

AGRICULTURAL TRADE THEORY -- AGECE 644

OBJECTIVES

- (1) To provide students with a background in trade theory and trade policy analysis that contains the major threads of the existing literature.
- (2) To teach the application of open economy models to policy analysis.

OFFICE HOURS

MWF 1:00PM Kran 558

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GRADING

- (1) Two exams
 - midterm -- 100 points
 - final -- 100 points
- (2) Will be some homeworks involving the use of the material. These will emphasize the application of the theory to practical policy analysis.

COURSE OUTLINE

(I) Evolution of Global Agricultural Markets: A Quick Overview

- (A) Colonial Trade
- (B) Europe before World War I
- (C) World War I and its Aftermath
- (D) Depression and War
- (E) Post-War Surpluses
- (F) World Food Crisis
- (G) World Awash in Grain

(H) Food Crisis and Cycles continue

Some selected readings

- ABARE
- Bray, Paarlberg, and Holland
- GAO
- McCalla, 1969
- McCalla and Josling: Ch 12
- National Center for Economic Alternatives: 1-10
- O'Brien

- Paarlberg, 1993
- Paarlberg, 1996
- Paarlberg, Webb, Dunmore, and Deaton
- Rasmussen
- Tangermann, 1982
- Tontz
- Webb and Blandford, 1984

(II) Pure Theory of Trade

(A) The Exchange Model and some Basic Concepts

- (1) The Gains from Trade -- C&J 1973:11-18
 - C,F&J 1996:13-21,26-27,49-50

- (2) Free Trade Equilibrium, Offer Curves and their Elasticity
 - C&J 1973: 18-24, 38-40
 - C,F&J 1996: 21-22,32-34, 56-58

- (3) The Pattern of Trade and Comparative Advantage
 - C&J 1973: 25-29

(B) Trade with Variable Production

- (1) The Transformation Curve
 - Krauss and Johnson: 63-65
 - C&J 1973: 104-107
 - C,F&J 1996:35-38

- (2) The Efficiency of Pure Competition
 - C&J 1973:107-111

- (3) Gains from Trade and the Trade Triangle again
 - C&J 1973: 111-115
 - C,F&J 1996:38-43,46-48

(C) Ricardian Model

(1) The Ricardian Transformation Curve

-- C&J 1973:120-123

-- C,F&J 1996:83-87

(2) Pattern and Gains from Trade

-- C&J 1973: 123-128

-- C,F&J 1996:87-91

(3) Factor prices in the Ricardian Model

-- C&J 1973:130-134

-- C,F&J 1996: 91-95

(4) Global Gains from Trade

-- C&J 1973: 134-136

(D) Heckscher-Ohlin Model

(1) Assumptions

-- C&J 1973: 138-139

-- C,F&J 1996:127-128

(2) Transformation Curve - fixed and flexible coefficients

-- C&J 1973: 139-144, 164-168

-- C,F&J 1996: 128-135

(3) The Four Propositions

(a) Pattern of Trade

-- C&J 1973: 144-148

-- C,F&J 1996: 128-130, 140-144

(b) Stolper-Samuelson

-- C&J 1973: 153

-- C,F&J 1996:139-140

(c) Rybczynski

-- C&J 1973: 153-155

(d) Factor Price Equalization

-- C&J 1973: 144-152

-- C,F&J 1996: 138-139

(4) Consequences of relaxing assumptions

(E) Ricardo-Viner Model

- (1) Assumptions
- (2) The Four Propositions Altered
 - C,F&J 1996:109-119

(F) Stability

- (1) Stable vs Unstable Equilibria
 - C&J 1973: 35-38
 - C,F&J 1996: 78-80
- (2) Marshall-Lerner Condition
 - C&J 1973: 40-43

(G) Tariffs

- (1) Tariff effects on a small country
 - C&J 1973: 230-235
 - C,F&J 1996: 219-221
- (2) Large country tariff
 - (a) Terms of Trade
 - C&J 1973: 235-236
 - C,F&J 1996:221-226
 - (b) Optimum Tariff, Revenue Maximizing Tariff
 - C&J 1973: 237-241, 250-254
 - C,F&J 1996: 228-230, 235-241
- (3) Tariffs vs domestic policy
 - C&J 1973: 254-262
 - C,F&J 1996: 241-244
- (4) Effective Protection
 - C&J 1973: 263-264
 - C,F&J 1996: 232-233

(II) Partial Equilibrium

(A) Transition from General Equilibrium

- (1) Basic assumptions of Partial Equilibrium
- (2) Gains and losses, The Gains from Trade
- (3) Free Trade equilibrium
 - P,W,M,S: 6-8

(B) Policies followed by exporters

- (1) Export subsidies

- (a) Uniform
 - P,W,M,S:8-11
 - Houck
 - Chambers and Paarlberg
 - (b) Targeted
 - Sharples
 - Abbott, Paarlberg, and Sharples
- (2) Embargoes
- (a) Uniform
 - (b) Targeted
 - USDA/ERS Embargoes, Surplus Disposal & U.S. Agriculture: Ch. 8
- (3) Domestic policies
- (a) Price supports
 - (b) Stocks
 - (c) Surplus disposal
 - P,W,M,S: 14-32
- (C) Importer policies
- (1) Tariffs
 - P,W,M,S:36-40
 - Bale and Lutz
 - (2) Quotas and Voluntary Export Restrictions
 - Allen, Dodge, and Schmitz
 - (3) Variable Levies
 - Sampson and Yeats
 - (4) Tariff-Rate Quotas
 - Abbott and Paarlberg, 1998
 - Boughner, de Gorter, and Sheldon
 - Bureau and Tangermann
 - Skully
 - Choi and Sumner
 - Barichello
 - Abbott and Morse
 - (5) SPS barriers
 - Roberts, Josing, and Orden pp. 25 - 37
 - Paarlberg and Lee, 1998
 - Paarlberg and Lee, 2001
 - Petry, Paarlberg, and Lee

(III) Special Topics

(A) Customs Unions

(1) Trade Creation

-- C&J 1973: 293-296

(2) Trade Diversion

-- C&J 1973: 296-298

(3) Third Country Impacts

-- C&J 1973:298-300, 309-313

(B) Imperfect Competition

(1) Patterns of Trade

-- Grossman pp. 1-19

(2) Monopoly and Trade

-- C&J 1973: 207-210

(3) Dumping

-- C&J 1973: 210-215

(4) Oligopoly

(a) general

-- Richardson

-- Krishna & Thursby

(b) Agriculture

-- (Carter and Schmitz)

-- (McCalla, 1966)

-- (Alaouze, Watson, and Sturgess)

-- (Karp and McCalla)

-- (Paarlberg and Abbott, 1986)

-- (Gallagher)

(C) Modeling - An overview of approaches

(1) Non-spatial "Commodity" model approaches

-- Roningen

(2) Spatial Equilibrium

-- Schmitz and Bawden

(3) Armington Models

-- Armington

- (4) Computable General Equilibrium
 - Hertel

- (D) Trade Elasticity Measurement
 - The Great Debate over Elasticity

- (a) "True" measure
 - Bredahl, Meyers, and Collins

- (b) How to estimate
 - (1) Analytical methods
 - (2) Mapping
 - Holland and Sharples

- (3) Econometric techniques
 - Binkley and McKinzie

- (E) Macro and Exchange Rates

- (1) Macroeconomic open economy models

- (a) Keynesian
 - Heller

- (b) Neo-classical

- (2) Exchange Rate Determination
 - Frankel

- (3) Exchange rates as viewed from agriculture
 - Longmire and Morey

- (4) Trade adjustment and the J-Curve
 - Carter and Pick

TEXTS

Basic

Baldwin, Robert E. and J. David Richardson. *International Trade and Finance: Readings*. Boston, MA: Little, Brown & Co. 1986.

Caves, Richard E. and Ronald W. Jones. *World Trade and Payments*. Boston, MA: Little, Brown & Co. 1973.

Caves, Richard E., Jeffery A. Frankel, and Ronald W. Jones. *World Trade and Payments*. New York: Harper-Collins, 1996.

Chacholiades, Maltiades. *International Trade Theory and Policy*. New York: McGraw-Hill Book Co. 1973.

Grubel, Herbert G. *International Economics*. Homewood, IL: Richard D. Irwin, 1977.

Krugman, Paul R. and Maurice Obstfeld. *International Economics: Theory and Policy*. New York: Harper Collins, 1991.

Advanced -- for the gutsy

Dixit, A.K. and V. Norman. *Theory of International Trade*. Welwyn, UK: Cambridge University Press, 1980.

Takayama, A. *International Trade - An Approach to the Theory*. New York: Holt, Rhinehard & Winston, Inc. 1972.

OTHER MATERIAL REFERENCED

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Abbott, P.C., P.L. Paarlberg, and J.A. Sharples. "Targeted Export Subsidies and Social Welfare," *AJAE*. 69(1987): 723-732.

Alaouze, C.M., A.S. Watson, and N.H. Sturgess. "Oligopoly Pricing in the World Wheat Market," *AJAE*. 60(1978):173-185.

Allen, R., C. Dodge, and A. Schmitz. "Voluntary Export Restraints as Protection Policy," *AJAE*. 65(1983):291-296.

Andrews, N.P., I.M. Roberts, and G.C. Love. "Recent Developments in the Uruguay Round for Agriculture," *Agriculture and Resources Quarterly*. 4(1992):196-208.

Armington, P.S. "A Theory of Demand for Products Distinguished by Place of Production," *IMF Staff Papers*. 16(1969): 159-178.

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Boughner, D.S., H. de Gorter, and I.M. Sheldon. "The Economics of Two-Tier Tariff Rate Import Quotas in Agriculture," *Agricultural and Resource Economics Review*. 29(2000):58-69.

Bray, C.E., P.L. Paarlberg, and F.D. Holland. *The Implications of Establishing a U.S. Wheat Board*. Foreign Agricultural Economics Report No. 163. Economics and Statistics Service, U.S. Department of Agriculture. April 1981.

Bredahl, M.E., W.H. Meyers, and K.J. Collins. "The Elasticity of Foreign Demand for U.S. Agricultural Products: The Importance of the Price Transmission Elasticity," *AJAE*. 61(1979): 58-63.

Bureau, J-C. and S. Tangermann. "Tariff Rate Quotas in the EU," *Agricultural and Resource Economics Review*. 29(2000): 70-80.

Carter, C.A. and D.H. Pick. "The J-Curve Effect and the U.S. Agricultural Trade Balance," *AJAE*. 71(1989): 712-720.

Carter, C.A. and A. Schmitz. "Import Tariffs and Price Formation in the World Wheat Market," *AJAE*. 61(1979): 517-522.

Chambers, R.G. and P.L. Paarlberg. "Are More Exports Always Better?: Comparing Cash and In-Kind Export Subsidies," *AJAE*. 73(1991): 142-154.

- Choi, J-S. and D.A. Sumner. "Opening Markets while Maintaining Protection: Tariff Rate Quotas in Korea and Japan," *Agricultural and Resource Economics Review*. 29(2000): 91-102.
- Frankel, J.A. "Monetary and Portfolio-Balance Models of Exchange Rate Determination," in *Economic Interdependence and Flexible Exchange Rates*. J. Bhandari (ed). Cambridge, MA: The MIT Press, 1983. Pp 84-115.
- Gallagher, P.A. "The Grain Sector of the European Community: Policy Formation, Price Determination and Implications for Trade," *AJAE*. 70(1988): 767-778.
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- Krishna, K. and M.C. Thursby. "Trade Policy with Imperfect Competition: A Selective Survey," in *Imperfect Competition and Political Economy: The New Trade Theory in Agricultural Trade Research*. C.A. Carter, A.F. McCalla, and J.A. Sharples (eds.) Boulder, CO: Westview Press, 1990: 9-35.
- Longmire, J. and A. Morey. *Strong Dollar Dampens Demand for U.S. Farm Exports*. FAER No. 193. Econ. Res. Serv., U.S. Dept. Agr. December 1983.
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Moschini, G. and K.D. Meilke. "Production Subsidy and Countervailing Duties in Vertically Related Markets: The Hog-Pork Case Between Canada and the United States," *AJAE*. 74(1992): 951-961.

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U.S. Department of Agriculture, Economic Research Service. "Embargoes: A Review of Conceptual, Theoretical, and Empirical Analyses," *Embargoes, Surplus Disposal, and U.S. Agriculture*. AER No. 564. Ch. 8.

United States General Accounting Office. *Canada, Australia, and New Zealand: Potential Ability of Agricultural State Trading Enterprises to Distort Trade*. GAO/NSIAD-96-94. June 1996.

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