

# International Trade: USA and Europe in an Interconnected World

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**Office hours: Tuesday, 1 – 2 p.m., office 125 (ext. 199) or by appointment.**

## Course Description:

This course covers, with a focus on both theory and empirics, essential topics in international (interregional) trade and trade policy analysis at the undergraduate level. These basics are complemented by hands-on work with empirical data, and discussions of topics which appear in current debates on trade policies and protectionism. The course attempts to provide insight into the following questions:

- Why do countries (regions) trade? And how does trade influence the welfare of their citizens?
- What determines which goods/services will be exported/imported by particular countries?
- How do trade policies influence the effects of trade on economies and their welfare?
- How are US and EU policies formed and how do they differ? If US uses “Buy America/n”, is there something like “Buy European”?
- How can we identify and evaluate vulnerabilities caused by dependencies on countries such as China, Russia, etc.?
- What kind of sanctions can be used (and are used by the USA, EU, and China), and how do they influence welfare?

In short, we will analyze the benefits of trading and the causes (and effects) of specialization and the development of theoretical opinions on these issues. Next, we will discuss global trade framework (WTO), available policy instruments (tariffs, quotas, subsidies, anti-dumping measures, as well as popular schemes for preferential treatment, i.e. customs unions, free trade areas) and options available to those who would want to analyze the effects of trade

policies. We will also briefly touch on some current issues, i.e. discuss our ability to estimate the effects of current sanctions and embargoes.

The course resembles standard courses in International Trade Theory as taught at many other undergraduate economic programs. Besides theory, we will also attempt our own empirical analysis – i.e. you will learn what kind of data on trade are available and from which sources and how to work with them. Depending on your skills, you will also learn how to analyze the data – either in Excel or some more advanced type of software.

### **Course Objectives:**

Traditional trade theory relies on microeconomics; any basic introductory course of microeconomics should give you sufficient foundations for studying this course.

In short: you should:

- know what indifference curves, budget constraints and production possibility frontiers are understood how utility and profit maximization work
- understand the basic differences between perfect competition, monopoly, and oligopoly.

If you have heard about these terms, but you are no longer sure about their logic, a brief handout (or if necessary a refresher session) will be provided.

### **Assignments:**

There will be 4-5 assignments during the semester. In these assignments you will typically work with relevant empirical data and demonstrate your understanding of the discussed topics/models and your analytical skills.

### **Grading Policy:**

Class participation/attendance:	10 %
Brief online quizzes during the semester	16 %
Assignments:	24 %
Final exam:	50 %

## Grading Scale

Letter Grade	Percentage	Description
A+	97-100	Excellent Work
A	93-97	Outstanding Work
A-	90-92	
B+	87-89	Good work
B	83-86	
B-	80-82	
C+	77-79	Acceptable Work
C	73-76	
C-	70-72	
D+	67-69	Work that is significantly below average
D	63-66	
D-	60-62	
F	0-59	Work that does not meet the minimum standards for passing the course

### UPCES Academic Integrity Policy

Plagiarism and other forms of academic dishonesty are not tolerated. The use of Artificial Intelligence (AI) for the development of knowledge and learning is encouraged at many stages of the learning process. While we value technology for educational purposes, we also value originality and the retainment of knowledge, and thus using AI for assignments and examinations, even if rephrased, is strictly prohibited and considered an academic integrity violation, unless the instructor explicitly allows for it in the context of evaluated work

### UPCES Non-Discrimination/Harassment Policy

The UPCES program in Prague promotes a diverse learning environment where the dignity, worth, and differences of each individual are valued and respected. Discrimination and harassment, whether based on a person's race, gender, sexual orientation, color, religion, national origin, age, disability, or other legally protected characteristic, are repugnant and completely inconsistent with our objectives. Retaliation against individuals for raising good faith claims of harassment and/or discrimination is prohibited.

### UPCES Diversity Policy

UPCES fully embraces diversity and strives to create a safe and welcoming environment for students from all backgrounds. Prague is a wonderfully diverse community and UPCES is no different. All students should feel at home while studying abroad and UPCES will do its utmost to make sure that becomes a reality. Although unique challenges may arise, we believe that students from all walks of life will encounter wonderful opportunities for enrichment as they explore a new culture while studying abroad.

## **Weekly Schedule**

### **Week 1 (September 18-21)**

#### *Orientation Week*

Lectures on basic features of Czech economy and life during Socialism and transition.

### **Week 2 (September 26 & 28)**

#### *Introduction*

#### **Overview of course, interesting facts on trade and trade policy**

*Outline of the course, basic features of current trade relations and global trade framework*

- KOM – chapter 1: Introduction
- KOM – chapter 2: World Trade: An Overview

#### **Empirics of trade relations: trade data and problems with them.**

What kind of data we can get and where? What kind of problems should we be aware of when using them? Do trade imbalances matter?

- A few examples of empirical work with the data (using US, EU and Czech examples), some basic indicators used in trade analysis (openness, concentration).
- WTO: A Practical Guide to Trade Policy Analysis – selected subsections of chapter 1 - You will be provided with datasets (via Moodle) for your own analysis.

### **Week 3 (October 3 & 5)**

*Reality of modern trade relations: global supply chains and multinational companies*

#### **Global value chains (GVCs): why do they exist and why do they matter?**

- J. B. Alvarez et al (2021): Recent Trends in Global Value Chains.
- Baldwin (2006): Globalisation: the great unbundling(s)

#### **Introduction to TiVA analysis and data on GVCs: implications for mutual dependencies**

So, who really depends on whom more? EU on the USA or vice versa? USA on China?

- You will be provided with datasets (via Moodle) for your own analysis.

## **Week 4 (October 10 & 12)**

*Why do nations trade: classical approach*

### **Ricardian model**

- Trade based on differences in productivities (technologies)
- Welfare effects of trade
- P. Krugman: Ricardo's Difficult Idea. <http://web.mit.edu/krugman/www/ricardo.htm> - KOM – chapter 3

### **Ricardian model: extensions. Empirical issues.**

- WTO: A Practical Guide to Trade Policy Analysis – selected subsections of chapter 1
- Deardorff: Comparative advantage: The theory behind measurement - J. Eaton & S. Kortum (2012): Putting Ricardo to Work

## **Week 5 (October 17 & 19)**

*Trade and endowments: Heckscher-Ohlin model*

### **Logic of the HO model, illustration (and demonstration) of the theorems**

- KOM: chapter 5

### **Welfare issues: how trade generates winners and losers. Implications for trade policies?**

- W.J. Bernstein. A Splendid Exchange – How Trade Shaped the World. Atlantic Monthly Press, New York, 2008 – chapter 13
- Lu & Hufbauer: Has Global Trade Fueled US Wage Inequality? A Survey of Experts <https://www.piie.com/blogs/trade-and-investment-policy-watch/has-global-trade-fueledus-wage-inequality-survey-experts>

## **Week 6 (October 24 & 26)**

*Beyond traditional trade models*

### **Empirical (and other issues) of classical and neoclassical models**

- Home market and other issues: why do we need other models?
- A brief intro into early alternatives (product life cycle etc.).

### **Krugman: firms and monopolistic competition in international trade**

- Overview of the basic model, intra-industry trade
- KOM: chapter 7

## **Week 7 (October 31 & November 2)**

*“New new” trade theory and gravity*

### **Heterogeneous firms: empirics and concepts**

- Empirical data on differences between exporter and non-exporter companies in the USA and EU
- A very basic intro into the logic of the Melitz model
- Mayer & Ottaviano: The Happy Few: The Internationalisation of European Firms - KOM: chapter 8

### **Gravity models**

- Basic logic and selected examples of their use.
- You will be provided with datasets (via Moodle) for your own analysis.

## **Week 8 (November 7 & 9)**

*Trade policies: partial equilibrium analysis of effects of trade policy instruments*

### **Typology of trade policy instruments. Partial equilibrium analysis of the effects of tariffs, quotas, and subsidies (small country cases)**

- KOM – chapter 9
- Example: WTO document – Requests for Consultations by the EU (Jan 2022)

### **Partial equilibrium analysis of the effects of trade policy instruments: large country cases. Optimum tariff debate. Examples of empirical estimates based on PE models.**

- KOM – chapter 9
- Note: depending on the background of enrolled students a brief introduction to GE models can be included instead.

## **Week 9 (November 14 & 16)**

*Trade policy: imperfect competition*

### **Dumping and antidumping, price discrimination**

- KOM – chapter 9

### **Strategic trade policy**

## **Week 10 (November 21 & 23)**

*Political economy of trade policy, trade agreements*

### **GATT and WTO: rules-based trade framework**

- How and why were GATT and WTO created?
- KOM – chapter 9
- WTO: What is the WTO? [https://www.wto.org/english/thewto\\_e/whatis\\_e/whatis\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm)
- Irwin (2017): Clashing over Commerce: A History of US Trade Policy, chapter 10

### **US and EU trade policy, lobbying**

- Tradetalks #83: Tariffs for Sale and Identity Politics

## **Week 11 (November 28 & 30)**

*Political economy of trade policy, trade agreements*

### **Free trade agreements & customs unions**

- Logic, motives and main effects of preferential trade agreements - D. Rodrik (2018): What Do Trade Agreements Really Do?

### **US and EU trade policy formation. Lobbying**

- Tradetalks #83: Tariffs for Sale and Identity Politics

## **Week 12 (December 5 & 7)**

*Latest issues in EU, US and Czech trade relations*

### **Sanctions: what do we know about their use and what effects they have?**

- Kirilakha et al (2022): The Global Sanctions Data Base: An Update that Includes the Years of the Trump Presidency

### **Decoupling and derisking**

- Logic, possible welfare effects
- Examples of empirical studies and approaches which can provide useful insight into decoupling-related topics.

## **Week 13 (December 12 & 14)**

*Final Exam Week*

**Consultations for final exam and/or final papers: December 12th**

**Final exam: Thursday, December 14<sup>th</sup>**

## **Reading**

### **Basic textbooks**

- P. Krugman, M. Obstfeld, M. J. Melitz (KOM): International Trade, Theory & Policy. 9th edition or newer. Addison-Wesley (Pearson), 2012.
- E. Helpman: Understanding Global Trade. Harvard University Press 2011

### **Books – alternative options:**

- R.C. Feenstra, A.M. Taylor: International Trade, (Macmillan, any recent edition)
- T. A. Pugel, International Economics, 15 Edition (McGraw-Hill/Irwin, 2011)
- D. Appleyard, A. Field, S. Cobb: International Economics, McGraw-Hill/Irwin, any recent edition
- S. Suranovic - International Economics Study Center: <http://internationalecon.com/>

### **Papers and articles, chapters:**

- J. B. Alvarez et al (2021): Recent Trends in Global Value Chains. Global Value Chain Development Report 2021
- R. Baldwin (2006): Globalisation: the great unbundling(s)
- W.J. Bernstein. A Splendid Exchange – How Trade Shaped the World. Atlantic Monthly Press, New York, 2008 –chapter 13
- L. De Benedictis et al (2013): Network Analysis of World Trade using the BACI-CEPII dataset. CEPII working paper, 24/2013
- Deardorff: Comparative advantage: The theory behind measurement
- J. Eaton & S. Kortum (2012): Putting Ricardo to Work (JEP)
- D. A. Irwin (2017): Clashing over Commerce: A History of US Trade Policy, chapters 8 & 10
- Kirilakha et al (2022): The Global Sanctions Data Base: An Update that Includes the Years of the Trump Presidency in van Bergeijk (2023): The Research Handbook on Economic Sanctions
- P. Krugman: Ricardo's Difficult Idea. <http://web.mit.edu/krugman/www/ricardo.htm>
- E.E. Leamer: The Heckscher-Ohlin Model in Theory and Practice. Princeton Studies in International Finance. No. 77, February 1995
- T. Mayer & Ottaviano (2008): The Happy Few: The Internationalisation of European Firms



- D. Rodrik (2012): The Globalization Paradox: Democracy and the Future of the World Economy.
- D. Rodrik (2018): What Do Trade Agreements Really Do? Journal of Economic Perspectives, Vol. 32, No. 2, Spring 2018
- WTO: A Practical Guide to Trade Policy Analysis, 2012. - This comprehensive text comes with a website with additional data and useful materials: <http://vi.unctad.org/tpa/>
- WTO: What is the WTO? [https://www.wto.org/english/thewto\\_e/whatis\\_e/whatis\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm)

### **Other sources:**

Additional up-to-date sources from media such as The Economist or podcasts (TradeTalks) will be used for some of the topics.

Examples:

- Tradetalks #180: The WTO is in trouble. Econ 101 to the rescue?  
<https://tradetalkspodcast.com/podcast/180-the-wto-is-in-trouble-econ-101-to-the-rescue/>
- Tradetalks #157: Europe's Trade Policy and Open Strategic Autonomy  
<https://tradetalkspodcast.com/podcast/157-europes-trade-policy-and-open-strategicautonomy/>
- Tradetalks #144: Trade policy transitions, with Ambassador Susan Schwab  
<https://tradetalkspodcast.com/podcast/144-trade-policy-transitions-with-ambassadorsusan-schwab/>
- Tradetalks #83: Tariffs for Sale and Identity Politics  
<https://tradetalkspodcast.com/podcast/83-tariffs-for-sale-and-identity-politics/>