

Topics in Macroeconomics V: International Trade and Geography

2023-24 Academic Year

Master of Research in Economics, Finance and Management

Description of the subject

- Topics in Macroeconomics V Code: 32084
- Total credits: 3 ECTS Workload: 75 hours
- Term: 2nd
- Type of subject: Elective
- Department of Economics and Business
- Teaching team: Paula Bustos, Elisa Giannone, Dávid Nagy, Giacomo Ponzetto

● Teaching guide

● Introduction

As a continuation of “Topics in Macroeconomics IV: Economic Growth and Trade,” this course has the goal of introducing students to active research areas in international trade and economic geography. We will study a set of models and tools that are commonly used in these fields, and we will cover recent papers, both theoretical and empirical. The assignments for the course are intended to foster engagement with the current research frontier and to stimulate creative thinking about the students' own research projects.

● Contents

International trade studies the distribution of economic activity across countries, without cross-border labor mobility. Economic geography studies the distribution of economic activity across locations, in the presence of labor mobility. In the first part of the course, we focus on trade and firms. Next, we turn our attention to state-of-the-art computational methods that are used to handle quantitative trade and geography models. Finally, to understand why population and production are heavily concentrated in a few dense regions and cities, we study the measurement of agglomeration economies: the advantages that result from eliminating the distance between people.

● Assessment and Grading System

There will be no final exam. Instead, one week after the last class, each student must submit a final project. The project should be around 6 and no more than 10 pages long and can be any of the following:

- a. The proposal for an original paper.
- b. A sufficiently challenging extension of an existing model or replication of an existing empirical analysis, which might become the basis of a paper.
- c. A critical survey of the literature on a specific topic that was not extensively covered in class.
- d. Referee reports on two important articles, preferably unpublished.

Any of the projects must be discussed beforehand with the teachers. Grading will take into account that projects belonging to types (a) and (b) are more challenging than those of types (c) and (d).

● Programme of activities

The following outline sketches the topics covered in the course. Required readings are marked by a star. The reading list is subject to changes before and during the class.

Trade and Firm Heterogeneity (P. Bustos)

* Melitz, Marc. 2003. “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity.” *Econometrica* 71: 1695-1725.

* Melitz, Marc J, and Stephen J Redding. 2014. “Heterogeneous Firms and Trade.” *Handbook of International Economics* 4: 1-54. Elsevier.

* Bustos, Paula, 2011. Trade Liberalization, Exports and Technology Upgrading: Evidence on the Impact of MERCOSUR on Argentinean Firms. *American Economic Review*, 101 (1), 304-340.

Aghion, Philippe, Antonin Bergeaud, Matthieu Lequien, and Marc J. Melitz. 2022. "The Heterogeneous Impact of Market Size on Innovation: Evidence from French Firm-Level Exports." *Review of Economics and Statistics*.

Atkin, David, Amit K Khandelwal, and Adam Osman. 2017. "Exporting and firm performance: Evidence from a randomized experiment". *Quarterly Journal of Economics* 132.2, pp. 551– 615.

Akcigit, Ufuk, and Marc J. Melitz. 2022. "International Trade and Innovation." *Handbook of International Economics*, 5: 377-404. Elsevier.

Multinational Firms and Foreign Direct Investment (G. Ponzetto)

* Antràs, Pol and Elhanan Helpman. 2004. Global Sourcing. *Journal of Political Economy* 112: 552–580.

* Antràs, Pol and Stephen R. Yeaple. 2013. Multinational Firms and the Structure of International Trade. *Handbook of International Economics* 4: 55–130.

* Helpman, Elhanan. 1984. A Simple Theory of International Trade with Multinational Corporations. *Journal of Political Economy* 92(3): 451–471.

* Helpman, Elhanan, Marc J. Melitz and Stephen R. Yeaple. 2004. Export versus FDI with Heterogeneous Firms. *American Economic Review* 94(1): 300–316.

Antràs, Pol. 2003. Firms, Contracts, and Trade Structure. *Quarterly Journal of Economics* 118(4): 1375–1418.

Antràs, Pol, and Davin Chor. 2022. Global Value Chains. *Handbook of International Economics* 5: 297–376.

Brainard, S. Lael. 1997. An Empirical Assessment of the Proximity-Concentration Trade-off Between Multinational Sales and Trade. *American Economic Review*, 87(4): 520–544.

Feenstra, Robert C. and Gordon H. Hanson. 1996. Foreign Investment, Outsourcing and Relative Wages. In R.C. Feenstra, G.M. Grossman and D.A. Irwin, eds., *The Political Economy of Trade Policy: Papers in Honor of Jagdish Bhagwati*, 89–128. Cambridge, MA: MIT Press.

Grossman, Gene M. and Esteban Rossi-Hansberg. 2008. Trading Tasks: A Simple Theory of Offshoring. *American Economic Review* 98(5): 1978–1997.

Yeaple, Stephen. 2003. The Role of Skill Endowments in the Structure of U.S. Outward FDI. *Review of Economics and Statistics* 85(3): 726–734.

Quantitative Models of Trade and Firm Heterogeneity (D. Nagy)

* Arkolakis, C., Costinot, A. and Rodríguez-Clare (2012): New trade models, same old gains? *American Economic Review* 102(1), 94-130.

* Arkolakis, C., Huneus, F. and Miyauchi, Y. (2023): Spatial production networks. Mimeo.

* Bernard, A., Eaton, J., Jensen, J. B. and Kortum, S. (2003): Plants and productivity in international trade. *American Economic Review* 93(4), 1268-1290.

Arkolakis, C., Costinot, A., Donaldson, D. and Rodríguez-Clare, A. (2019): The elusive pro-competitive effects of trade. *Review of Economic Studies* 86(1), 46-80.

Armenter, R. and Koren, M. (2014): A balls-and-bins model of trade. *American Economic Review* 104(7), 2127-2151.

Bernard, A., Redding, S. and Schott, P. (2011): Multiproduct firms and trade liberalization. *Quarterly Journal of Economics* 126, 1271-1318.

Dhyne, E., Kikkawa, K., Mogstad, M. and Tintelnot, F. (2021): Trade and domestic production networks. *Review of Economic Studies* 88(2), 643-668.

Eaton, J., Kortum, S. and Kramarz, F. (2011): An anatomy of international trade: Evidence from French firms. *Econometrica* 79(5), 1453-1498.

Eaton, J., Kortum, S. and Sotelo, S. (2013): International trade: Linking micro and macro. In: Advances in economics and econometrics. *Tenth World Congress*, 329-370.

Zou, Y. (2020): Endogenous production networks and gains from trade. Mimeo.

Computational Methods in Trade (E. Giannone)

* Costinot, Arnaud, and Andrés Rodríguez-Clare. "Trade theory with numbers: Quantifying the consequences of globalization." *Handbook of international economics*. Vol. 4. Elsevier, 2014. 197-261.

* Caliendo, Lorenzo, Maximiliano Dvorkin, and Fernando Parro. "Trade and labor market dynamics: General equilibrium analysis of the china trade shock." *Econometrica* 87.3 (2019): 741-835.

Kennan, John, and James R. Walker. "The effect of expected income on individual migration decisions." *Econometrica* 79.1 (2011): 211-251.

Dix-Carneiro, Rafael, et al. "Globalization, trade imbalances, and labor market adjustment." *Quarterly Journal of Economics* 138.2 (2023): 1109-1171.

Agglomeration Economies and Human Capital Externalities (G. Ponzetto)

* Ciccone, Antonio, and Robert E. Hall. 1996. Productivity and the Density of Economic Activity. *American Economic Review* 86(1): 54–70.

* Ciccone, Antonio, and Giovanni Peri. 2006. "Identifying Human-Capital Externalities: Theory with Applications." *Review of Economic Studies* 73(2): 381-412.

* Combes, Pierre-Philippe, Gilles Duranton, Laurent Gobillon, Diego Puga and Sébastien Roux. 2012. The Productivity Advantages of Large Cities: Distinguishing Agglomeration from Firm Selection. *Econometrica* 80(6): 2543–2594.

* De la Roca, Jorge, and Diego Puga. 2017. Learning by Working in Big Cities. *Review of Economic Studies* 84(1): 106-42.

* Greenstone, Michael, Richard Hornbeck, and Enrico Moretti. 2010. Identifying Agglomeration Spillovers: Evidence from Winners and Losers of Large Plants Openings. *Journal of Political Economy* 118(3): 536–598.

* Moretti, Enrico. 2004. Estimating the Social Return to Higher Education: Evidence from Longitudinal and Repeated Cross-Sectional Data. *Journal of Econometrics* 121(1-2): 175-212.

Acemoglu, Daron, and Josh Angrist. 2000. How Large Are the Social Returns to Education? Evidence from Compulsory Attendance Laws. In B.S. Bernanke and K. Rogoff, eds., *NBER Macroeconomics Annual 2000*, vol. 15, 9-74. Cambridge, MA: MIT Press.

Duranton, Gilles, and Henry G. Overman. 2005. Testing for Localization Using Micro-Geographic Data. *Review of Economic Studies* 72(4): 1077–1106.

Ellison, Glenn, and Edward L. Glaeser. 1997. Geographic Concentration in U.S. Manufacturing Industries: A Dartboard Approach. *Journal of Political Economy* 105(5): 889–927.

Glaeser, Edward L., and Albert Saiz. 2004. The Rise of the Skilled City. *Brookings-Wharton Papers on Urban Affairs* 5: 47-94.