

**THE UNIVERSITY OF MICHIGAN**  
**Gerald R. Ford School of Public Policy**  
**and**  
**Department of Economics**

**PubPol/Econ 541**  
**INTERNATIONAL TRADE POLICY**

**SYLLABUS**  
**Winter 2018, Alan Deardorff**

<a href="#">Text</a>	<a href="#">Questions</a>	<a href="#">Requirements</a>	<a href="#">Schedule</a>	<a href="#">Expectations</a>	<a href="#">Accommodations</a>	<a href="#">Contacts</a>	<a href="#">Readings</a>
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**PURPOSE:** The aim of this course is to teach you a lot about the economics -- and a little about the institutions -- of international trade and trade policy. The course is companion to SPP/Econ 542, International Finance Policy, which deals with international macroeconomic topics such as the balance of trade and balance of payments, determination of exchange rates, and international macroeconomic policies. Each course will also include the bare essentials of the other course so that if you take only one of them, you won't be lost in the world economy.

The course is mainly about trade policy. You will learn what trade policies are, how they are used by the United States and other countries, and how their use is restricted by international agreements. More importantly you will learn how to use economic modeling to understand the effects of trade policies and to quantify these effects. Along the way you will also learn about the institutions of the world economy, especially those that have to do with trade. And you will learn a little bit about the economic theories of why nations trade, and why they gain from trade.

**Prerequisite:** PubPol/Econ 555 or equivalent course in intermediate microeconomics

**Organization:** The course meets twice a week, Tuesdays and Thursdays, 8:30-10:00 AM, in room 1120 Weill.

## TEXTS

The textbooks for the course are

Krugman, Paul R., Maurice Obstfeld, and Marc Melitz ("KOM" below), **one** of the following as explained below:

*International Economics: Theory and Policy*, 9th edition, Addison Wesley, 2012, isbn-13 #978-0-13-801896-2

*International Economics: Theory and Policy*, 10th edition, Pearson, 2015, isbn-13 #978-0-13-801896-2

*International Trade: Theory and Policy*, 10th edition, Pearson, 2015, isbn-13 #978-0-13-

342367-9

Jackson, John H., *The World Trading System: Law and Policy of International Economic Relations*, Second Edition, MIT Press, 1997, isbn #0-262-60027-7.

There will also be a number of additional readings that are required. All are available under Files/Resources/Readings on Canvas. Most of the readings are also available free to the public on the web, through links included on this syllabus. A few readings are available through subscription sites, including ones subscribed to by U of M (e.g., JSTOR, Proquest). And a few are available only on Canvas.

Because of the speed with which issues evolve, readings selected in advance can never cover all of the latest developments. We will therefore spend some time each week discussing recent news related to trade and trade policy. You should follow current issues of international trade policy by reading daily periodicals such as the *Wall Street Journal*, *New York Times*, or *Financial Times* or weekly publications such as *Business Week*, or *The Economist*. Student subscriptions to these publications are available at reduced prices. I also post links to relevant news items on my personal website. We will devote some time each week to discussing the news.

### **NOTES on the Krugman, Obstfeld, Melitz text:**

The most recent edition, the 10th, came out last year, 2015. Unlike previous editions, this is in three forms: one that combines international trade and finance like previous editions (which I ordered for you, but the publisher did not send me); a second that covers only trade (that they did), and a third that covers only international finance. If you intend to buy this new edition, you might want to choose based on whether you plan to take PubPol 542, International Financial Policy, at some point, since it will likely use the same book and you'll save money by buying the combined text rather than the two separate ones. However, 542 is not being offered this year. Alternatively, you might want to buy a used copy of the 9th edition from 2012, or even an earlier one. Coverage should be roughly comparable.

I provide chapter and page numbers for the trade-only version of the 10th edition and for the 9th edition. If you have the combined 10th edition, I suspect that the chapters and page numbers will be very similar to the 9th edition.



### **QUESTIONS ON READINGS**

For each topic I will provide a link to a page or more of questions on the readings. Links to the first few are here from the start, and others will be added as the term progresses. These questions have several purposes:

- To assist your studying the material. I suggest that, when you finish reading and making notes on an assigned reading, you immediately see if you can answer these questions. If not, go back and look for the answers while the reading is fresh in your mind.
- To provide the basis for in-class discussion. I will ask a few of these questions during class discussion, and by preparing beforehand you'll be able to participate.
- To give you a glimpse of a small part of what will appear on exams. In addition to asking you to

understand and use the economic tools in the course, exams will also include a few more qualitative questions and some of these will be drawn from these posted questions.

## REQUIREMENTS

Requirements for the course consist of a series of problem sets that will *not* be graded, three short papers that will be handed in during the term and graded, and two exams. The weights on each of these requirements, as well as class participation, in determining your grade will be as follows:

<b>Problem Sets</b>	<b>0%</b>
<b>Class participation</b>	<b>10%</b>
<b>Papers</b>	<b>30%</b>
<b>Exam #1</b>	<b>30%</b>
<b>Exam #2</b>	<b>30%</b>

## SCHEDULE

<b>Paper #1</b>	Tuesday, February 6	8:40 AM
<b>Exam #1</b>	Thursday, February 22	in class
<b>Paper #2</b>	Tuesday, March 13	8:40 AM
<b>Paper #3</b>	Tuesday, April 10	8:40 AM
<b>Exam #2:</b>	<b>Thursday, April 26</b>	<b>8:00-10:00 AM</b>

**Note:** Final is last day of exams

## WRITING ASSISTANCE

Your papers will be graded on both content and presentation, which means you should take full advantage of the Ford School resources for helping you with your writing. See <http://fordschool.umich.edu/writing-center/> for more information, including links to the websites for signing up for advising appointments.

## EXPECTATIONS AND ACCOMMODATIONS

Please see <http://fordschool.umich.edu/academics/expectations> for the Ford School's policies regarding the following, all of which will be followed in this course:

- Academic integrity
- Accommodations for students with disability
- Student mental health and wellbeing
- Inclusivity
- Attendance and assignments

Regarding technology in the classroom, you are welcome to use laptop computers and handheld devices during class for legitimate class-related purposes, such as looking up current news and other information relevant to class discussion.

## WHERE AND WHEN TO FIND ME

**Alan Deardorff:**

Office: Weill Hall, Room 3314

Phone: 764-6817

Office Hours: Mon 10:15-11 AM  
Thu 2-3 PME-mail: [alandear@umich.edu](mailto:alandear@umich.edu)

Feel free to e-mail me with questions or to request a meeting outside of my office hours. Also, if my door is open, ask if I have time to meet with you and I probably will.

**Course Home Page:**

<http://www-personal.umich.edu/~alandear/courses/541/541.html>

**COURSE OUTLINE AND READING LIST**

<b>NOTES:</b>	<p>1. Click title for citation; click <a href="#">Online</a> for item if on the web; for the items not on the web, see <a href="#">Canvas</a>.</p> <p>2. Copies of all readings other than from the two textbooks are also available in <a href="#">Canvas</a>.</p> <p>3. All readings are required unless marked "optional," but a few are marked with a tilde, ~, representing views that are not necessarily justified by economic analysis. They contain useful factual information, but I disagree with some of their interpretations, and they are here so that you will be aware of a range of views.</p>
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**0. Introduction to the Course (Jan 4)**

No readings for today. For all subsequent classes, you should read everything assigned **before** the class meets.

I've listed the numbers of pages for each reading and for each topic, so plan accordingly.

**I. Overview of the International Economy****A.1. The State of Play in International Trade and Trade Policy (Jan 9) [89 pp] [Questions](#)**

KOM, Chs. 1, 2 (any edition) [21 pp]

**WTO:**

Cottier, "[Common Law of International Trade](#)", Section I only, pp. 3-6 | [Canvas](#). [3 pp]

Porter, "[Trump's Trade Endgame Could Be the Undoing of Global Rules](#)" | [Canvas](#). [5 pp]

Schlesinger, "[How China Swallowed the WTO](#)" | [Canvas](#). [12 pp]

**FTAs:**

Yong, "[Push RCEP negotiations forward](#)" | [Online](#) . [3 pp]

Donnan & Harding, "[US bilateral trade deal with Japan](#)" | [Canvas](#) . [3 pp]

Kanter, "[E.U. Trade Deal With Ukraine](#)" | [Canvas](#) . [4 pp]

Wright, "[Trump expects to make 'very quick' UK trade deal](#)" | [Canvas](#) . [3 pp]

Pop & Peker, "[EU Looks to Champion Free Trade](#)" | [Canvas](#) . [2 pp]

Mauldin & Jun, "[U.S., Korean Officials Agree to Amend Trade Deal](#)" | [Canvas](#) . [2 pp]

Brunsdon & Beattie, "[Brussels moves to seal Mercosur pact](#)" | [Canvas](#) . [4 pp]

Ives, "[Trade Deal in Vietnam](#)" | [Canvas](#) . [4 pp]

Economist, "[The EU-Canada trade deal](#)" | [Canvas](#). [3 pp]

Vieira, "[Canada Pursues Trade With Asia](#)" | [Canvas](#). [2 pp]

Rao & Ewing, "[E.U. and Japan Reach Deal to Keep 'Flag of Free Trade Waving High'](#)" | [Canvas](#). [3 pp]

Economist, "[Who Needs America?](#)" | [Canvas](#). [4 pp]

Donnan, "[Globalisation marches on without Trump](#)" | [Canvas](#). [11 pp]

## A.2. The State of Play in International Trade and Trade Policy, continued (Jan 11) [49 pp]

### Questions

#### Brexit:

Wheeler and Hunt, "[Brexit: All you need to know](#)" | [Online](#) [21 pp]

Sandbu, "[Brexit showroom](#)" | [Online](#) [5:13 minute video]

#### Disputes:

Mauldin, "[U.S. Challenges China Over Chicken as Trade Friction Rises](#)" | [Canvas](#). [4 pp]

Mauldin, "[U.S. WTO Challenge Against China Over Minerals](#)" | [Canvas](#). [3 pp]

Porter, "[To Punish Putin, Economic Sanctions Are Unlikely to Do the Trick](#)" | [Canvas](#). [4 pp]

Barfield, "[The president's China intellectual property order](#)" | [Online](#). [3 pp]

Whelan, "[Mexico's Berry Bounty Fuels U.S. Trade Dispute](#)" | [Canvas](#). [3 pp]

Swanson, "[Promise to Impose Steel Tariffs](#)" | [Canvas](#). [4 pp]

Swanson, "[Tariffs for Imported Washing Machines](#)" | [Canvas](#). [3 pp]

Donnan, "[Trump team opens new front in trade battle with China](#)" | [Canvas](#). [3 pp]

Bradsher, "[Trade Fight with China Could Be over Solar Panels](#)" | [Canvas](#). [2 pp]

## B. Tariffs and Quotas (Jan 16, 18) [24 pp] Questions

KOM: [12 pp]

9th Ed.: Ch. 9, pp. 192-202, 205-207

10th Ed. (trade only): Ch. 9, pp. 206-217, 220-224

Deardorff, "[Nontariff Barriers and Domestic Regulation](#)", pp. 1-12 | [Online](#) [12 pp]

## C. Exchange Rates (Jan 23) [24 pp] Questions

KOM, 9th Ed. Ch 14, pp. 320-328 [10 pp] [Canvas](#) (for those who bought the trade-only text)

Economist, "[The Big Mac index: Of Bucks and Burgers](#)" | [Canvas](#) [4 pp]

Taplin, "[Why Beijing Won't Just Let the Yuan Go](#)" | [Canvas](#) [3 pp]

Fick, "[Nigeria adopts unorthodox measures](#)" | [Canvas](#) [3 pp]

Blackstone, "[The World's Most Powerful Currency](#)" | [Canvas](#) [4 pp]

## D. International Transactions and the Trade Balance (Jan 25) [55 pp] Questions

KOM, 9th Ed. Ch 13 [23 pp] [Canvas](#) (for those who bought the trade-only text)

BEA, "[International Transactions](#)" | [Online](#) [5 pp]

~Scott, "[Trade deficits and lost U.S. jobs](#)" | [Online](#) [3 pp]

~Buffett, "[Selling the Nation](#)" | [Online](#) [5 pp]

WTO, "[Trends in World Trade](#)," and "[World trade and GDP growth](#)" | [Canvas](#) [19 pp]

**E. Policies and Institutions: International (Jan 30, Feb 1) [94 pp] Questions**

KOM: [11 pp]

9th Ed.: Ch. 10, pp. 234-244

10th Ed. (trade only): Ch. 10, pp. 252-262

Jackson, Ch. 1 pp. 1-11, Ch. 2 [59 pp]

Bouët and Laborde, "[Cost of a Failed Doha Round](#)" | [Online](#) [8 pp]

WTO, "[Trade Facilitation Agreement](#)" | [Online](#) [8 pp]

Economist, "[Bargaining Chips](#)" | [Canvas](#) [2 pp]

WTO, "[Briefing \(ITA\)](#)" | [Online](#) [4 pp]

WTO, "[Ministerial ends](#)" | [Online](#) [2 pp]

**F. Policies and Institutions: National, United States (Feb 6) [35 pp] Questions**

Jackson, Ch. 3, pp. 79-100 [21 pp]

Verrill, "[U.S. Trade Remedies](#)" | [Canvas](#) [3 pp]

USTR, "[The President's Trade Policy Agenda](#)" | [Canvas](#) [7 pp]

~Public Citizen, "[Fast Track: An Undemocratic Path to Unfair "Trade"](#)" | [Online](#) [1 pp]

Kabel, "[What's the Hold-Up?](#)" | [Online](#) [1 pp]

Ackerman & Zumbrun, "[Export-Import Bank Could Be a Drain on Taxpayers](#)" | [Canvas](#) [2 pp]

**Optional:**

Donnan, "US poised to let emerging markets trade pact expire" | [Canvas](#)

**G. Policies and Institutions: National, Other (Feb 8) [29 pp] Questions**

**European Union:**

Jackson, Ch. 3, pp. 100-104 [5 pp]

EC, "[The EU In Brief](#)" | [Online](#) [2 pp]

EC DG-Trade, "[Policy Making](#)" | [Online](#) [2 pp]

EC DG-Trade, "[Anti-dumping](#)" | [Online](#) [2 pp]

Charlemagne, "[The Trade War Within](#)" | [Online-Proquest](#) [3 pp]

**Japan:**

Jackson, Ch. 3, pp. 104-105 [1 p]

METI, "[Trade Control](#)" | [Online](#) [1 pp]

WTO, "[Trade Policy Review: Japan](#)" | [Online](#) [3 pp]

**China:**

MOFCOM, "[Mission](#)" of the Ministry of Commerce, People's Republic of China | [Canvas](#) [3 pp]

WTO, "[Trade Policy Review: China](#)" | [Online](#) [7 pp]

**II. Trade Barriers**

**A. Non-tariff Barriers (Feb 13) [44 pp] Questions**

KOM: [8 pp]

9th Ed.: Ch. 9, pp. 202-205, 208-211, 215-218

10th Ed. (trade only): Ch. 9, pp. 217-220, 224-227, 232-235

Jackson, Ch. 5, pp. 153-156 [3 pp]

Deardorff, "[Nontariff Barriers and Domestic Regulation](#)", pp. 12-16 | [Online](#) [5 pp]

Feenstra, "[How Costly Is Protectionism?](#)" | [Online-JSTOR](#) [20 pp]

Beattie, "[Mind your TRQs](#)" | [Canvas](#) [4 pp]

Economist, "[Buying local is more expensive than it looks](#)" | [Canvas](#) [4 pp]

**B. Multi-Market Analysis (Feb 15) [7 pp] [Questions](#)**

Deardorff, "[Trade Policy with Interacting Markets](#)" | [Online](#) [7 pp]

**C. Cost-Benefit Analysis of Trade Policies (Feb 20) [41 pp] [Questions](#)**

Fetzer, "[U.S. Flat Rolled Steel](#)" | [Canvas](#) [26 pp]

Fetzer, "[Tires from China](#)" | [Canvas](#) [15 pp]

**\*\*\* EXAM #1, in class, Thursday Feb 22 \*\*\***  
(Covers through assignments for Feb 15, Multi-Market Analysis.)

**\*\*\* SPRING BREAK, Feb 26 - Mar 2 \*\*\***

**D. Why Countries Restrict Trade (Mar 6) [76 pp] [Questions](#)**

KOM: [15 pp]

9th Ed.: Ch. 10, pp. 219-234

10th Ed. (trade only): Ch. 10, pp. 236-252

Hoekman and Kostecki, "[Functions of the Multilateral Trading System](#)" pp. 27-40 | [Canvas](#) [14 pp]

Baldwin and Magee, "[Is Trade Policy For Sale?](#)" | [Online-Springer](#) [22 pp]

Deardorff and Stern, "[Introduction](#)" | [Canvas](#) [19 pp]

Magee, "[Why Are Trade Barriers So Low?](#)" | [Online-Wiley](#) [6 pp]

**Optional:**

Davidson, "[U.S. Tariffs On Shoes](#)" | [Online](#) [4 minutes]

**III. PTAs and NAFTA**

**A. Preferential Trading Arrangements (Mar 8) [50 pp] [Questions](#)**

KOM: [4 pp]

9th Ed.: Ch. 10, pp. 245-249

10th Ed. (trade only): Ch. 7, pp. 263-268

WTO, "[Causes and Effects of PTAs](#)" | [Online](#) [30 pp]

Posen, "[The case for trade](#)" | [Canvas](#) [2 pp]

Deardorff, "[Sensitive Sectors in Free Trade Agreements](#)" | [Online](#) [14 pp]

**B. NAFTA (Mar 13) [58 pp] [Questions](#)**

AFL-CIO, "[NAFTA at 20](#)", pp 1-29 only. [19p] [Online](#)  
 Brown, "[Review of NAFTA Revisited](#)" [4p] [Online-JSTOR](#)  
 Faux, "[Overhauling NAFTA](#)" [2p] [Online](#)  
 Porter, "[Labor Wants to Make Nafta Its Friend. Here's the Problem.](#)" [5p] [Canvas](#)  
 DeLong, "[NAFTA and other trade deals have not gutted American manufacturing](#)" [28p] [Online](#)

### C. NAFTA Renegotiation (Mar 15) [88 pp] [Questions](#)

\*\*\* Visit by Dave Camp, member of US House of Representatives 1991-2015 \*\*\*  
 AFL-CIO, "[A NAFTA that Works Must Empower Working People, Not Corporations](#)" [2p] [Online](#)  
 AFL-CIO, "[Making NAFTA Work for Working People](#)", pp 1-29 only. [29p] [Online](#)  
 Donnan, "[Can Donald Trump deliver on his threat to pull out of Nafta?](#)" [5p] [Canvas](#)  
 Economist, "[The North American Free-Trade Agreement renegotiation begins](#)" [3p] [Canvas](#)  
 Lester et al., "[Renegotiating NAFTA in the Era of Trump](#)" [16p] [Online](#)  
 Panetta, "[Canada's 10 NAFTA demands: A list of what Canada wants as talks start this week](#)" [2p] [Online](#)  
 USTR, "[Summary of Objectives for the NAFTA Renegotiation](#)" [17p] [Online](#)  
 Yglesias, "[Justin Trudeau, unlike Trump, is taking NAFTA renegotiation really seriously](#)" [7p] [Online](#)  
 Schultz & Aspe, "[Nafta Needs an Update, Not Repeal](#)" [3p] [Canvas](#)  
 Mufson et al., "[How NAFTA talks could fail](#)" [4p] [Canvas](#)

## IV. The Theory of International Specialization and Exchange

### A. The Standard Trade Model (Mar 20, 22) [23 pp] [Questions](#)

KOM, Ch. 6 (any edition) [19 pp]  
 Bernhofen & Brown, "[Evidence from nineteenth century Japan](#)" | [Online](#) [4 pp]

### B. Behind the Standard Trade Model: Comp. Adv., Inc. Dist. (Mar 27) [51 pp] [Questions](#)

KOM, on comparative advantage: [15 pp]  
 9th Ed.: Ch. 3, pp. 24-40  
 10th Ed. (trade only): Ch. 3, pp. 24-40  
 KOM, on effects of trade: [10 pp]  
 9th Ed.: Ch. 5, pp. 89-98  
 10th Ed. (trade only): Ch. 5, pp. 94-103  
 Deardorff, "[Intro to Comparative Advantage](#)" | [Online](#) [7 pp]  
 Freeman, "[Are Your Wages Set in Beijing?](#)" | [Online-JSTOR](#) [19 pp]

### C. Scale Economies and Imperfect Competition (Mar 29) [22 pp] [Questions](#)

KOM: [22 pp]  
 9th Ed.: Ch. 7, pp. 137-148; Ch. 8, pp. 155-166  
 10th Ed. (trade only): Ch. 7, pp. 145-156; Ch. 8, pp. 164-174



## V. Uses and Abuses of Trade Policy

### A. Safeguards and Trade Adjustment Assistance (Apr 3-5) [73 pp] Questions

Jackson, Ch. 7 [37 pp]

Brainard et al., "[Insuring America's Workers](#)" | [Online](#) [8 pp]

~James, "[Maladjusted](#)" | [Online](#) [13 pp]

Rosen, "[Strengthening Trade Adjustment Assistance](#)" | [Online](#) [10 pp]

Lawrence, "[A Numbers Argument for Renewing](#)" | [Online](#) [2 pp]

Beattie, "[The flaws in trying to compensate globalisation's losers](#)" | [Canvas](#) [3 pp]

#### **Optional:**

USDOL, "[TAA Reauthorization Act of 2015](#)" | [Online](#) [2 pp]

### B. Dumping and Anti-Dumping Policy (Apr 10, 12) [66 pp] Questions

Jackson, Ch. 10 [33 pp]

Deardorff, "[Economic Perspectives on Anti-Dumping Law](#)" | [Online](#) [15 pp]

~Jakob, "[Lesser Duty Rule and Community Interest in Anti-dumping](#)" | [Online-Springer](#) [5 pp]

Hufbauer and Cimino-Isaacs, "[The Outlook for Market Economy Status for China](#)" | [Online](#) [7 pp]

Beesley, "[Brussels prepares market economy compromise](#)" | [Canvas](#) [3 pp]

Donnan, "[US seeks to deny China market economy status](#)" | [Canvas](#) [3 pp]

### C. Subsidies and Countervailing Duties (Apr 17) [36 pp] Questions

KOM: [6 pp]

9th Ed.: Ch. 9, pp. 203-204, Ch. 12 pp. 274-277

10th Ed. (trade only): Ch. 9, pp. 217-218, Ch. 12 pp. 293-296

Jackson, Ch. 11 [25 pp]

Mauldin, "[U.S. Trade Fight With Canada](#)" | [Canvas](#) [3 pp]

Wall, "[Support to Boeing Not a Prohibited Subsidy](#)" | [Canvas](#) [2 pp]



**\*\*\* EXAM #2 (Semi-cumulative) \*\*\***

Thursday, Apr 26, 8:00-10:00 AM