

Bavarian Graduate Program in Economics

## **INTERNATIONAL TRADE**

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### **OBJECTIVES**

The aim of the course is to take students to the frontier of theoretical research in international trade. The focus is on the firm-level approach originated from “new trade theory”. Part 1 introduces the *fundamental trade model* with monopolistic competition. The following three parts show how the research based on that model has evolved in recent years. Three main lines of research are presented: “*new economic geography*”, *firm selection with heterogeneity* and *firm organization with incomplete contracts*.

### **METHOD**

Two morning sessions (1.5 hours each) and two afternoon sessions (1.5 hours each). This is an advanced course for PhD students with a solid microeconomic background. It is entirely based on the discussion of key papers through the analytical derivation of their main results. Active class participation is required as no lecture notes will be made available.

### **PROGRAM**

Compulsory readings are labeled by \*\*.

## **1. Trade models with imperfect competition: oligopoly and monopolistic competition**

Brander, J. and P. Krugman (1983) A 'reciprocal dumping' model of international trade, *Journal of International Economics* 15, 313-321.

Helpman, E. and P. Krugman (1985) *Market Structure and Foreign Trade* (Cambridge (Mass.): MIT Press), Chapters 5-10.

Krugman, P. (1980) Scale economies, product differentiation and the pattern of trade, *American Economic Review* 70, 950-959.\*\*

Krugman, P. (1995) Growing world trade: causes and consequences, *Brookings Papers on Economic Activity* 1, 327-362.\*\*

Grossman G. and E. Helpman (1991) *Innovation and Growth in the Global Economy* (Cambridge (Mass.): MIT Press), Chapters 3\*\*, 8.

## **2. Inter-industry effects of trade: "home market effect" and agglomeration**

Baldwin, R.E., Forslid R., Martin P., Ottaviano G.I.P. and F. Robert-Nicoud (2003) *Economic Geography and Public Policy*, (Princeton: Princeton University Press), Chapter 2\*\*, 3\*\*, 5, 8.

Behrens, K., A. Lamorgese, G.I.P. Ottaviano and T. Tabuchi (2009) Beyond the home market effect: Market size and specialization in a multi-country world, *Journal of International Economics* 79, 259-265.

Krugman, P. (1991) Increasing returns and economic geography, *Journal of Political Economy* 99, 483-499.\*\*

Krugman P. and A. Venables (1995) Globalization and the inequality of nations, *Quarterly Journal of Economics* 110, 857-880.\*\*

Ottaviano, G.I.P., T. Tabuchi and J.-F. Thisse (2002) Agglomeration and Trade Revisited, *International Economic Review* 43, 409-436.

## **3. Intra-industry effects of trade: firm turnover and selection**

Bernard, A. and B. Jensen (1999) Exceptional exporter performance: cause, effect, or both?, *Journal of International Economics* 47, 1-25.

Bernard, A., J. Eaton, J. Jensen and S. Kortum (2003) Plant productivity in international trade, *American Economic Review* 93, 1268-1290.

Bernard, A., J. Jensen, S. Redding and P. Schott (2007) Firms in International Trade, *Journal of Economic Perspectives* 21, 105-130. \*\*

Melitz, M. (2003) The impact of trade on intra-industry reallocations and aggregate industry productivity, *Econometrica* 71, 1695-1726.\*\*

Melitz, M. and G. Ottaviano (2005) Market size, trade, and productivity, *Review of Economic Studies*, 2008, Vol. 75, 295-316.\*\*

Tybout, J. (2002) Plant and firm-level evidence on new trade theories. In *Handbook of International Economics*, J. Harrigan (ed.), Vol. 38, Basil-Blackwell.\*\*

### **3. Intra-firm effects of trade: restructuring and outsourcing**

Antras, P. (2003) Firms, contracts, and trade structure, *Quarterly Journal of Economics* 118, 1375-1418.

Antras, P. and E. Helpman (2004) Global Sourcing, *Journal of Political Economy* 112, 552-580.\*\*

Feenstra, R. (1998) Integration of trade and disintegration of production in the global economy, *Journal of Economic Perspectives* 12, 31-50.\*\*

Grossman, G. and E. Helpman (2002) Integration vs. outsourcing in industry equilibrium, *Quarterly Journal of Economics* 117, 85-120.\*\*

Hummels, D., J. Ishii, and K.-M. Yi (2001) The nature and growth of vertical specialization in world trade, *Journal of International Economics* 54, 75-96.

Marin, D. and T. Verdier (2003) Globalization and the new enterprise, *Journal of the European Economic Association* 1, 337-344.