



Introduction

Prof. Ralph Ossa



Welcome

- Welcome to this BA class in International Trade

- My details are:

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Why should we care about international trade?

- International trade has always generated a great deal of controversy
- Over time, the specific concerns have changed:

1980s: Japan

1990s: WTO

2000s: China and India

2010s: CETA, TTIP, and TPP

Now: Everything?



What is this course about?

By giving an introduction to the economics of international trade, this course demystifies some of the complex issues that surround discussions of globalization:

- What makes an industry competitive in world markets?
- Who gains and who loses from international trade?
- Is trade liberalization responsible for rising inequality?
- What are the labor market effects of trade?
- Which firms engage in exporting and foreign direct investment?
- Can international trade facilitate economic development?
- Is it desirable to run an aggregate trade surplus?
- What is the WTO and how does it relate to recent trade agreements such as CETA, TTIP, and TPP?



Course outline

- Topic 1: Gravity equation
- Topic 2: Ricardian trade theory
- Topic 3: Gains from trade
- Topic 4: Factor proportions theory
- Topic 5: Trade and inequality
- Topic 6: Trade and unemployment
- Topic 7: New trade theory
- Topic 8: Heterogeneous firms
- Topic 9: Foreign direct investment
- Topic 10: Trade and development
- Topic 11: Aggregate trade imbalances
- Topic 12: Trade wars and trade talks
- Topic 13: The world trading system



Some of the fine print

- ECTS credits: 6
- Category: Lecture and tutorial
- Prior knowledge: Prior knowledge of microeconomics and econometrics is essential
- Requirements: Microeconomics II and Introductory Econometrics are highly recommended
- Target group: Advanced Bachelor students
- Type of assessment: Written exam
- Auditors accepted: Yes



Course design

- This class is a modern take on a standard undergraduate trade course which draws more heavily from the research frontier
- As a result, it does not follow any particular textbook but often builds on recent research or survey articles from the field
- The details of these articles are too advanced for the typical student but it is sometimes helpful to read the introductions at least
- The main resources are the teaching slides, the problem sets, and the class discussions so that attendance is crucial for success



Readings

- Having said this, the syllabus provides a reading list with recommended readings for each week including textbook chapters where applicable
- The textbook I reference is “International Economics: Theory & Policy” by Krugman, Melitz, and Obstfeld and any recent edition will do
- I also frequently reference “Free Trade Under Fire” by Irwin and “Pop Internationalism” by Krugman which interested students should consider purchasing
- They provide useful background information on many of our lecture topics and I believe reading them is well worth your time



Tutorials

- The tutorials (i) elaborate on the lecture material, (ii) explain the answers to problem sets, and (iii) provide an opportunity to ask questions
- The problem sets provide indispensable feedback about your progress and it is very important that you answer them every week
- They also give you a sense of the type of questions you can expect to see in the exam so skipping them is not a good idea



Clickers

- During the lectures, I will regularly make use of the university’s instant-class-response-system in order to obtain real time feedback from you
- Use your smartphone, tablet, or laptop and go to **<https://app.klicker.uzh.ch/join/trade>** whenever I tell you to do so and you will see a question pop up
- Let’s practice by collecting answers to a simple question. This will also give you an opportunity to bookmark the link

Clicker question:

On a scale from 1-6, where 1 means “very unfavorable” and 6 means “very favorable”, how favorable is your view of international trade?

Basic facts – There have been two waves of globalization

Globalization over 5 centuries (1500-2011)

Shown is the sum of world exports and imports as a share of world GDP (%)
The individual series are labeled with the source of the data

Our World
in Data



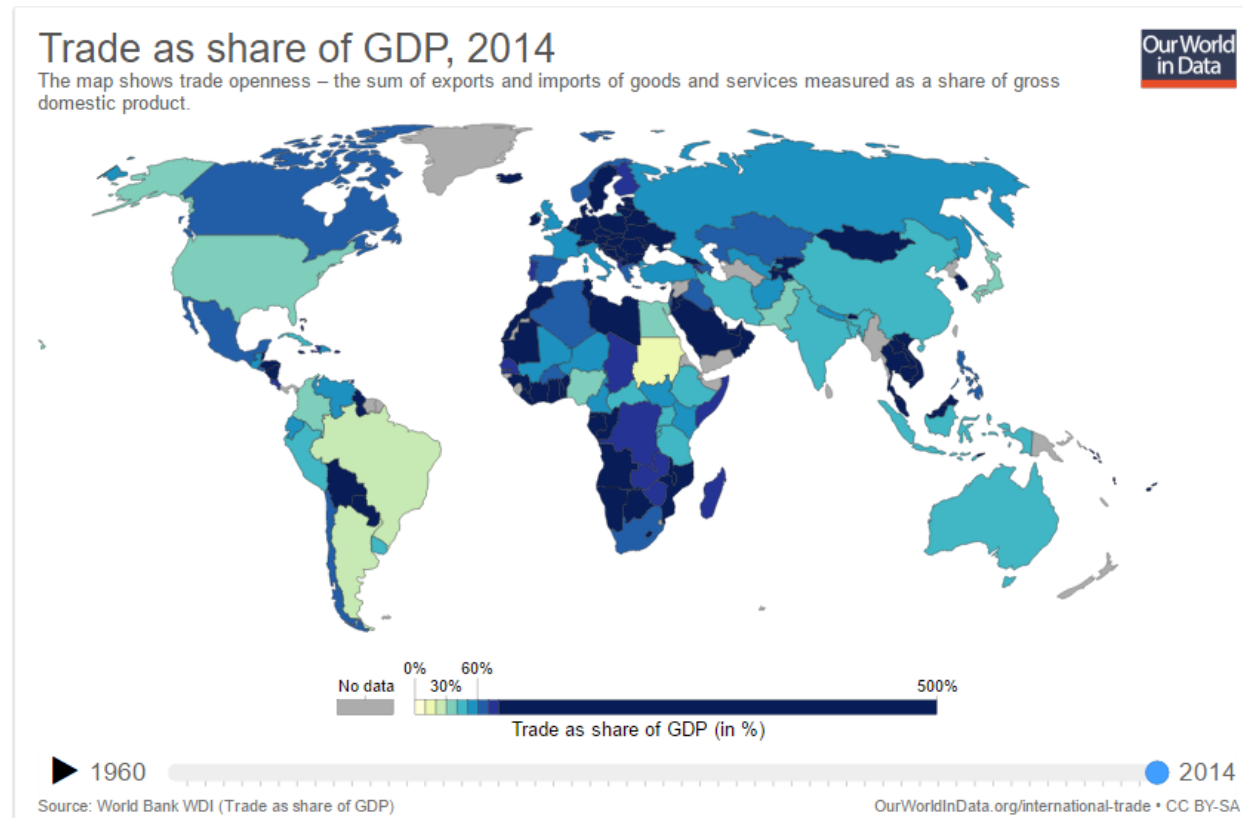
Data sources: Klasing and Milionis (2014), Estevadeordal, Frantz and Taylor (2003) and the Penn World Tables Version 8.1

The interactive data visualization is available at [OurWorldinData.org](https://ourworldindata.org). There you find the raw data and more visualizations on this topic.

Licensed under CC-BY-SA by the author Max Roser.

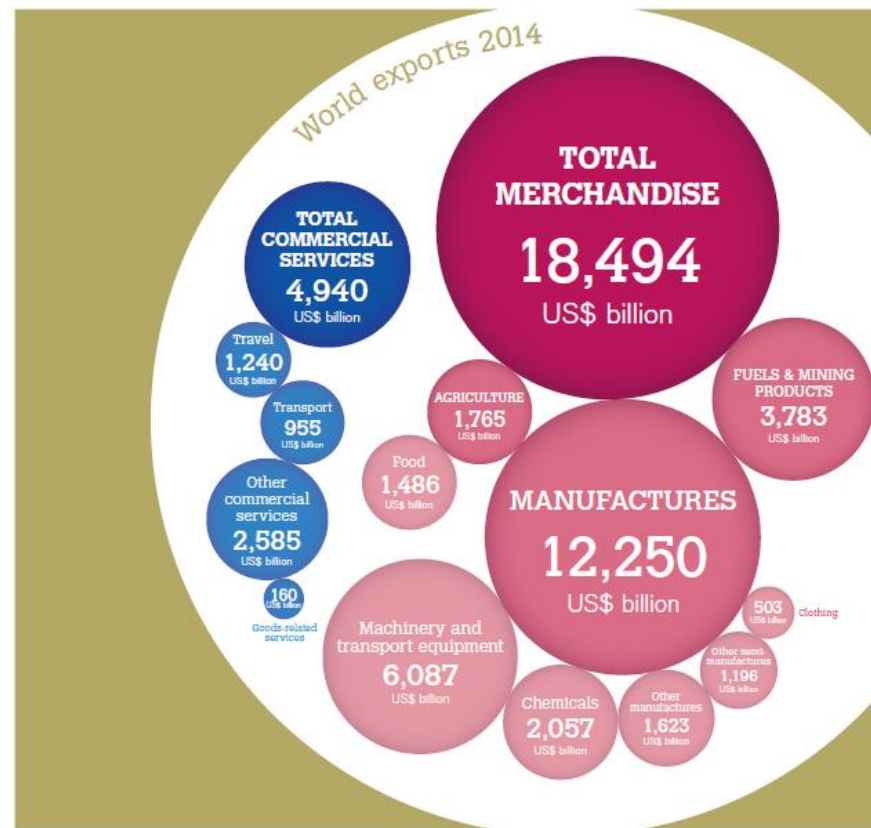
Source: <https://ourworldindata.org/international-trade>

Basic facts – There is significant variation in openness



Source: <https://ourworldindata.org/international-trade>

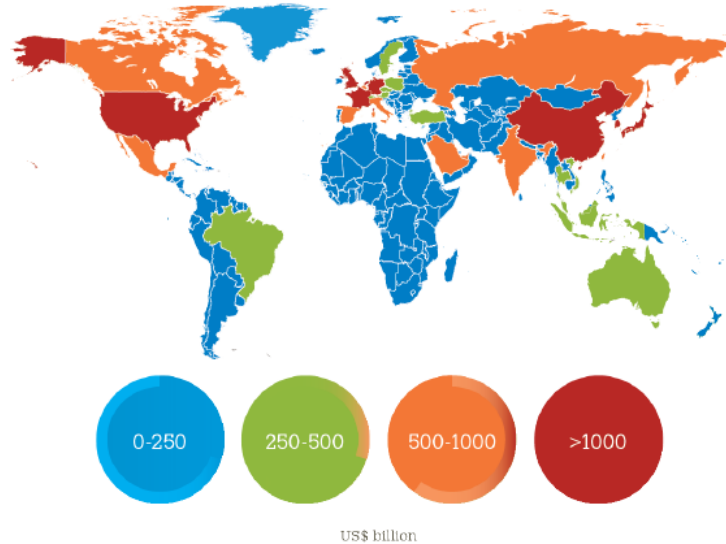
Basic facts – Most trade is in manufactures



Source: WTO International Trade Statistics 2015

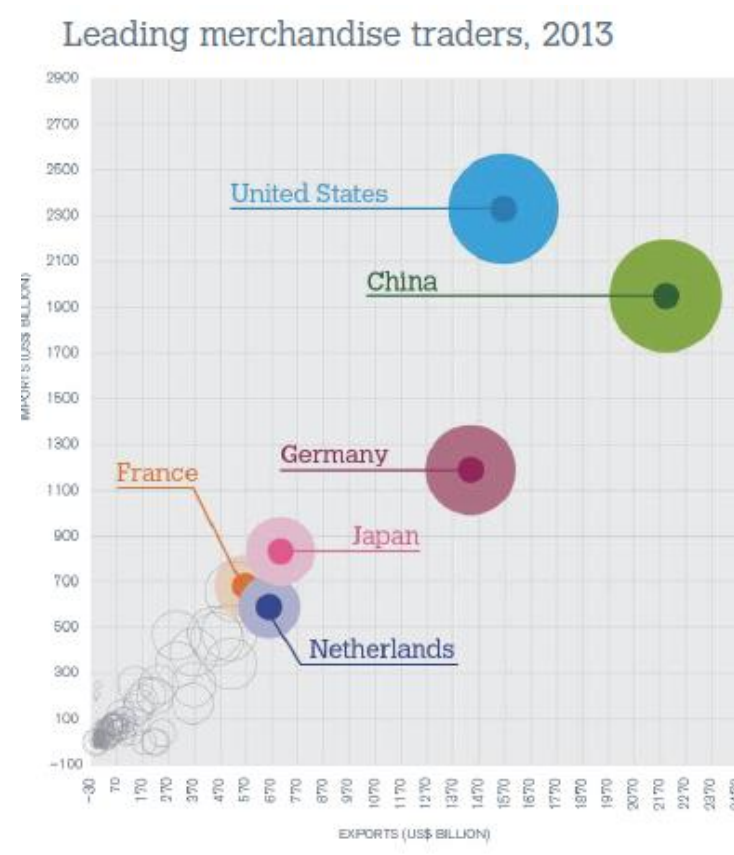
Basic facts – A few countries dominate world trade

Economies by size of merchandise trade,
2014



Source: *WTO International Trade Statistics 2015*

Basic facts – The main players are...



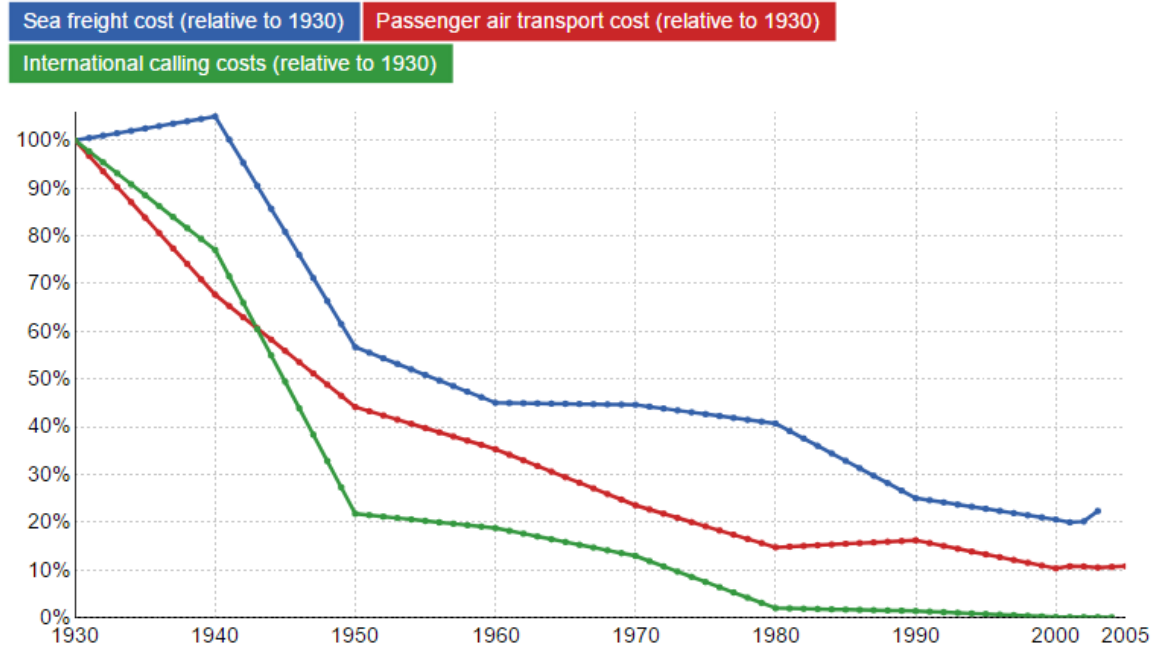
Source: *WTO International Trade Statistics 2015*

Basic facts – Transport and communication costs fell sharply

Real transport and communication costs

Transport and communication costs relative to 1930.

Our World
in Data



Source: OECD Economic Outlook (Transaction Costs)

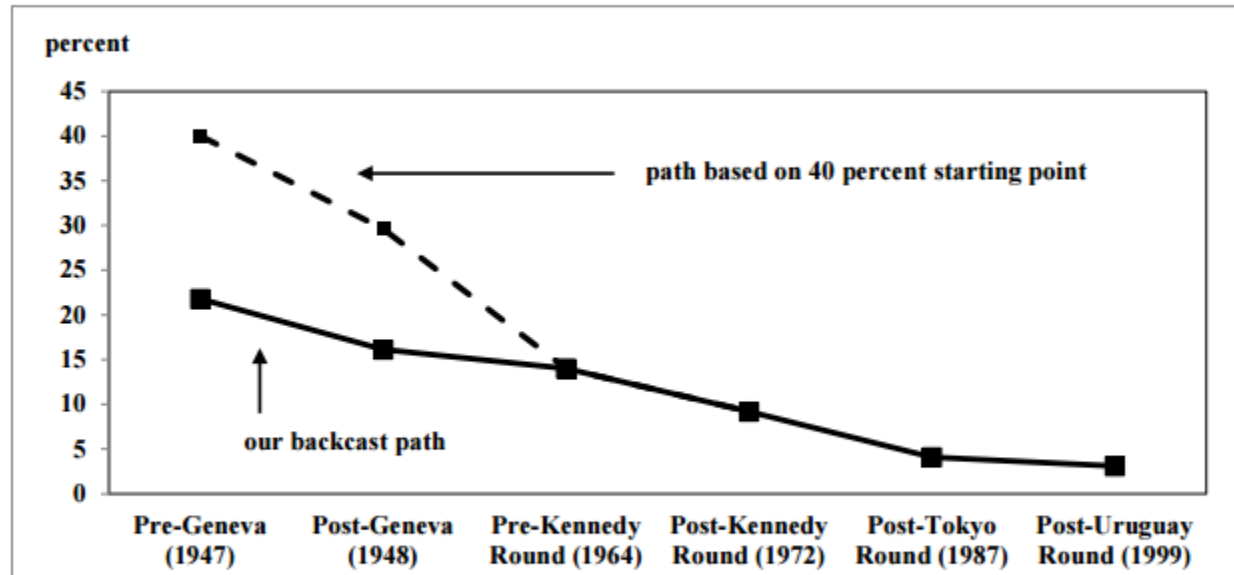
OurWorldInData.org/international-trade • CC BY-SA

Note: Sea freight corresponds to average international freight charges per tonne. Passenger air transport corresponds to average airline revenue per passenger mile until 2000 spliced to US import air passenger fares afterwards. International calls correspond to cost of a three-minute call from New York to London.

Source: <https://ourworldindata.org/international-trade>

Basic facts – Tariffs fell sharply as well

Figure 1: Path of Average Tariffs: Pre-Geneva to Post-Uruguay Round

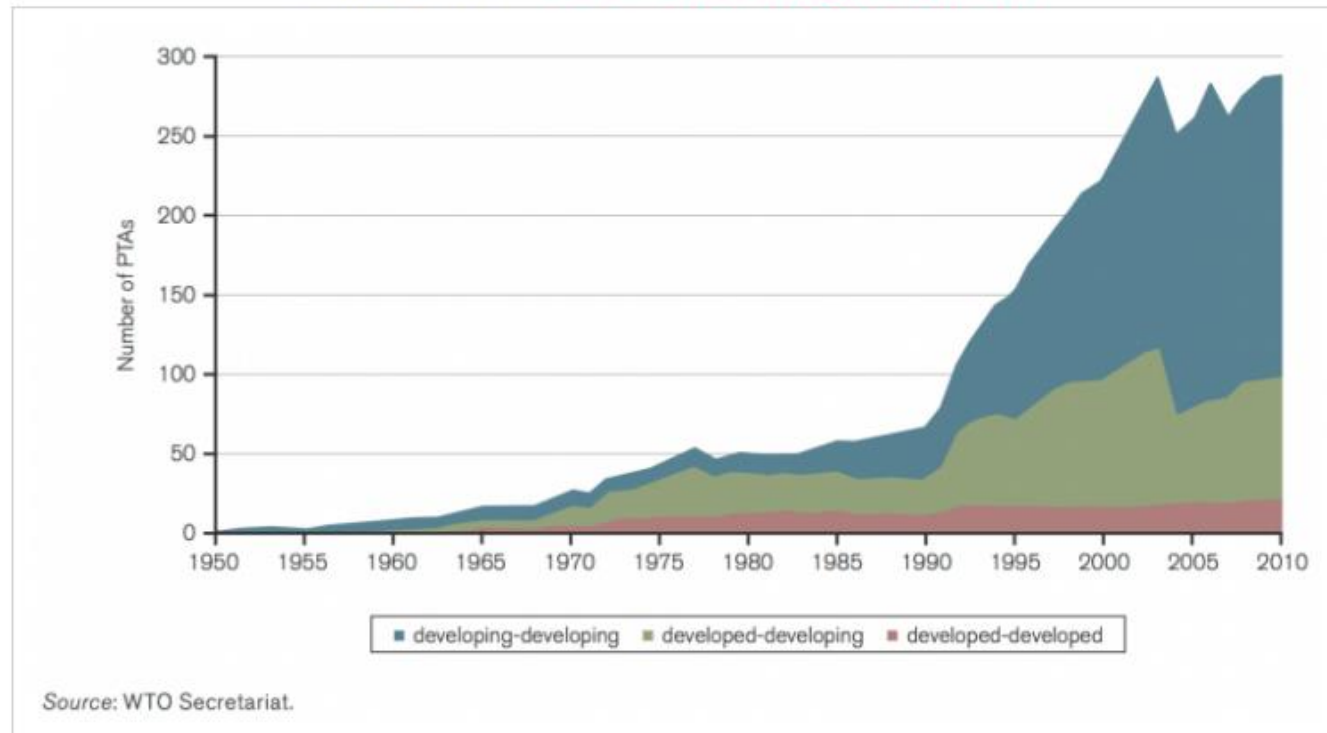


Source: constructed by the authors, based on average tariff levels for United States, European Community/Union and Japan. See text for discussion. Backcast estimate of pre-GATT 1947 average tariff level of 21.8 percent based on upper bound assumption of 26 percent tariff cut in the first (Geneva) Round. Assuming a 21 percent tariff cut in the first (Geneva) Round would imply a backcast estimate of pre-GATT 1947 average tariff level of 20.5 percent.

Source: Bown and Irwin (2015)

Basic facts – Preferential trade agreements proliferated

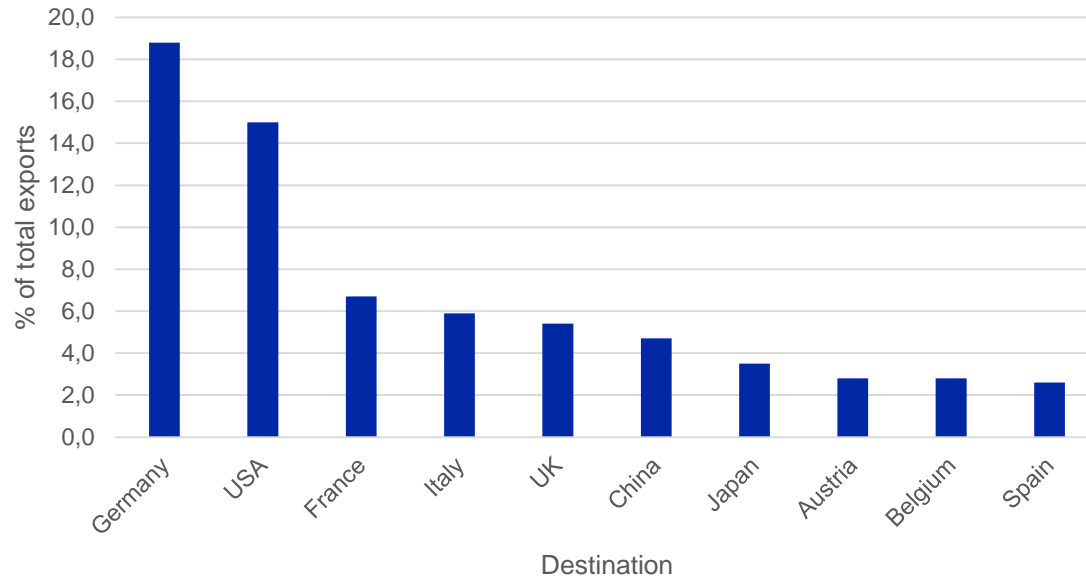
Number of preferential trade agreements in force by country group, 1950-2010 –
Figure B1 in [WTO Trade Report \(2011\)](#) 



Source: <https://ourworldindata.org/international-trade>

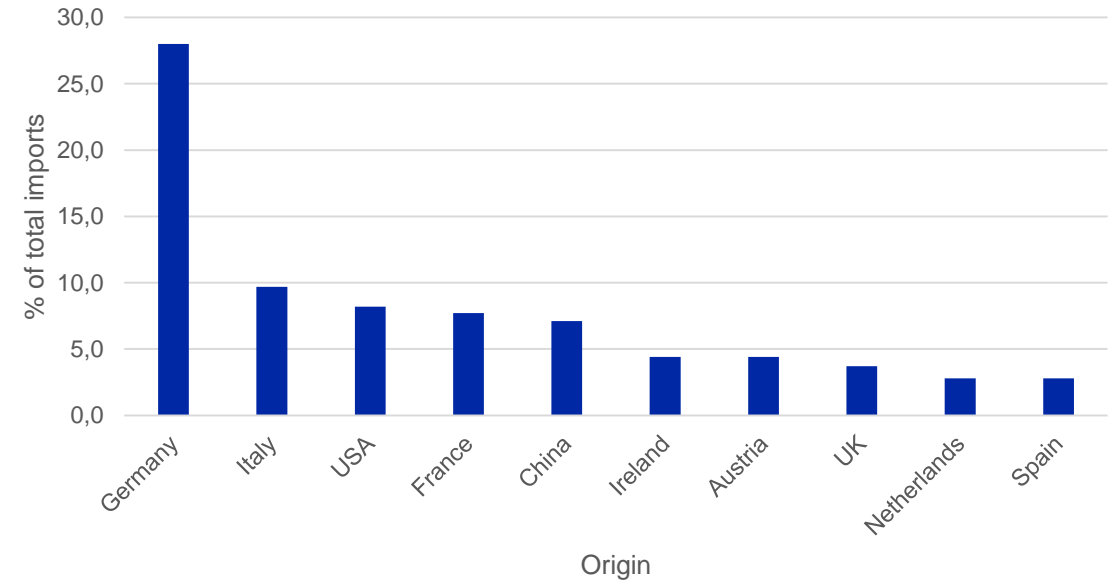
Basic facts – Main trading partners of Switzerland

Top 10 Export Partners in 2016



Note: 48.5% of Swiss exports go to the EU

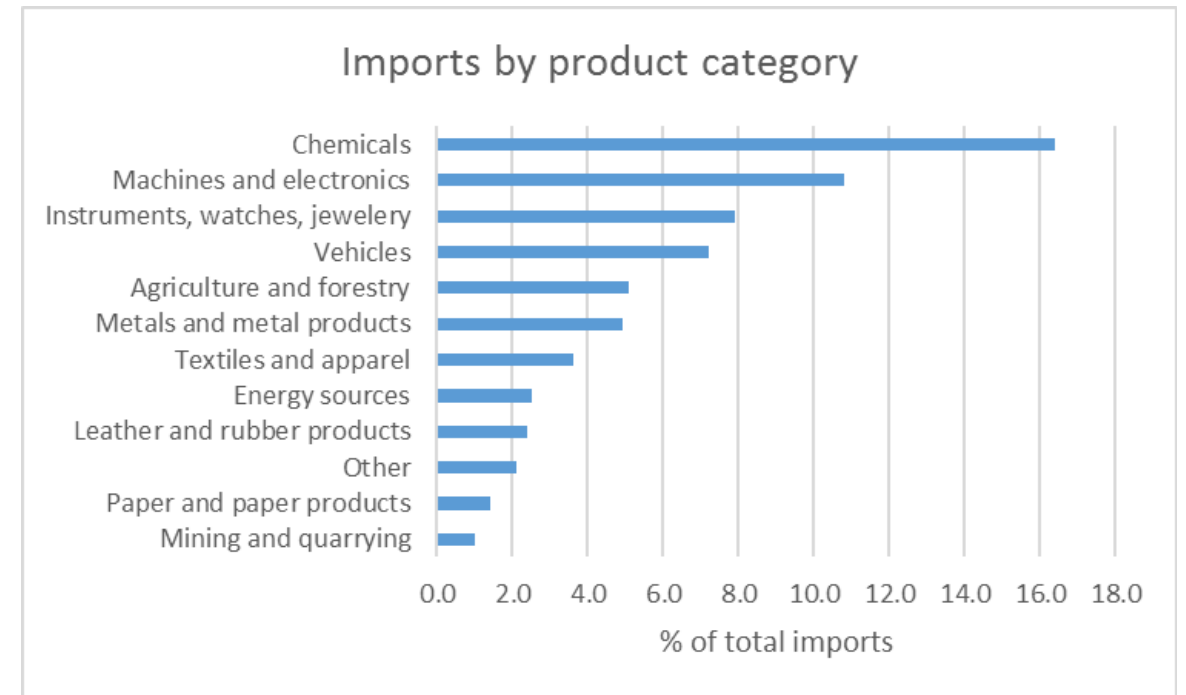
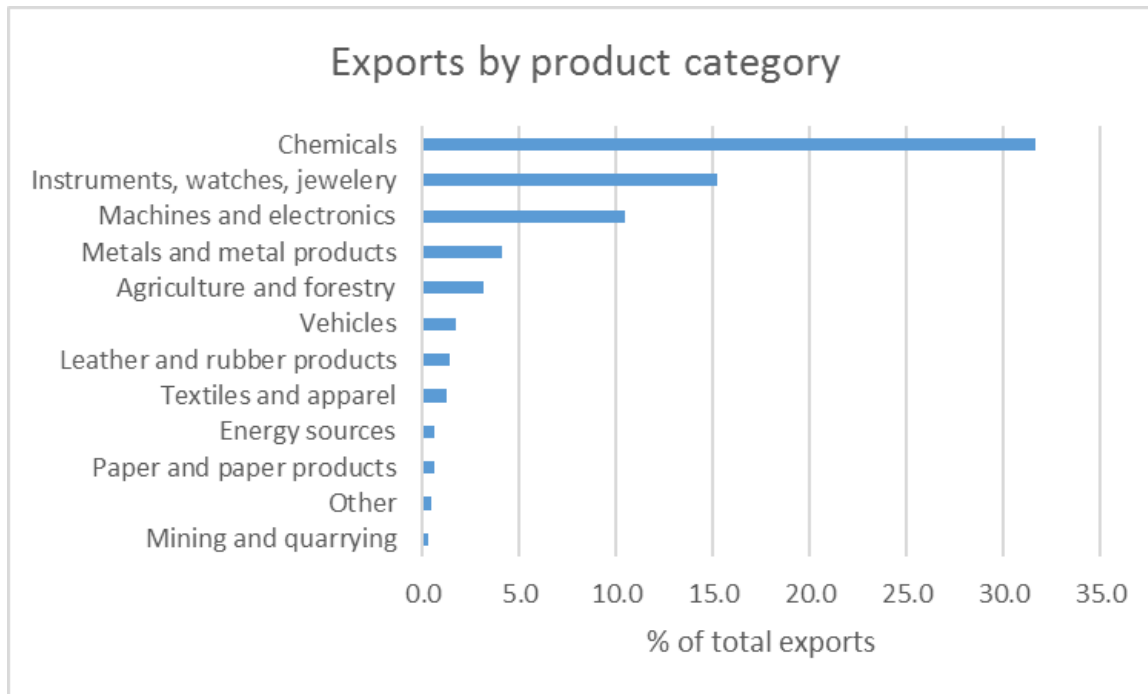
Top 10 Import Partners in 2016



Note: 55.8% of Swiss imports come from the EU

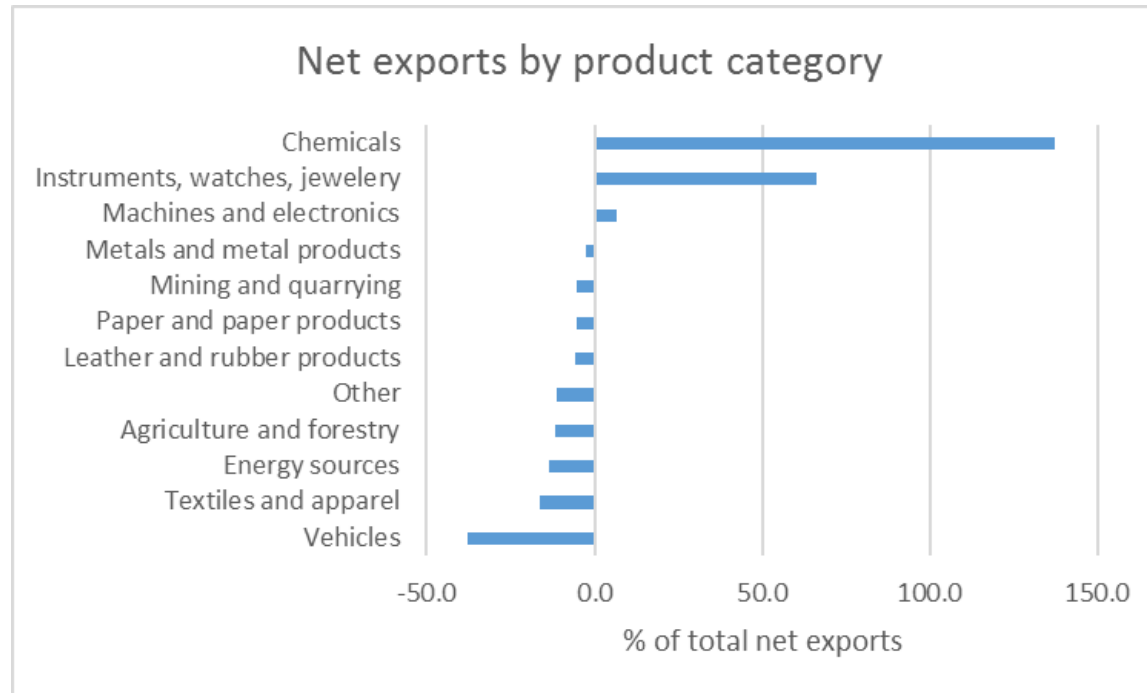
Source: Eidgenössische Zollverwaltung

Basic facts – Main import and export products of Switzerland



Source: Eidgenössische Zollverwaltung

Basic facts – Main net export and import products of Switzerland



Source: Eidgenössische Zollverwaltung



References

- *C. Bown and D. Irwin. 2015. “The GATT’s Starting Point: Tariff Levels Circa 1947”. NBER Working Paper*
- *D. Irwin. 2015. “Free Trade under Fire”. Princeton University Press*
- *P. Krugman. 1997. “Pop Internationalism”. MIT Press*
- *P. Krugman, M. Obstfeld, and M. Melitz. 2012. “International Economics – Theory & Policy. Addison-Wesley.*