Seminar

Current Issues in International Trade

Summer term 2010/2011

Topics

Please indicate your first, second, and third choice out of the topics below. You may choose any topic you like independently of whether the supervisor (given in parenthesis) is located in Frankfurt (F) or Mainz (M). This implies that meeting your supervisor can involve some traveling. However, a personal meeting is not strictly necessary. Usually, most issues can be solved by Email or phone.

Please note that the references given for each topic are only starting points for your own literature research!

1. Trade Costs and Gravity (Krautheim/F)

Trade economists tend to ask two broad types of questions: Which effect does trade have on unemployment, growth, income distribution… and 2. What determines trade? This topic addresses the latter question. The predominant tool in the empirical analysis of trade flows is the gravity equation. Empirical gravity equations provide quite a good fit to bilateral trade data and can be used to determine the impact of a given variable on international trade. In different forms trade costs play a key role in gravity equations. But what are these costs? And why is it that distance has such a strong negative impact on trade flows; and even more puzzling: how can this impact increase over time? There are many interesting things to be said about this topic both from the empirical side as well as from the theoretical side. Students can choose which way to go.

2. Multiproduct Firms

Firms which produce more than one product are widespread in the world economy. They are responsible for a large share of output and trade. Yet, until recently, they have been largely neglected in the empirical and theoretical literature on international trade. The aim of this term paper is to present some stylized facts about multi-product firms and their exporting activities. In addition, you should choose and compare two or three of the recent models of multi-product firms in international trade, focusing on the following questions: What are the key insights from these models? In particular, what is the effect of trade liberalization? What are the economic mechanisms that drive these results? To what extent are these models in line with empirical evidence?


3. Vertical Integration and the Offshoring of Production Tasks

The exceptional mount in the volume of worldwide international trade over the last two decades can largely be attributed not to trade in readily fabricated goods, but to a rise in the fragmentation of production processes, both within and between firms. With lower trade costs, and especially the basically cost-free electronic submission of many services, firms seem to face an incentive to offshore certain production stages. Has theoretical focus in the 90’s lied on the trade in intermediate goods, recent literature instead identifies the fragmentation of tasks as the appropriate description of this trend. The term paper should distinguish the different implications of this analysis regarding the nature and effects of offshoring. Which tasks will be offshored? How is the wage structure between skilled and unskilled workers affected? It will also be interesting to see which empirical evidence exists for these theories and if firm level data can make a case for one or the other.


4. Trade Networks

International Trade is characterized by structures of firm linkages and highly influenced by information costs that exist between markets, both on the side of consumers and on the side of producers. Empirical evidence shows that migration creates linkages between the immigration and the emigration country, and that intermediary countries lead to an overcoming of “missing trade” between two partner countries over time. The currently lively theory of network structures might help explain these patterns. How important are links between firms and other agents in determining trade costs, explaining heterogeneity in export abilities, as well as the “border puzzle” and its
overcoming? What can this methodological approach add to the discussion regarding the dynamics of trade structures and the persistence and amplification of trade intensities?


### 5. Trade and Growth (Krautheim/F)

One of the truly big questions in international trade is: does trade lead to GDP growth? Many theoretical models would suggest this. But can we see it in the data? It seems almost impossible to tell whether trade increases GDP or the other way round (endogeneity). But it would be so important to know. Some very recent work might have found a way to solve this problem. It might...


### 6. Gains from Trade (Abel-Koch/M)

Different trade theories point at different sources for gains from trade. In early trade theories such as the Ricardian and the Heckscher-Ohlin Model gains arise from comparative advantage, while in new trade theories, gains from trade mainly arise from larger variety and increasing aggregate productivity. The focus of the topic is empirical. How can we measure the gains from trade arising from different sources? What are the problems in empirical estimations of the gains from trade? And how large are these gains, after all? Are aggregate welfare gains an appropriate indicator of the beneficial effects of trade?

7. Trade and Unemployment (Krautheim/F)

(How) does trade affect employment? Together with the question `does trade affect growth?' this is one of the big questions in international trade. Every time trade liberalization is discussed, the question: `How does this affect jobs at home?' is at center stage. But do economists have a good understanding of why and how trade should affect employment? This is a substantial theoretical challenge: in trade models factors are perfectly mobile, so even if one sector shrinks, labor and capital moves to the sector that expands: in standard models of trade there IS no unemployment. Getting unemployment into general equilibrium models was one of the big challenges of the profession. Proposing one possible solution based on search and matching was worth the 2010 `Nobel Price' in Economics. In these models workers are unemployed while searching for a job and firms have vacancies open while searching for a worker. This mechanism was introduced into recent state of the art trade models introducing a link between trade and unemployment. But is this way to think about trade and unemployment the right way to go? Would it be more plausible to consider `fair wages' as some authors suggest? And in the end: isn't the trade-induced unemployment structural unemployment?


8. Trade and Income Distribution (Schwab/M/F)

Classical models of international trade have clear implications on the effects of opening up an economy to international markets on inner-country income distributions. However, the empirical evidence on this is ambiguous. Does trade lead to an increase in income inequality in industrial countries and a decrease in developing countries, as these theories predict, or are other mechanisms at work that countervail these effects? The term paper should review empirical studies on the relationship between trade and inequality. Also, it should shed light on the mechanisms that are thought to be at work and the ways that these are identified from the data. Do causal effects exist at all?

9. Non-homothetic Preferences in International Trade (Abel-Koch/M)

Theories of international trade typically assume that consumers share identical and homothetic preferences. They abstract from the demand side and focus on the supply side to explain the causes and consequences of international trade. Although identical and homothetic preferences make models analytically tractable, they have some strange features. In particular, they imply that aggregate demand is independent of the distribution of income. The representative consumer in a poor country would buy the same goods and spend the same share of income on each good as the representative consumer in a rich country. This hypothesis is clearly rejected by empirical evidence and has recently induced researchers to have a new look the implications of non-homothetic preferences for international trade. What are non-homothetic preferences and how can we model them? Which key insights emerge from integrating non-homothetic preferences into international trade models? And to what extent are these predictions in line with empirical evidence? Answering these questions should be the aim of this term paper.


Behavioral economics aims at making economic models more realistic by integrating insights from psychology. This has proved quite successful in a variety of fields such as labor economics or financial economics. Yet, there are only a few contributions which apply behavioral methods to international trade. The aim of this paper should be to give a short overview over the most important insights from behavioral economics and show how they can advance our understanding of international trade theory and policy. The paper should give a critical assessment of behavioral approaches in international trade and address some issues in trade theory and policy which behavioral economics could shed some new light on.


11. Corporate Social Responsibility & NGO’s in a Globalized World (Krautheim/F)

Firms as well as the international civil society in the form Non-Governmental Organizations (NGOs) do things economists would not necessarily expect them to do: activities that do not directly aim at generating profits. Both Corporate Social Responsibility (CSR) as well as NGOs become increasingly important as the importance of the Nation State declines in a globalized world economy. Quite recently economists have become interested in these activities. But how can such
activities be rationalized from within the economic paradigm? An emerging literature tries to addresses this question and to foster our understanding of the rationale behind these seemingly altruistic activities.


12. Financial Markets and International Trade (Schwab/M/F)

Financial market conditions play an important role in shaping international trade patterns. The financial development of a country is a potential source of comparative advantage, and the availability of trade finance can influence the decision of liquidity constrained firms to export. The term paper should give a survey of both the classic literature and more recent contributions that relate international trade to financial markets. What are the main economic mechanisms that link financial markets to exports and imports? What are the key insights from the theoretical literature, and to what extent are they empirically valid? And finally, how did the recent financial crisis affect world trade flows?