

Topics in International Trade and International Migration

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Synopsis: The course is divided into two parts that are closely linked by the general theme of globalization. The first part aims at reviewing some basic topics in international trade and covering recent models for advanced research – generalization of the Ricardian model (starting from Eaton and Kortum, 2002) and new measures of gains from trade or of revealed comparative advantages; the new-new trade theories (Melitz, 2003, and following literature). The second part is devoted to international migration and presents the links between international migration and international trade, the effects of migration for the origin and the recipient countries.

General references:

Feenstra, Robert C. and Alan M. Taylor (2014), *International Economics*, Worth Publisher, 3rd edition (FT)

Gandolfo, G. (2014), *International Trade: Theory and Policy*, Springer Verlag, 2nd edition (GGIT)

Gopinath, G. et al. (2014), *Handbook of International Economics Vol. 4*, North Holland (HIE4)

Introduction

Introduction to the Gains from Trade in partial and general equilibrium.

Empirical regularities in International Trade: the Gravity equation; Power Laws in Economics and in International Economics; Granularity.

*FT (ch. 8)

* Gabaix, X. (2015), “Power Laws in Economics”, *Journal of Economic Perspectives*.

* Head, K. and Mayer, T. (2014), “Gravity Equations: Workhorse, Toolkit, and Cookbook”, chp 3 in HIE4

The Ricardian Model

The basic Ricardian model (2 goods and 2 countries); extensions to more countries and more goods: the Ricardian model with a *continuum* of goods (Dornbusch, Fisher, Samuelson, 1977); comparative advantages and distance (Eaton and Kortum, 2002); gains from trade and welfare analysis

FT (chap. 2)

GGIT (Appendix to chap. 2)

*Dornbusch, R., Fisher, S. and P. Samuelson (1977), “Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods”, *American Economic Review*, Vol. 67, No. 5 (Dec., 1977), pp. 823-839.

*Eaton, J. and S. Kortum (2002), “Trade, Geography and Trade”, *Econometrica*, 70, 5, pp. 1741-79.

*Eaton, J. and S. Kortum (2012), “Putting Ricardo to Work”, *Journal of Economic Perspectives*—Volume 26, Number 2—Spring 2012—Pages 65–90.

New Advances in Empirical International Trade

Following the Eaton-Kortum approach, there has been applications in terms of *measures of gains from trade (New Quantitative Trade Models)* and in the way of *measuring (revealed) comparative advantages*.

*Costinot, Arnaud, and Andrés Rodríguez-Clare. 2018. "The US Gains from Trade: Valuation Using the Demand for Foreign Factor Services." *Journal of Economic Perspectives*, 32 (2): 3-24.

*Feenstra, Robert C. 2018. "Alternative Sources of the Gains from International Trade: Variety, Creative Destruction, and Markups." *Journal of Economic Perspectives*, 32 (2): 25-46.

Ottaviano, Gianmarco P.O. 2014. "European integration and the gains from trade" CEP Discussion Papers, CEPDP1301. Centre for Economic Performance, London School of Economics and Political Science, London, UK.

HIE4 chp. 4

Arnaud Costinot & Dave Donaldson & Ivana Komunjer, 2012. "What Goods Do Countries Trade? A Quantitative Exploration of Ricardo's Ideas," *Review of Economic Studies*, Oxford University Press, vol. 79(2), pages 581-608.

Elsa Leromain & Gianluca Orefice, 2014. "New revealed comparative advantage index: Dataset and empirical distribution," *International Economics*, CEPII research center, issue 139, pages 48-70.

Increasing Returns to Scale and Imperfect Competition

Increasing returns to scale in international trade; comparing two Krugman's models (1979 and 1980)

FT (chap. 6)

*Krugman, P. (1979), "Increasing Returns, Monopolistic Competition, and International Trade", *Journal of International Economics*, vol. 9, pp. 469-79.

*Krugman, P. (1980), "Scale Economies, Product Differentiation, and the Pattern of Trade", *American Economic Review*, Vol. 70, No. 5 (Dec., 1980), pp. 950-959

The New-New Trade Theories

The importance of firms' heterogeneity. The Melitz (2003) model

*Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding, and Peter K. Schott (2007), "Firms in International Trade", *Journal of Economic Perspectives*, 21(3): 105–130.

*Melitz, M. (2003), "The impact of trade on intraindustry reallocations and aggregate industry productivity", *Econometrica*, vol. 71, pp. 1695-725.

*Marc J. Melitz & Daniel Trefler, (2012), "Gains from Trade When Firms Matter", *Journal of Economic Perspectives*, vol. 26(2), pages 91-118, Spring.

Bernard, A.B., Jensen, J.B., (1995), "Exporters, jobs and wages in U.S. manufacturing, 1976-1987", *Brookings Papers on Economic Activity: Microeconomics*, pp. 67-118.

Helpman, Elhanan (2006), "Trade, FDI, and the Organization of Firms", *Journal of Economic Literature*, 44(3): 589–630.

Bustos, Paula (2011), "Trade Liberalization, Exports, and Technology Upgrading: Evidence on the Impact of MERCOSUR on Argentinian Firms", *American Economic Review* 101 1 pp 304-40

International migration

Migration and international trade. Migration and outsourcing. Skilled vs. unskilled migration: the brain drain. The Economics of Remittances.

FT (chap. 5 and 7)

Migration and Trade

Ortega, F., and Peri, G. (2014), "Openness and income: The roles of trade and migration", *Journal of International Economics*, 92(2), 231-251.

Effects on the departure countries: the brain drain-gain; remittances.

*Gibson, J., and McKenzie, D. (2011), "Eight Questions about Brain Drain", *Journal of Economic Perspectives*, 25(3), 107-28.

*Yang, D. (2011), "Migrant Remittances", *Journal of Economic Perspectives*, 25(3), 129-52.

De Arcangelis, G., Joxhe, M., McKenzie, D., Tiongson, E., and Yang, D. (2015) "Directing remittances to education with soft and hard commitments: evidence from a lab-in-the-field experiment and new product take-up among Filipino migrants in Rome" *Journal of Economic Behavior and Organization*, also Policy Research Working Paper Series No. 6896, the World Bank.

Docquier, F. and H. Rapoport (2007), "Skilled Migration: the Perspective of Developing Countries", CREAM Working Paper n. 10/07.

Docquier, F. and H. Rapoport (2012), "Globalization, Brain Drain and Development", *Journal of Economic Literature* September.

Effects on the destination countries: wages and the production structure

*D'Amuri, F. and Peri, G. (2014), "Immigration, jobs and employment protection: evidence from Europe before and during the Great Recession", *Journal of European Economic Association*.

*De Arcangelis, G., E. Di Porto and G. Santoni (2015), "Migration, Labor Tasks and Production Structure", *Regional Science and Urban Economics* 53, pp. 156-69.

Docquier, F, C. Ozden and G. Peri (2010), "The Wage Effect of Emigration and Immigration", NBER Working Paper n. 16646.

Ottaviano, Peri and Wright (2014), "Immigration, Outsourcing and the American Jobs", *American Economic Review*

Practical Information

*Preferences: Spring.

*Cost: This course is taught in the context of the Erasmus agreement between AMU and Univ. Sapienza. It comes at zero cost for AMU.

*Validation mechanism: Take home project or presentation depending on the number of students.

*The course will be adapted to the student background in terms of difficulty, depth, and quantity of the course content.

Detailed tentative timeline of the lectures:

Day 1 – 3 hours (April 23)

Introduction. Empirical regularities: gravity equation (only empirical aspects), power laws in economics.

Review of the classroom Ricardian model. DFS extension. Eaton-Kortum. Getting back to the gravity model: the Armington model. Relationship between EK and Armington.

Day 2 – 3 hours (April 24)

Usage of the recent Ricardian models to measure welfare increases due to international trade (see Costinot-Rodriguez Claire 2018 and all the articles in the JEP issue).

Models of international trade with imperfect competition:

- The role of preferences (CES vs linear demand function), see Krugman (1979)
- Effects of opening up the economy: pro-competitive effect, variety effect, home market effect

Day 3 – 3 hours (April 25)

Models of international trade with imperfect competition and firms heterogeneity:

- Improving on Krugman (1980)
- Melitz (2003)
- Recent advances: effects on internal innovation (Bustos, 2011)

Day 4 – 3 hours (April 26)

Migration

Effects on the destination countries:

- Labor markets -- a view with the task approach
- International trade – migration can increase exports and imports
- Political outcomes – Brexit, Trumpism

Effect on the sending countries:

- The debate on the brain drain
- The role of remittances and the debate around their characteristics within traditional economic theory