

BMSS 2014: International Trade and Macroeconomics

CREI-UPF, Barcelona, July 7-11, 2014

Instructor: Gino Gancia

ggancia@crei.cat

Description

Global phenomena, such as the process of European integration, trade liberalization in China and India, and the international fragmentation of production chains, have increased dramatically the degree of interdependence between countries. The aim of this course is to study the macroeconomic consequences of these major developments in the world economy. With the help of both analytic and quantitative models, we will study how trade integration and offshoring of production affect welfare, wage inequality (both between and within countries) and unemployment. We will also discuss the linkages between trade flows, global imbalances and the great recession. Finally, we will examine how globalization affects policy making across countries and the consequences of market integration for the design of optimal political institutions. For each topic, there will be a brief empirical motivation followed by a discussion of some of the most influential papers in the recent literature. Some basic knowledge of trade theory will be taken for granted.

Reading List (preliminary)

Lecture notes will be made available before each class. Starred articles will receive particular emphasis.

A useful reference for basic facts about trade flows is:

World Trade Report (2008):

http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report08_e.pdf

For an overview of traditional trade theory, a comprehensive reference is:

Feenstra, R. (2004). *Advanced International Trade: Theory and Evidence*, Princeton University Press

1. Technology, geography and trade: a quantitative analysis

*Dornbusch R., S. Fischer and P. Samuelson (1977) "Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods" *American Economic Review* 823-839

*Eaton, J. and S. Kortum (2002). "Technology, Geography and Trade" *Econometrica* 70, 1741-1779

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

Alvarez F. and R.E. Lucas (2007). "General Equilibrium Analysis of the Eaton-Kortum Model of International Trade," *Journal of Monetary Economics*, 54(6), pp. 1726-68

Costinot A., D. Donaldson and I. Komunjer (2012). "What Goods Do Countries Trade? A Quantitative Exploration of Ricardo's Ideas" *Review of Economic Studies*, 79, pp. 581-608

Chor D. (2010). "Unpacking Sources of Comparative Advantage: A Quantitative Approach" *Journal of International Economics*, 82, 152-167

2. Trade, global imbalances and the great recession

- *Eaton, J., S. Kortum, B. Neiman, and J. Romalis (2011). "Trade and the Global Recession," NBER WP 16666
- *Dekle, R., J. Eaton and S. Kortum (2007). "Unbalanced Trade," *American Economic Review Papers and Proceedings*, 97
- Dekle, R., J. Eaton and S. Kortum (2008). "Global Rebalancing with Gravity: Measuring the Burden of Adjustment" *IMF Staff Papers*, 55 (3), 2008, 511-540
- Korinek, A. and L. Serven (2012). "Undervaluation through Foreign Reserve Accumulation: Static Losses, Dynamic Gains" Working Paper
- Bems, R., R. C. Johnson and K.M. Yi (2013). "The Great Trade Collapse," *Annual Review of Economics*, 5: 375-400

3. Offshoring, global supply chains and the rise of China

- Blinder A. (2006). "Offshoring: The Next Industrial Revolution?" *Foreign Affairs*, March/April pp. 113–128
- *Samuelson P. (2004). "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization," *Journal of Economic Perspective* 18, 135-146
- *Rodriguez-Clare A. (2010). "Offshoring in a Ricardian World," *American Economic Journal: Macro* 2, 227–58
- *Acemoglu, D., G. Gancia and F. Zilibotti (2013). "Offshoring and Directed Technical Change" Working Paper
- Costinot, Arnaud, Jonathan Vogel, and Su Wang (2013). "An Elementary Theory of Global Supply Chains," *Review of Economic Studies*, 80, 109-144
- Julian di Giovanni, Andrei Levchenko and Jing Zhang (2013). "The Global Welfare Impact of China: Trade Integration and Technological Change" forthcoming, *American Economic Journal: Macroeconomics*
- Feenstra, R. (1998). "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspective*, 12:4 31-50
- Feenstra R. and S.-J. Wei, Editors (2010). *China's Growing Role in World Trade*, NBER: http://www.nber.org/books_in_progress/china07/index.html
- Johnson, R.C. and G. Noguera (2012). "Accounting for Intermediates: Production Sharing and Trade in Value Added," *Journal of International Economics*, 86 (2), 2012

4. Trade and labor market outcomes: wages and unemployment in a global economy

- *Epifani P. and G. Gancia (2008). "The Skill Bias of World Trade," *Economic Journal*, 118, 927-960
- *Helpman H., O. Itzhoki and S. Redding (2010). "Inequality and Unemployment in a Global Economy" *Econometrica*, 78 (4). pp. 1239-1283
- *Davis, D. (1998) "Does European Unemployment Prop Up American Wages? National Labor Markets and Global Trade," *American Economic Review*, 88, pp. 478-94
- *Grossman G. and E. Rossi-Hansberg (2008). "Trading Tasks: a Simple Theory of Offshoring," *American Economic Review*, 98:5, 1978–1997
- *Acemoglu D., G. Gancia and F. Zilibotti (2013) "Offshoring and Directed Technical Change," Working Paper.
- Acemoglu, Daron and David Autor (2011). "Skills, Tasks and Technologies: Implications for Employment and Earnings," in *Handbook of Labor Economics*, 4(B), pp. 1043-1171
- Epifani P. and G. Gancia (2006). "Increasing Returns, Imperfect Competition and Factor Prices," *The Review of Economics and Statistics*, 88, 583-598

- Feenstra, R. and G. Hanson (1997), "Foreign Direct Investment and Relative Wages: Evidence from Mexico's Maquiladoras," *Journal of International Economics* 42, 371-393
- Feenstra R. and G. Hanson (1999). "The Impact of Outsourcing and High-Technology Capital on Wages," *Quarterly Journal of Economics* 114, 907-40
- Antras P., L. Garicano and E. Rossi-Hansberg (2006). "Offshoring in a Knowledge Economy" *Quarterly Journal of Economics*, 121, 31-77
- Costinot, A. and J. Vogel (2010). "Matching and Inequality in the World Economy," *Journal of Political Economy*, Vol. 118, No. 4, pp. 747-786
- Monte F. (2011). "Skill Bias, Trade and Wage Dispersion," *Journal of International Economics*, Vol. 83(2), pp. 202-218
- Amiti M. and D. Davis (2011). "Trade, Firms and Wages: Theory and Evidence," *Review of Economic Studies* 79, 1-36
- Helpman H., O. Itzhoki, M. Muendler and S. Redding (2013). "Trade and Inequality: From Theory to Estimation," working paper

5. International markets and national governments

- *Alesina A., E. Spolaore and R. Wacziarg (2005) "Trade, Growth and the Size of Countries" in *Handbook of Economic Growth*, (P.Aghion and S.Durlauf, eds.)
- Alesina A., E. Spolaore and R. Wacziarg (2000). "Economic Integration and Political Disintegration," *American Economic Review*, vol. 90(5), pages 1276-1296
- *Epifani P. and G. Gancia (2009). "Openness, Government Size and the Terms of Trade," *Review of Economic Studies*, 76, 629-668
- Rodrik D. (1998). "Why do More Open Economies Have Bigger Governments?" *Journal of Political Economy*, 106, pp. 997-1032
- *Gancia G., G. Ponzetto and J. Ventura (2014). "Globalization and Political Structure" in progress
- *Acemoglu, D., J. Robinson and T. Verdier (2012) "Can't We All Be More Like Scandinavians? Asymmetric Growth and Institutions in an Interdependent World" NBER Working Paper 18441