., Pearson (referred to as KOM).

Please find below the respective chapters in these textbooks and further references, including notes you find on ILIAS, for the theory lectures. Please note that we do not follow any textbook very closely, so you should also carefully study the lecture slides and work through the tutorial questions.

1. Trade and technology: The Ricardian model

- FT, chapter 2
- KOM, chapter 3

Further reading (optional):

- Eaton, J. and S. Kortum (2012), Putting Ricardo to Work, *Journal of Economic Perspectives*, 26(2), 65-90, 2012.

2. Factor endowments and trade 1: The specific-factors model

- FT, chapter 3
- KOM, chapter 4

3. Factor endowments and trade 2: The Heckscher-Ohlin model

- FT, chapters 4
- KOM, chapter 5

4. The standard model of trade

- KOM, chapter 6

5. New trade theory: Increasing returns to scale and imperfect competition

- FT, chapter 6
- KOS, chapter 8
- Notes on ILIAS: "The demand curve in the monopolistic competition model with CES utility"

Further reading (optional):

- Bernard, A., B. Jensen, S. Redding and P. Schott (2007), Firms in International Trade, *Journal of Economic Perspectives*, 21 (3), 105-130
- Brander, J., and P. Krugman (1983), A 'reciprocal dumping' model of international trade, *Journal of International Economics*, 15 (3-4), 313-321
- Neary, P. (2009), Putting the "New" into New Trade Theory: Paul Krugman's Nobel Memorial Prize in Economics, *Scandinavian Journal of Economics*, 111(2), 217-250

6. Trade policy under perfect competition

- FT, chapter 8
- KOS, chapter 9
- Notes on on ILIAS: "Derivation of the optimum tariff"

7. Trade policy under imperfect competition

- FT, chapter 9
- Notes on ILIAS: "Production externality"