

EMPIRICAL TRADE ISSUES

Winter Term 2021/2022

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Classes: The course will start with **onsite classes the second week of December 2021**. In the first session, the content and structure of the course will be discussed. The slides for each topic will be uploaded weekly on [Stud.IP](http://studip.uni-goettingen.de) (*studip.uni-goettingen.de*) and participants are expected to prepare for the exam using not only the slides but also the references (books and articles) indicated for each topic.

In case we have to start with virtual classes due to the Coronavirus pandemic, you find the Zoom link on [Stud.IP](http://studip.uni-goettingen.de).

Please notice that the **material will be covered in half a semester**, starting on the 7/12/2021, and that there are two theory sessions each week to cover the material on the slides, including a Q&A. The main lectures will be complemented with practical sessions (tutorials).

Lecture time:

Tuesday: 14:00 - 16:00, weekly (from 07/12/21 to 08/02/22)

Wednesday: 14:00 - 16:00, weekly (from 08/12/21 to 9/02/22)

Tutorials: The tutorials will also start in the second week of December 2021. **Please register separately on [Stud.IP](http://studip.uni-goettingen.de) for the tutorial** (“Übung zu Empirical Trade Issues”) to receive instructions. If conditions allow, we will meet in the room assigned for the tutorial (CIP-Pool MZG 5.111). **The tutorial will take place weekly on Wednesdays, starting December 8th**. Notice that tutorials start with an introduction to STATA, which will allow the students to have a basic knowledge on the use of the software. Exercise sheets will be posted on [Stud.IP](http://studip.uni-goettingen.de) before each tutorial and the Stata solutions will be discussed during the class.

Program (6 CP)

Introduction

This course is intended to cast light on present-day controversies in international trade through assessment of the latest empirical analysis of a number of important topics of international trade research. The main aim is to improve students' ability to evaluate and undertake empirical research in international trade. All participants are expected to have completed graduate courses in macroeconomics, microeconomics and econometrics.

The course is organized along a number of empirical questions: 1. What do countries trade and with whom?; 2. Why has trade increased so much and what is the role of trade policy?; 3. How can we assess the determinants of bilateral trade flows?; 4. Why do countries negotiate trade agreements?; 5. What are global value chains and trade in value added?; 6. Did globalization contribute to the rise in inequality? We will learn the necessary modeling tools and empirical instruments that help answer these questions.

Course Format

The course will be structured around a series of lectures (2SWS), supplemented by class discussion and tutorials (1SWS) in which students will solve empirical exercises using STATA (based on Bacchetta et al. 2012, Feenstra 2016, De Benedictis and Salvatici 2011, and scientific papers). Class attendance is mandatory.

Evaluation

Final Exam 70% / (Assignments and in class participation) 30%.

Date of Final Exam: 15.02.2022 from 14:00 to 16:00, ZHG003.

Submission of final assignment for the tutorials: 30.02.2021

Outline of the course

Comparative advantage, trade flows and trade policies

1. Quantifying trade flows

1.1 Openness: measurement issues

1.2 Trade composition: At the sectoral and geographical level

1.3 Analysing trade flows, comparative advantage and terms of trade

1.4 Analysing regional trade: Trade intensity and trade complementarity

1.5 Main trade databases

2. Trade policies

2.1 Tariffs under WTO

2.2 Import tariffs: Measurement issues and data

2.3 Non-tariff barriers: Price gaps and coverage ratios

2.4 Trade policies and practices

Globalization, regional integration and its effects

3. The gravity model of trade

3.1 The gravity equation: Theoretical foundations

3.2 Estimation methods

3.3 Advanced gravity modelling issues

3.4 Empirical applications

4. Trade and regional integration

4.1 Regional versus multilateral trade liberalization

4.2 Economic effects of regionalism

4.3 Evidence on the trade effects of regional agreements

4.4 Impact of trade preferences

5. Trade in value added and global value chains

5.1 Fragmentation of production and trade

5.2 The facts: What is TiVA

5.3 Trade in VA, jobs and investment

5.4 Empirical evidence

6. The distributional effects of trade policies

6.1 Transmission of tariff changes

6.2 Linking trade policy to household welfare

6.3 Combining survey data and trade policy data

6.4 Empirical applications

References

Required Text Books:

Bacchetta, M. et al. (2012), *A Practical Guide to Trade Policy Analysis*. World Trade Organization, Geneva, Switzerland. <http://vi.unctad.org/tpa>.

Bowen, H. P., Hollander, A. And Viaene, J-M. (2012), *Applied International Trade*, 2nd Edition, Palgrave Macmillan.

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

Or:

Feenstra, R. (2016), *Advanced International Trade: Theory and Evidence*, Princeton University Press. 2nd Edition.

Suggested Readings (general):

De Benedictis, L. and Salvatici, L. (2011), *The Trade Impact of European Union Preferential Policies. An Analysis through Gravity Models*, Springer, Berlin.

Krugman, Paul R., M. Obstfeld and M. Melitz (2018), *International Economics: Theory and Policy*, 11th Edition, Pearson.

Voicu, A.M., Sen, S. and Martínez-Zarzoso, I. (2018), *Trade, Development and Structural Change. Central and Eastern Europe*. Studies in Economic Transition, Palgrave Mcmillan. ISBN: 978-349-59005-6.

Yotov, Y., Piermartini, R., Monteiro, J.A. and Larch, M. (2016), *Advance Guide to Trade Policy Analysis: The Structural Gravity Model*, UNCTAD and WTO.

Suggested Readings by Topic:

Quantifying Trade Flows

Bacchetta et al. Chapter 1.

Feenstra Chapter 1.

Bowen et al. Chapters 1 and 2.

Davis, D. R., and D. E. Weinstein. (2003) "Market Access, Economic Geography and Comparative Advantage: An Empirical Test." *Journal of International Economics*, 59(1): 1-23.

Deardorff, A. V. (2005) "How Robust is Comparative Advantage?," *Review of International Economics*, Wiley Blackwell, vol. 13(5), pages 1004-1016.

Deardorff, A. V. (1994). "Exploring the limits of comparative advantage," *Review of World Economics (Weltwirtschaftliches Archiv)*, Springer, vol. 130(1), pages 1-19

Deardorff, A. V. (1984) "Testing Trade Theories and Predicting Trade Flows." In *Handbook of International Economics*, vol. 1, edited by Ronald W. Jones and Peter B. Kenen. Amsterdam: North-Holland.

Trade Policy

Bacchetta et al. Chapter 2.

Feenstra Chapters 7-8.

Fugazza, M. and Nicita, A. (2011), “On the importance of market access for trade”, United Nations Conference on Trade and Development (UNCTAD) Blue series Paper No. 51, Geneva: UNCTAD.

Goldberg, P., Khandelwal, A., Pavcnik, N. and Topalova, P. (2010), “Imported intermediate inputs and domestic product growth: evidence from India”, *Quarterly Journal of Economics* 125(4): 1727–67.

Kruse, H.W., Martínez-Zarzoso, I. and Baghdadi, L. (2021), “Standards and political connections: Evidence from Tunisia”, *Journal of Development Economics*, forthcoming. <https://www.sciencedirect.com/science/article/pii/S0304387821001036>.

United Nations Conference on Trade and Development (UNCTAD) (2010), *Non-Tariff Measures: Evidence from Selected Developing Countries and Future Research Agenda*, Developing Countries in International Trade Studies, Geneva: UNCTAD.

The Gravity Model of Trade

Anderson, J., (1979), “A Theoretical Foundation for the Gravity Equation.” *American Economic Review* 69(1), 106-116.

Anderson, James, and Eric Van Wincoop (2003), “Gravity with Gravitas.” *American Economic Review* 93(1), 170-192.

De Benedictis and Salvatici (2011), Chapter 4.

Eaton, J. and S. Kortum, (2002), “Technology, Geography, and Trade,” *Econometrica* 70(5), 1741-1779.

Feenstra (2004), Chapter 5.

Heid, B., Larch, M. and Yotov, Y. (2021), “Estimating the Effects of Non-Discriminatory Trade Policies within Structural Gravity Models”, *Canadian Journal of Economics* 54 (1), 376-409.

Kruse, H. W. and Martínez-Zarzoso, I. (2021) “Transfers in the Gravity Equation”, *Canadian Journal of Economics* 54 (1), 410-442.

Oguledo, V.I. and Macphee, C.R. (1994), "Gravity Models: A Reformulation and an Application to Discriminatory Trade Arrangements" *Applied Economics*, 26, 107-120.

Martínez-Zarzoso, I. and Nowak-Lehmann D., F. (2003), “Augmented Gravity Model: An Empirical Application to Mercosur-European Union Trade Flows” *Journal of Applied Economics* VI (2), 269-294.

Chaney, Thomas (2018), “The Gravity Equation in International Trade: An Explanation”, *Journal of Political Economy* 126(1), 150-177.

Bowen et al. Chapter 9.

Bernard, A. B., S. J. Redding, and P. K. Schott. (2007), “Comparative Advantage and Heterogeneous Firms.” *Review of Economic Studies*, 74(1): 31–66.

Chaney, T. (2008), Distorted Gravity: The Intensive and Extensive Margins of International Trade, *American Economic Review* 98:4, 1707-1721.

Chaney, T. (2014), “The Network Structure of International Trade” *American Economic Review* 114(11), 3600-3634.

Helpman, E., M. Melitz, and Y. Rubinstein, (2007), “Estimating Trade Flows: Trading Partners and Trading Volumes.” National Bureau of Economic Research Working Paper 12927.

Helpman, E., M. Melitz, and Y. Rubinstein. (2008), “Estimating trade flows: trading partners and trading volumes”, *Quarterly Journal of Economics* 123, no. 2: 441-487.

Lawless, M. (2010), “Deconstructing Gravity: Trade Cost and the Extensive and the Intensive Margin” *The Canadian Journal of Economics* 43(4), 1149-1172.

Medin, H. (2003), “Firms’ export decisions—fixed trade costs and the size of the export market” *Journal of International Economics* 61 (1), 225-241.

Trade and Regional Integration

Bowen et al. Chapter 12.

Baier, S. L. & Yotov, Y. V. and Zylkin, T., (2019), "On the widely differing effects of free trade agreements: Lessons from twenty years of trade integration," *Journal of International Economics* 116(C), 206-226.

Baier, Scott L., J. H. Bergstrand, M. Feng. (2014), “Economic Integration Agreements and the Margins of International Trade" *Journal of International Economics* 93 (2), 339-350.

Baier, Scott L., and J. H. Bergstrand, (2007), “Do free trade agreements actually increase members international trade?” *Journal of International Economics* 71, 72-95.

De Benedictic and Salvatici, Chapters 5 and 6.

Feenstra Chapter 6 and 9.

Martinez-Zarzoso, I., Voicu, A. M., and Vidovic, M. (2020), “Production Networks in Europe: A Natural Experiment of the European Union Enlargement to the East”. *Review of International Economics* 28(5), 1143-1163. <https://onlinelibrary.wiley.com/doi/full/10.1111/roie.12484>.

Viner, J. (1950), *The Customs Union Issue*. New York: Carnegie Endowment for International Peace.

Trefler, Daniel. (2004), “The Long and Short of the Canada–U.S. Free Trade Agreement.” *American Economic Review*, 94(4): 870–95.

Trade in Value Added and Global Value Chains

Ahmad and Ribarsky (2014) *Trade in Value Added, Jobs and Investment*, OECD. Paper Prepared for the IARIW 33rd General Conference.

Johnson (2014) Five Facts about Value-Added Exports and Implications for Macroeconomics and Trade Research. *Journal of Economic Perspectives* 28 (2), 119-142.

Kaplan, L.C. & Kohl, T. & Martínez-Zarzoso, I., (2018) “Supply-chain Trade and Labor Market Outcomes: The Case of the 2004 European Union Enlargement”, *Review of International Economics* 26 (2), 481-506.

Koopman, Robert, Zhi Wang, and Shang-Jin Wei. (2014). “Tracing Value-Added and Double Counting in Gross Exports.” *American Economic Review* 104(2): 459–94.

Pahl, S. and Timmer, M. P. (2020) “Do GVC Enhance Economic Upgrading? A Long View” *Journal of Development Studies* 56(9),1683-1705.

Timmer, M. P., B. Los, R. Stehrer, and G.n J. de Vries. (2013). “Fragmentation, Incomes, and Jobs: An Analysis of European Competitiveness.” *Economic Policy* 28(76): 613–61.

The Distributional Effects of Trade Policies

Bacchetta et al. Chapter 6.

Engel, J., Kokas, D., Lopez-Acevedo, G., Maliszewska, M. (2021), “The Distributional Impacts of Trade: Empirical Innovations, Analytical Tools, and Policy Responses”. *Trade and Development*. Washington, DC: World Bank. © World Bank. Available at:

<https://openknowledge.worldbank.org/handle/10986/35552> License: CC BY 3.0 IGO.

Ural Marchand, B. (2012), “Tariff pass-through and the effect of trade liberalization on household welfare”, *Journal of Development Economics*, forthcoming.

Nicita, A. (2009), “The price effect of tariff liberalization: measuring the impact on household welfare”, *Journal of Development Economics* 89(1): 19–27.

Porto, G. (2004), “Informal export barriers and poverty”, Policy Research Working Paper 3354, Washington D.C.: The World Bank, published in the *Journal of International Economics* (2006) 66(2): 447–70.

Winters, L. A. (2002), "Trade liberalization and poverty: what are the links?", *The World Economy* 25(9): 1339–67.