

Department of Economics, Yale University
International Trade 720a
Firm-Level Theory and Quantitative Analysis in International Trade

Syllabus

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DESCRIPTION

This course is designed to introduce you to the new firm-level theories of trade and analyze their quantitative implications. In addition, and time allowing to do so, we will introduce the firm level analysis of trade into dynamic general equilibrium models and also look at newly identified margins of export sales. Our approach will be mainly deductive, while in order to build our models we will continuously draw motivation from empirical observations. We will explicitly test the predictions of our models on different aspects of the data. In our analysis we will give increasing attention to some main methodological points. First, what are the important features that firm-level models of trade can offer not attainable by previous theory? Second, how can we construct a reasonable mapping of firm-level models of trade to the data? Last, can the main “successful” firm-level models of trade be integrated in a unified macroeconomic framework, without losing the desirable properties that each model individually attains?

The Graduate International Trade course (720a) will be taught over the Fall semester by me and Peter Schott will offer guest lectures. The second part of the course (721b, half a semester) will be taught by Steve Redding over the Spring. In 720a There will be no final exams but there will be 5 problem sets and 1 presentation each counting towards 1/6 of the final grade.

LECTURE NOTES

Eaton, Jonathan and Samuel Kortum, Technology in the Global Economy: A Framework for Quantitative Analysis (henceforth, **TGE**)

Class notes will also be posted online

TOPICS AND DATES COVERED (TENTATIVE)

Note: the papers below are quoted in the (tentative) order that they will be mentioned in class.

A small introduction into deductive reasoning (Week 1)

In class notes

Some facts on international trade (Week 1)

TGE chapter 2

Background on H-O and Ricardian models of trade (Week 2)

In class notes

Bernard, A. B., S. Redding, and P. K. Schott (2007), "[Comparative Advantage and Heterogeneous Firms](#)," Review of Economic Studies, 74 (1), 31-66

Costinot A., and J. Vogel, (2008) "[Matching and Inequality in the World Economy](#)," mimeo, MIT and Columbia University

Blanchard E. and G. Willman, (2008), "[Trade, Education, and the Shrinking of Middle Class](#)," mimeo University of Virginia

Gravity and estimation of trade flows (Week 3)

In class notes

Anderson, James E. (1979) "[A Theoretical Foundation for the Gravity Equation](#)," The American Economic Review, 69, pp. 106-116.

Anderson, J. and E. van Wincoop (2003), "[Gravity with Gravitas: A Solution to the Border Puzzle](#)," The American Economic Review, 93: 170-192

Eaton, J. and S. Kortum, (2002), "[Technology, Geography, and Trade](#)," Econometrica, 70: 1741-1780.

Fieler, A., (2007), "Non-Homotheticity and Bilateral Trade: Evidence and a Quantitative Explanation," mimeo NYU.

Mike Waugh, (2007), "International Trade and Income Differences," mimeo University of Iowa.

Hummels, David and Alexandre Skiba, (2004) "[Shipping the Good Apples Out? An Empirical Confirmation of the Alchian-Allen Conjecture](#)," Journal of Political Economy, 112: 1384-1402.

Background on firm level models of trade (Week 4)

TGE, chapter 3.

Hopenhayn, H. A., (1992), "Entry, [Exit, and firm Dynamics in Long Run Equilibrium](#)," Econometrica, 60(5), 1127-1150.

Dornbusch, R., S. Fischer, and P. A. Samuelson (1977), "[Comparative Advantage, Trade, and Payments with a Continuum of Goods](#)," American Economic Review, 67: 823-839.

Eaton, J. and S. Kortum, (2002), "[Technology, Geography, and Trade](#)," Econometrica, 70: 1741-1780.

- Melitz, M. (2003), "[The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity](#)," *Econometrica*, 71: 1695-1726.
- Bernard, A. B., J. Eaton, B. Jensen, and S. Kortum (2003): "[Plants and Productivity in International Trade](#)," *American Economic Review*, 93(4), 1268—1290.

Working with trade data (lecture(s) given by Peter Schott, Week 5)

In class notes handed out by Peter

Firm-level Facts on international trade

- Bernard, A. B., and J. B. Jensen (1995): "[Exporters, Jobs, and Wages in US Manufacturing: 1976-1987](#)," *Brooking Papers: Microeconomics*, pp. 67—119.
- Bernard, A. B., J. Eaton, B. Jensen, and S. Kortum (2003): "[Plants and Productivity in International Trade](#)," *American Economic Review*, 93(4), 1268—1290.
- Bernard, A. B., and J. B. Jensen (2004): "Exporting and Productivity in the USA," *Oxford Review of Economic Policy*, 20(3), 343—357.
- Clerides, S. K., S. Lach, and J. R. Tybout (1998): "[Is Learning by Exporting Important? Micro-Dynamic Evidence from Colombia, Mexico, and Morocco](#)," *The Quarterly Journal of Economics*, pp. 903—947.
- Tybout, J. R. (2001): "[Plant -and Firm- Level Evidence on "New" Trade Theories](#)," NBER Working Paper, 8418.
- Bernard A. B., J. B. Jensen and P. Schott, [Firms in International Trade](#), *Journal of Economic Perspectives* (forthcoming).
- Eaton, J., S. Kortum and F. Kramarz, (2005), "An anatomy of International Trade, Evidence from French firms," mimeo University of Minnesota and NYU.

Monopolistic Competition and Models of Trade (Week 6)

- Krugman, P. (1980): "[Scale Economies, Product Differentiation, and the Pattern of Trade](#)," *American Economic Review*, 70(5), 950—959.
- Melitz, M. J. (2003): "[The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity](#)," *Econometrica*, 71(6), 1695—1725.
- Chaney, T. (2007), "Distorted Gravity: The Intensive and Extensive Margins of International Trade," *The American Economic Review*, forthcoming.
- Eaton, J., S. Kortum and F. Kramarz, 2007, "An anatomy of International Trade, Evidence from French firms," mimeo University of Chicago and NYU.
- Arkolakis C., (2008), "[Market Penetration Costs and the New Consumers Margin in International Trade](#)," NBER working paper 14214

Firm-Level Quantitative Trade Theory: A General Framework (Week 7)

TGE, chapter 4, 5, and 6

- Eaton, J. and S. Kortum, (2002), "[Technology, Geography, and Trade](#)," *Econometrica*, 70: 1741-1780.
- Bernard, A. B., J. Eaton, B. Jensen, and S. Kortum (2003): "[Plants and Productivity in International Trade](#)," *American Economic Review*, 93(4), 1268—1290.
- Chaney, T. (2005), "Distorted Gravity: Heterogeneous Firms, Market Structure, and the Geography of International Trade," mimeo, University of Chicago.