

ECON-784 (Fall 2008)
Seminar in International Trade and Finance:
The Political Economy of Trade Policy

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Office Hours: Tuesdays and Fridays, 1:00-3:00

Time and Location: Tuesdays, 5:30-8:00

Course Webpage: Please see blackboard site.

COURSE DESCRIPTION: Despite the fact that most models of international trade predict that the welfare of society is maximized when trade flows are completely liberalized, most countries continue to impose trade barriers. Political economy models of trade policy postulate that trade policy is determined endogenously. Specifically, the trade policy decisions of policy makers reflect the policy makers' own interests and preferences; people setting trade policy are motivated by self-interest just like people engaged in other economic activities. This seminar will explore recent political economy models of trade policy formation and, perhaps most importantly, the econometric evaluations of these models.

This is an advanced Ph.D. seminar course that is designed to help prepare students to write a dissertation in international economics or public choice. Students are expected to have taken the Ph.D. sequence in econometrics as well as graduate-level courses in International Economics or Public Choice prior to enrolling in this course.

GRADING:

Class Participation	15%
Classroom Presentation	25%
Research Paper/Presentation	60%

In addition to classroom participation, grades will be based on two student activities. First, each student must choose one of the starred papers in the reading list below and lead the classroom discussion on this article on the date assigned to the paper. Paper choices should be made as soon as possible.

Second, students must complete a research paper and conduct a 30 minute presentation of their research on either November 25 or December 2. The written paper is due on the first day of the final exam period, and students will be randomly assigned to one of the two presentation dates. The paper can be (1) a replication of an article on a topic covered in class; (2) a new empirical study on a topic similar to those covered in class; or (3) an analytical literature review aimed at a dissertation proposal in international economics or public choice. Topics should be cleared with the instructor.

COURSE OUTLINE/READINGS:

Note that there will be no class on October 28. Students are expected to read all articles marked by asterisks (*) and actively participate in classroom discussion. Links to most articles are available on the course blackboard site.

Topic

Date

Introduction

August 26

Readings

1. *Gawande, Kishore and Pravin Krishna (2003), "The Political Economy of Trade Policy: Empirical Approaches," in J. Harrigan and K. Choi (eds.) *Handbook of International Trade* Blackwell, pages 213-250.
2. Helpman, Elhanan (1997), "Politics and Trade Policy," in D.M. Kneps and K.F. Wallis (eds.), *Advances in Economics and Econometrics: Theory and Applications*, Cambridge University Press, New York, 19-45.
3. Rodrik, Dani, (1995). "Policy Economy of Trade Policy," in G. Grossman and K. Rogoff (eds.) *Handbook of International Economics Vol. 3*. Elsevier, Amsterdam. Pp. 1457-1494.

Early Empirical Tests

September 2

Readings

1. *Ray, Edward J., "The Determinants of Tariff and Non-tariff Trade Restrictions in the United States", *Journal of Political Economy* 89 (1981):105-121.
2. *Trefler, Daniel, "Trade Liberalization and the Theory of Endogenous Protection: An Econometric Study of US Import Policy," *Journal of Political Economy* 101 (1993):138-60.
3. Baldwin, Robert E., *The Political Economy of US Import Policy*, Cambridge: MIT Press, 1985.
4. Marvel, Howard P. and Edward J. Ray, "The Kennedy Round: Evidence on the Regulation of International Trade in the United States," *American Economic Review* 73 (1983):190-197.
5. Destler, I. M., *American Trade Politics: System Under Stress*, Washington DC: Institute for International Economics, 1986.
6. Keohane, Robert O., 1984. *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton, NJ: Princeton University Press.
7. Milner Helen and David Yoffie, "Between Free Trade and Protectionism: Strategic Trade Policy and a Theory of Corporate Preferences," *International Organization* 43(1989):239-272.

Direct Democracy and the Median Voter Theory

September 9

Readings

1. Mayer, Wolfgang (1984), "Endogenous Tariff Formation," *American Economic Review* 74: 970-985.

2. * Dutt, Pushan and Devashish Mitra (2002), "Endogenous Trade Policy through Majority Voting: An Empirical Investigation," *Journal of International Economics* 58(1): 107-133.
3. * Scheve, Kenneth F. and Matthew J. Slaughter (2001), "What Determines Individual Trade-Policy Preferences," *Journal of International Economics* 54(2): 267-292.

Protection for Sale: Structural Tests

September 16

Readings

1. Grossman, Gene M. and Elhanan Helpman (1994), "Protection for Sale" *American Economic Review*, 84(4), 833-850.
2. *Goldberg, Pinelopi Koujianou and Giovanni Maggi (1999), "Protection for Sale: An Empirical Investigation," *American Economic Review*, 89 (5), 1135-1155.
3. Gawande, K. and U. Bandyopadhyay (2000), "Is Protection for Sale? Evidence on the Grossman-Helpman Theory of Endogenous Protection," *Review of Economics and Statistics* 82(1): 139-52.
4. Ederington, J. and M. Minier (2008). "Reconsidering the Empirical Evidence on the Grossman-Helpman Model of Endogenous Protection." *Canadian Journal of Economics* 41(2): 501-16.
5. McCalman, Phillip (2001). "Protection for Sale and Trade Liberalization: An Empirical Investigation." *Review of International Economics* 12(1): 81-94.
6. *Mitra, Devashis, Dimitrios Thomakos, and Mehmet Ulubasoglu (2006). "Protection for Sale in a Developing Country: Democracy versus Dictatorship," *Review of Economics and Statistics* 84(3): 497-508.

Protection for Sale: Non-Structural Tests

September 23

Readings

1. *Baldwin, Robert E. and Christopher S. Magee (2000), "Is Trade Policy for Sale? Congressional Voting on Recent Trade Bills," *Public Choice*, 105, 79-101.
2. *Liebman, Benjamin and Kara Reynolds (2005). "The Returns from Rent-Seeking: Campaign Contributions, Firms Subsidies and the Byrd Amendment." *Canadian Journal of Economics* 39(4): 1345-1369.
3. Chappell, Henry W. (1982), "Campaign Contributions and Congressional Voting: A Simultaneous Probit-Tobit Model," *The Review of Economics and Statistics*, 64(1), 77-83.
4. Fisher, Robert C., Omer Gokcekus and Edward Tower (2002), "'Steeling' House Votes at Low Prices for the Steel Import Quota Bill of 1999," Working Paper.

Lobby Formation

September 30

Readings

1. *Gawande, Kishore, Pravin Krishna and Micheal J. Robbins (2006). "Foreign Lobbies and U.S. Trade Policy." *Review of Economics and Statistics* 88(3): 563-571.

2. *Gawande, Kishore (1998). "Stigler-Olson Lobbying Behavior in Protectionist Industries: Evidence from the Lobbying Power Function." *Journal of Economic Behavior and Organization* 35(4): 477-499.
3. Herander, Mark G. and Roger L. Pupp (1991). "Firm Participation in Steel Industry Lobbying." *Economic Inquiry* 29: 134-147.

Political Economy of Antidumping Protection

October 7

Readings

1. * Finger, J.M., H. Keith Hall, and Douglas R. Nelson (1982). "The Political Economy of Administered Protection." *American Economic Review* 72(3): 454-466.
2. * Hansen, Wendy L. and Thomas J. Prusa (1996). "Cumulation and ITC Decision-Making: The Sum of the Parts is Greater than the Whole." *Economic Inquiry* 34: 746-769.
3. * Devault, James (2002). "Congressional Dominance and the International Trade Commission." *Public Choice* 110(1): 1-22.
4. Hansen, Wendy L. and Thomas J. Prusa (1997). "The Economics and Politics of Trade Policy: An Empirical Analysis of ITC Decision Making." *Review of International Economics* 5(2):230-245.
5. Moore, Michael (1992). "Rules or Politics? An Empirical Analysis of ITC Antidumping Decisions." *Economic Inquiry* 30 (3): 449-466.
6. Feinberg, Robert M. and Barry T. Hirsch (1989). "Industry Rent Seeking and the Filing of 'Unfair Trade' Complaints." *International Journal of Industrial Organization* 7:325-340.
7. Devault, James (1996). "Economics and the International Trade Commission." *Southern Economic Journal*.

Macroeconomic/Cyclical Behavior of Tariffs

October 14

Readings

1. *Magee Stephen P. and Leslie Young, "Endogenous Protection in the United States, 1900-1984," in R. M. Stern (ed.), *US Trade Policies in a Changing World Economy*. Cambridge, MA: MIT Press, 1987.
2. *Lohmann, Sussanne and Sharyn O'Halloran, "Divided Government and US Trade Policy," *International Organization* 48 (1994):595-632.

Preferential Trade Agreements

October 21

Readings

1. *Olarreaga, Marcelo and Soloaga, Isidro, "Endogenous Tariff Formation: The Case of Mercosur." *World Bank Economic Review* 12, (1998):297-320.
2. *Gawande, Kishore, Pablo Sanguinetti, and Alok K. Bohara (2005), "Exclusions For Sale: Evidence on the Grossman-Helpman Theory of Free Trade Agreements."

Dispute Settlement and the WTO

November 4

Readings

1. * Bown, Chad P. (2005). "Participation in WTO Dispute Settlement: Complainants, Interested Parties and Free Riders." World Bank Economic Review.
2. * Reynolds, Kara M. (2008). "Why Are So Many WTO Disputes Abandoned?" forthcoming in *Trade Disputes and the Dispute Settlement Understanding of the WTO: An Interdisciplinary Assessment*.
3. Reinhardt, Eric (2000). "Aggressive Multilateralism: The Determinants of GATT/WTO Dispute Initiation." Working Paper.
4. Reinhardt, Eric (2001). "Adjudication without Enforcement in GATT Disputes." *Journal of Conflict Resolution*. 45(2): 174-195.
5. Guzman, Andrew and Simmons, Beth A. (2002). "To Settle or Empanel? An Empirical Analysis of Litigation and Settlement at the World Trade Organization." *The Journal of Legal Studies* 31: 205.
6. Busch, Marc L. and Reinhardt, Eric (2006). "Three's a Crowd: Third Parties and WTO Dispute Settlement." Working Paper.
7. Busch, Marc L. and Reinhardt, Eric (2003). "Developing Countries Dispute Settlement." *Journal of World Trade* 37(4): 719-735.
8. Busch, Marc L. and Reinhardt, Eric (2002). "Testing International Trade Law: Empirical Studies of GATT/WTO Dispute Settlement." In Daniel M. Kennedy and James D. Southwick (eds), *The Political Economy of International Trade Law: Essays in Honor of Robert Hudec*. New York and Cambridge: Cambridge University Press.
9. Bown, Chad P. (2004). "Trade Remedies and WTO Dispute Settlement: Why Are So Few Challenged?" *Journal of Legal Studies*.
10. Bown, Chad P. and Hoekman, Bernard M. (2005). "WTO Dispute Settlement and the Missing Developing Country Cases: Engaging the Private Sector." *Journal of International Economic Law*.
11. Busch, Marc L. (2000). "Democracy, Consultation, and Paneling of Disputes under GATT." *Journal of Conflict Resolution* 44(4): 425-446.

Recent Developments

November 11-18

Readings

1. *Frederiksson, Per G., Xenia Matschke, Jenny Minier, (2008). "For Sale: Trade Policy in Majoritarian Systems," Working Paper.
2. *Balaoing, Annette and Joseph Francois (2006). "The Political Economy of Protection in a Customs Union: What Drives the Tariff Structure of the EU." Working Paper.
3. *Silva, Pera. (2005). "The Role of Importers and Exporters in the Determination of U.S. Tariff Preferences Granted to Latin America." World Bank Research Paper 3518.
4. *Tavares, Samia Costa (2006). "The Political Economy of European Customs Classification." *Public Choice* 129(1-2): 107-130.

Presentations

November 25-December 2