

INTERNATIONAL ECONOMICS

Lecture 1 — October 25, 2022

Julian Hinz
Bielefeld University

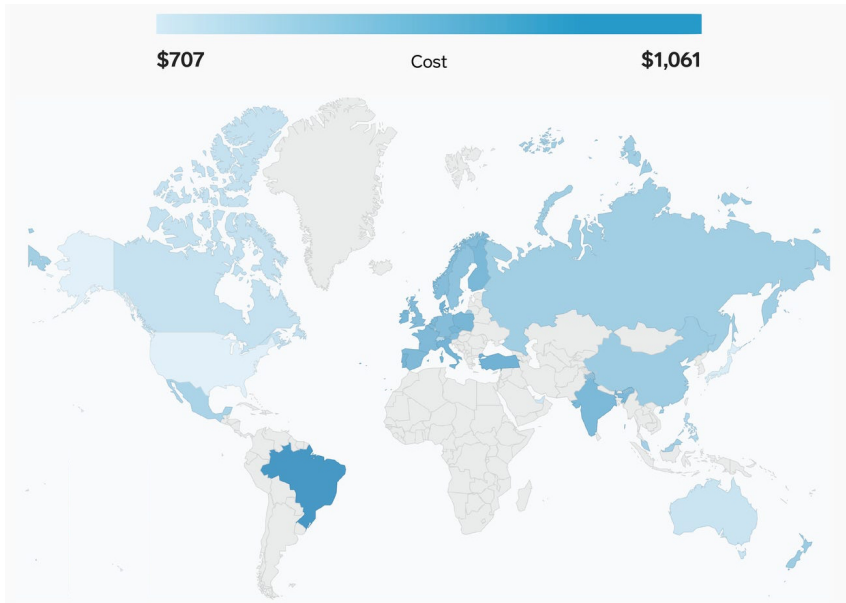


ABOUT YOU

THIS COURSE



Source: Apple Inc.



Source: Deutsche Bank Research

ROADMAP

Topics

Part 1: Who trades with whom

1. Stylized facts of Globalization
2. From Naive to Structural Gravity
3. Estimating Gravity Equations
4. Puzzles: Trade Costs, Distances and Borders
5. Quantifying the Gains from Trade

Topics

Part 2: Who trades (what)

- 6. Ricardo
- 7. Heckscher-Ohlin
- 8. New Trade Theory
- 9. Heterogeneous Firms

Topics

Part 3: Trade Policy

- 10. Unilateral Trade Policy: Tariffs and Quotas
- 11. Multilateral trade policy: WTO, FTAs and CUs
- 12. Current events: Trade agreements, trade wars and sanctions

Schedule

Class

- Tuesdays from 4:15 to 5:45
- Slides and code available after lecture

Tutorial

- Starting in November, Wednesdays from 8:15 to 9:45
- Problem sets available one week before

GENERAL INFO

Course logistics

Online

- Website: international-economics.julianhinz.com
- Slack: E-Mail me for access at julian.hinz@uni-bielefeld.de

Recommended textbooks

- *An Advanced Guide to Trade Policy Analysis: The Structural Gravity Mode (2016), Chapter 1* — Yoto Yotov, Roberta Piermartini, José-Antonio Monteiro, and Mario Larch
- *International Economics: Theory and Policy (2018)* — Paul R. Krugman, Maurice Obstfeld, Marc Melitz
- *International Economics (2011)* — Robert C. Feenstra and Alan M. Taylor

Course logistics

Prerequisites

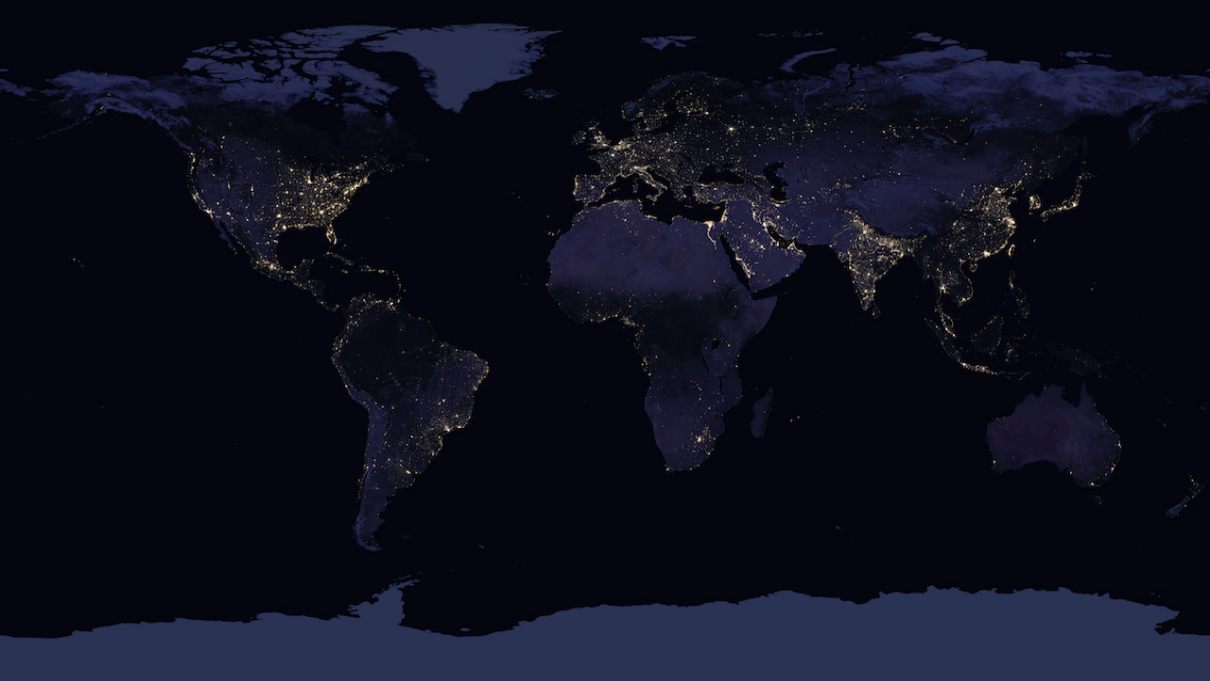
- Probably good to have had a micro class
- Basic statistics and/or econometrics
- Some R

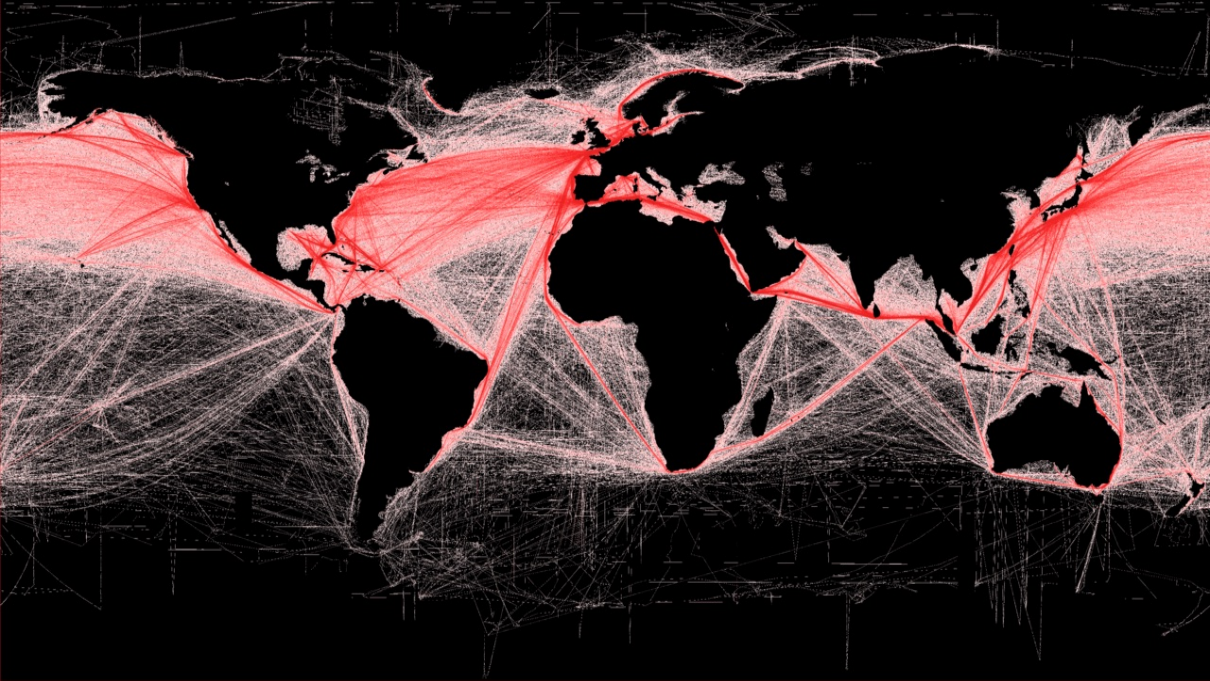
Exam

- joint exam for Profilmodul Makroökonomie II
- sometime in February (or July)
- probably “regular” exam

QUESTIONS?

GLOBALIZATION STYLIZED FACTS







TWITTER NYC

A MULTILINGUAL SOCIAL CITY

228,000 tweets

0 tweets

Tweets in English (8 million)

in Spanish

in Portuguese

in JPN

RUS

KOR

FRE

TUR

ARA

IT

Roads



Black

Data John Barratt, Trendsmap (@trendsmap)
Analysis Ed Manley, UCL SpaceTimeLab (@edthink)
Carto James Cheshire, UCL CASA (@spatialanalysis)
Web Oliver O'Brien, UCL CASA (@oobr)

More about the map



1.9k



1,503

London version

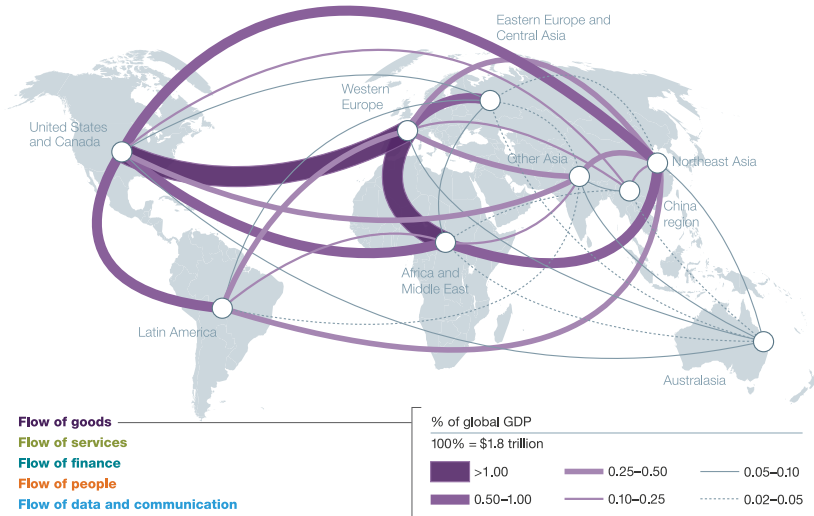


Thanks to



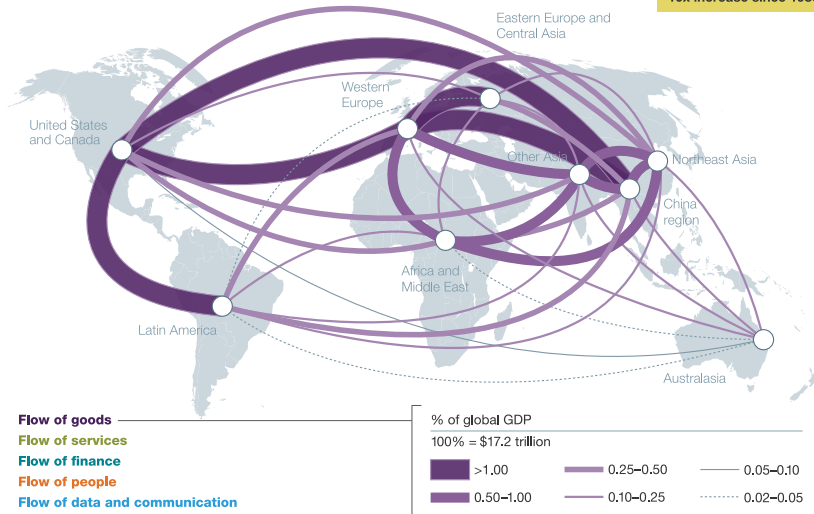
Context map CC-BY Stamen
with OpenStreetMap data.

Flow of goods in 1980

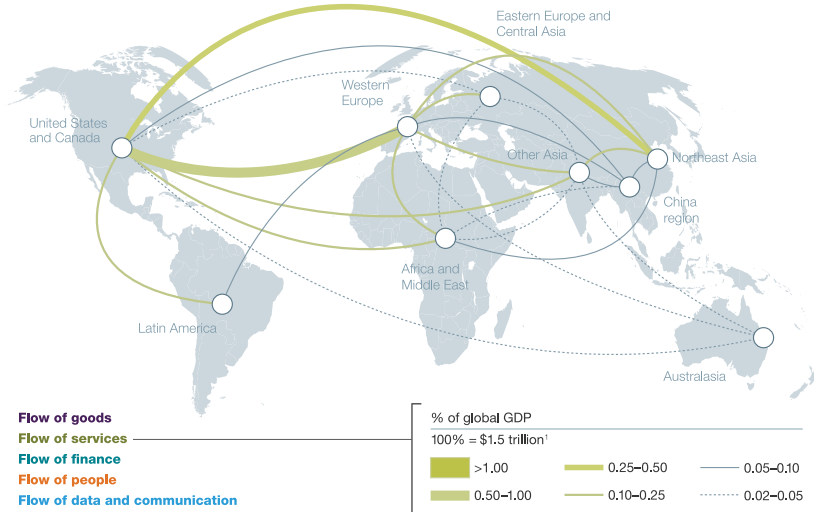


Flow of goods in 2011

10x increase since 1980



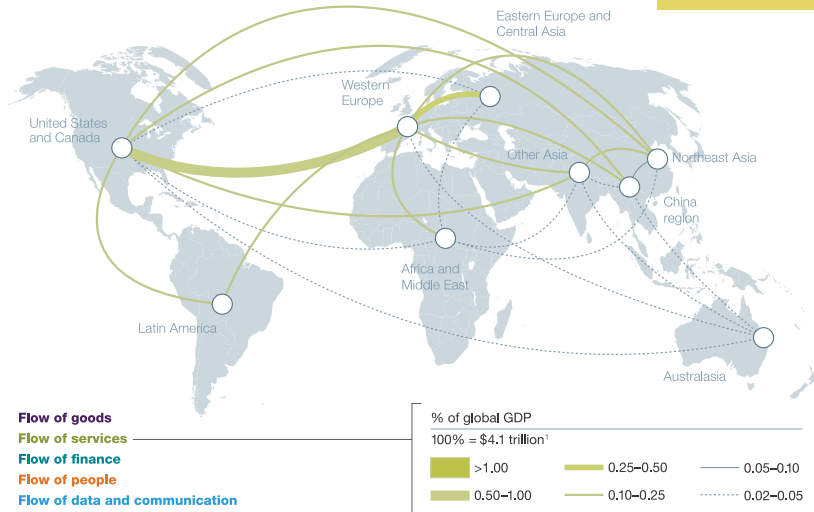
Flow of services in 2001



¹Estimated based on 55% coverage with a bilateral data set.

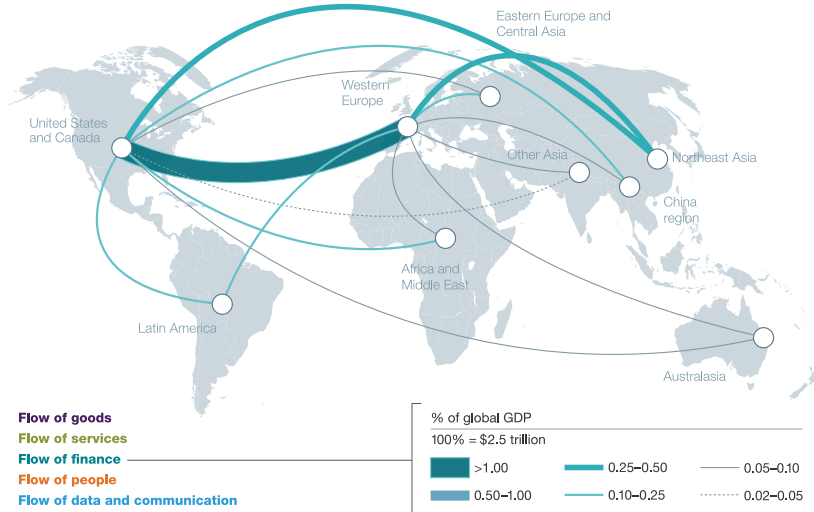
Flow of services in 2011

3x increase since 2001



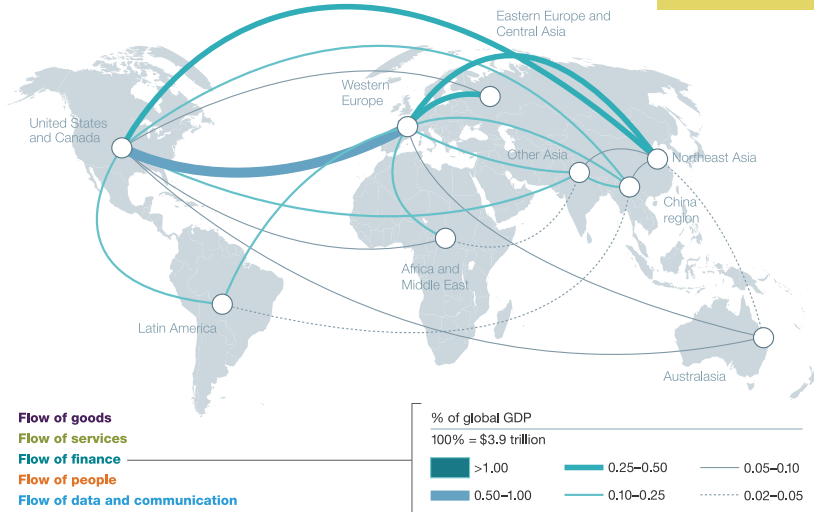
¹Estimated based on 61% coverage with a bilateral data set.

Flow of finance in 2002



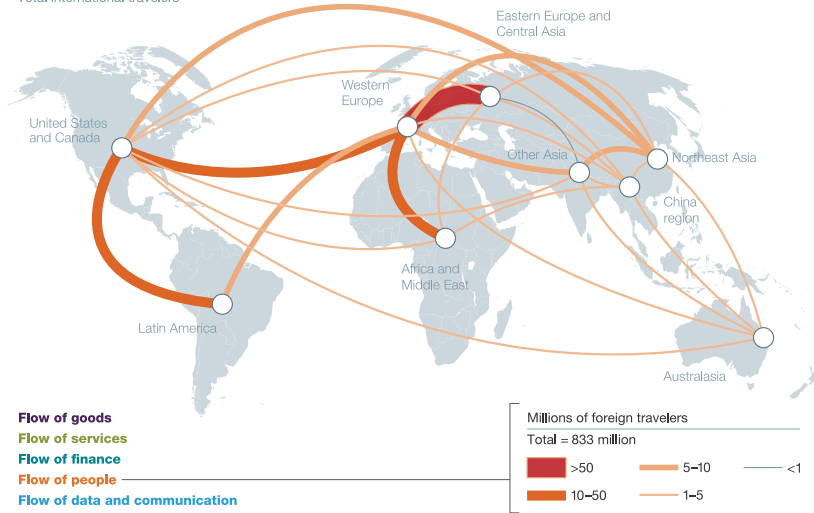
Flow of finance in 2012

1.5x increase since 2002



Flow of people in 2002

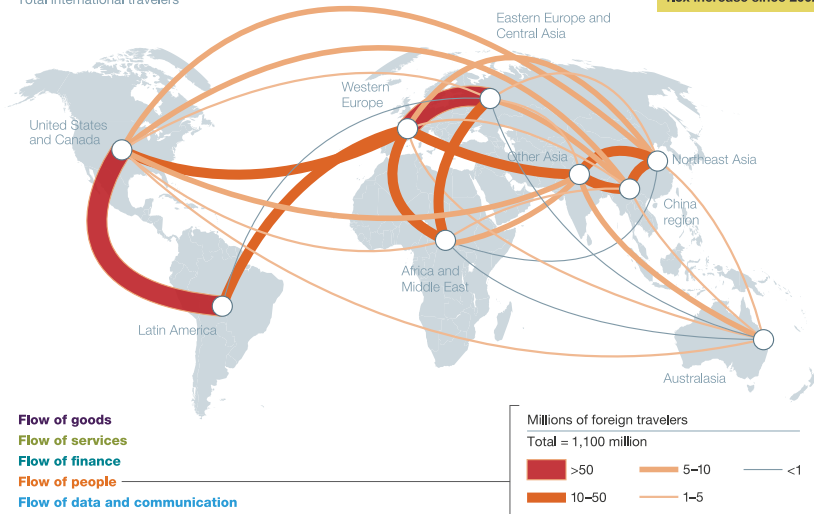
Total international travelers



Flow of people in 2010

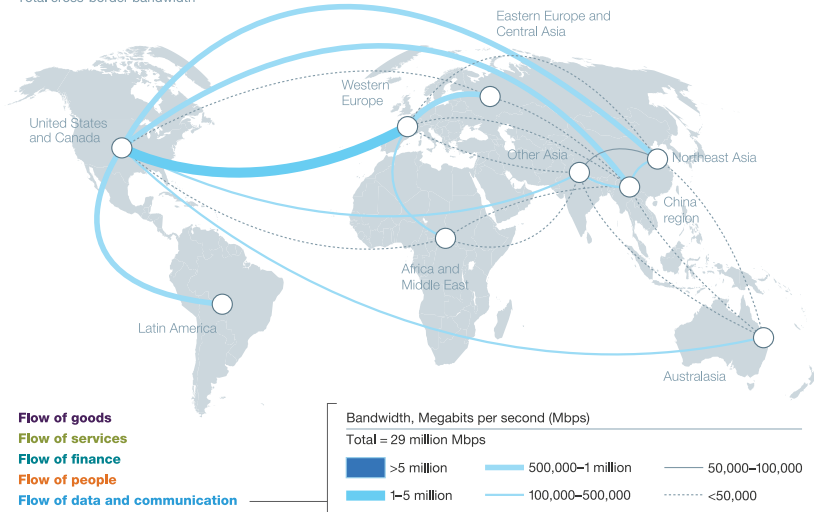
Total international travelers

1.3x increase since 2002



Flow of data and communication in 2008

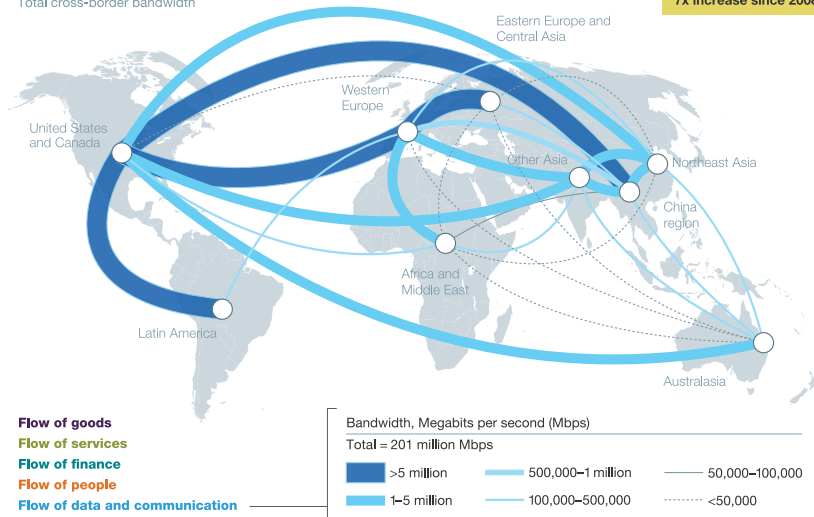
Total cross-border bandwidth



Flow of data and communication in 2013

Total cross-border bandwidth

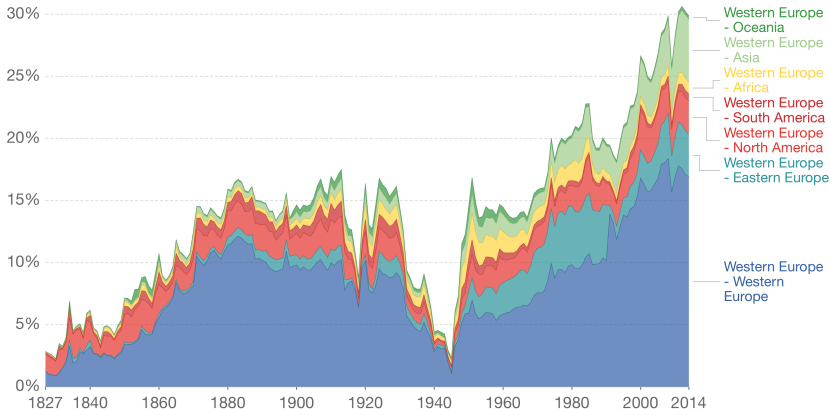
7x increase since 2008



Western European exports by region of destination

Figures correspond to exports-to-GDP ratios.

For example, the series labeled "Western Europe - Western Europe" corresponds to the sum of exports between all Western European countries, divided by the GDP of Western Europe; and the series labeled "Western Europe - Asia" corresponds to the sum of exports going from Western Europe to Asia, divided by the GDP of Western Europe.



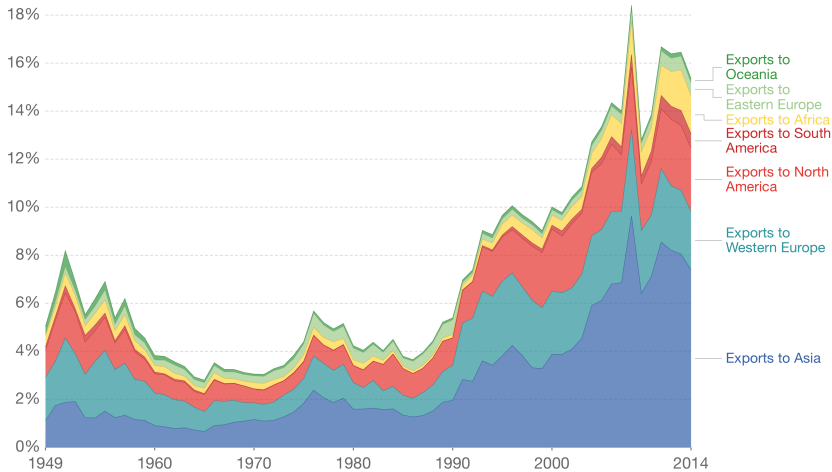
Source: Fouquin and Hugot (CEPII 2016)

OurWorldInData.org/trade-and-globalization • CC BY

Note: All estimates correspond to merchandise trade estimates from dyadic transactions data.

Merchandise exports by continent of destination, India, 1949 to 2014

Figures correspond to the value of merchandise exports by continental destination as a share of GDP. All partner countries are classified into continent groupings according to OWID's classification.



Source: Fouquin and Hugot (CEPII 2016)

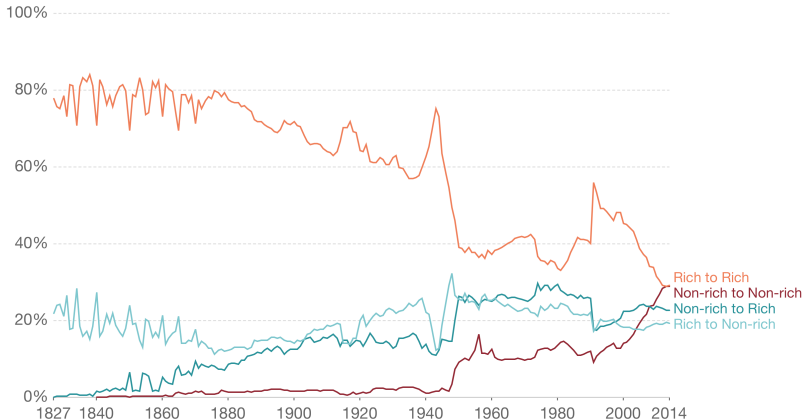
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Share of global exports by income level of the trade partners



The 'non-rich to rich' trade series shows the proportion of global merchandise exports that correspond to sales from non-rich countries to rich countries.

The other series show similar flows within and across these countries.



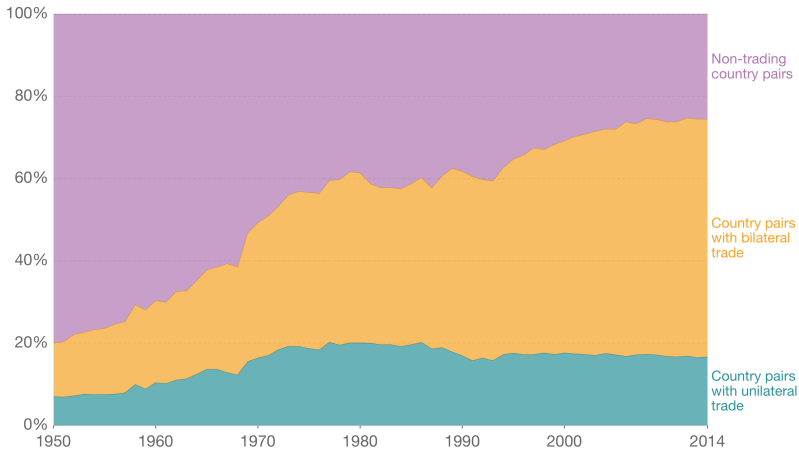
Source: Fouquin and Hugot (CEPII 2016)

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Note: The rich countries in this chart are: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States. 'Non-rich countries' are all the other countries in the world for which data is available.

Share of bilateral and unilateral trade partnerships around the world

To construct this chart we started from a dataset with dyadic trade estimates. For each year we took all country pairs with data and classified them as follows: "Non-trading" (pairs in which countries do not trade with one-another); "Bilateral" (pairs in which both countries export to one-another); and "Unilateral" (pairs in which only one country exports to the other).

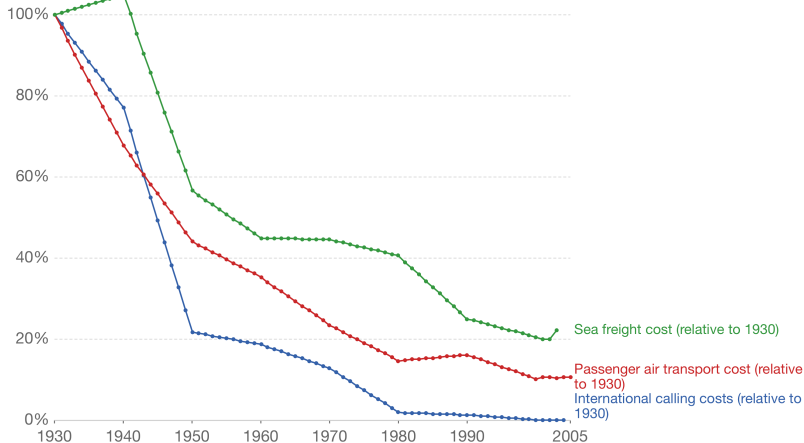


Source: Fouquin and Hugot (CEPII 2016)

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The decline of transport and communication costs relative to 1930

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.

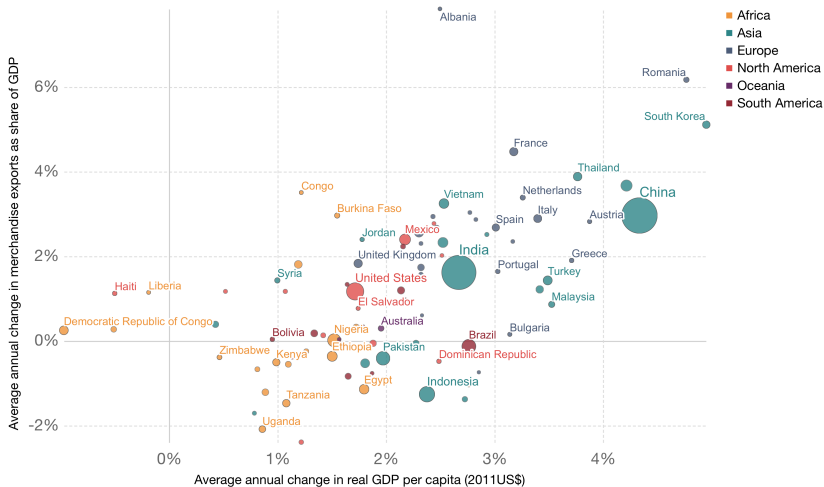


Source: Transaction Costs - OECD Economic Outlook (2007)

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Growth of GDP and trade, 1945 to 2014

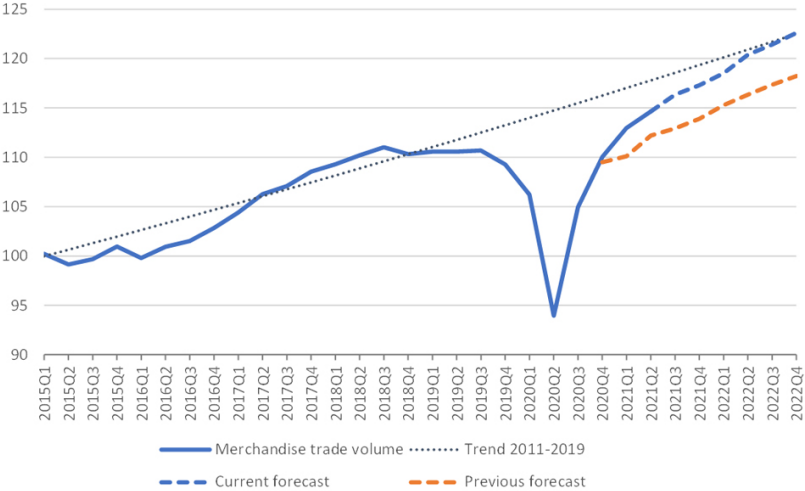
Average annual change in real GDP per capita vs Average annual change in exports as share of GDP.



Source: Fouquin and Hugot (CEPII 2016), Maddison Project Database (2018), Population (Gapminder, HYDE(2016) & UN (2019))

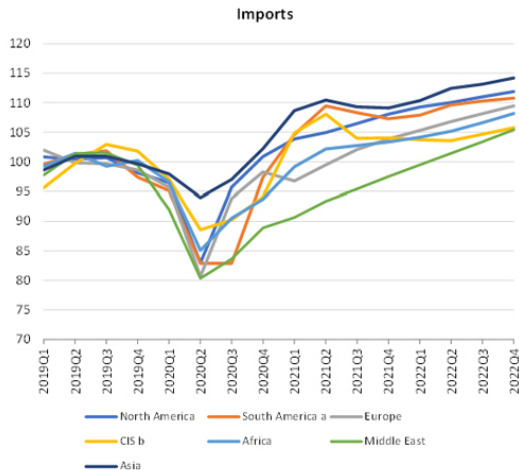
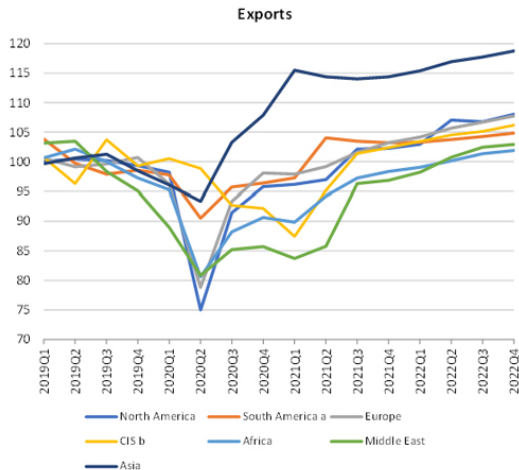
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What about the pandemic?



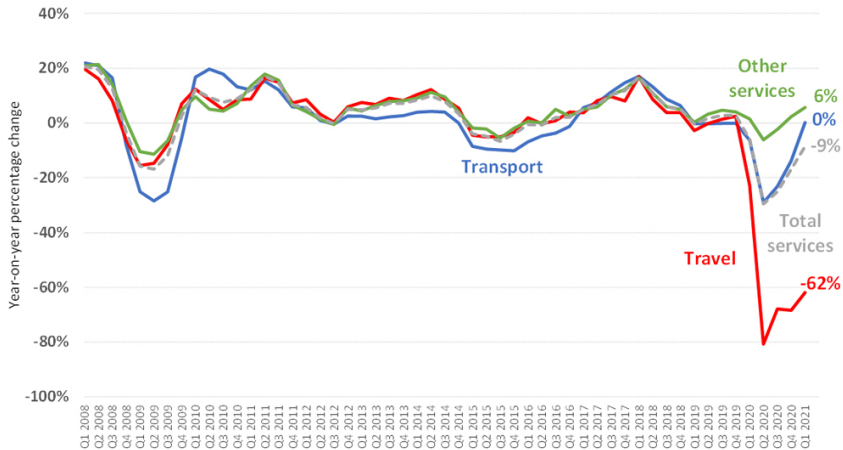
Source: WTO

What about the pandemic?



Source: WTO

What about the pandemic?



Source: WTO

So what is International Economics about?

- Integration of markets for goods, services and factors
- Increased mobility of people, temporary or permanent
- Increasing interdependence of economic and cultural activities
- Division of labor across the world
- Production chains

W R A P U P

Conclusion

- Secular growth in world trade and other aspects of globalization
- Reason: Global growth and shrinking trade costs
- But: Global economy far from “flat world”

Outlook

- Who trades with whom, and how much?
 - Gravity: Economic size and distance matters
- Why do countries trade?
 - Because countries are different: Abilities, endowments, economies of scale

Next week

Next class: November 2, 2022

Read:

- Chapters 1 and 2 of Krugman, Obstfeld and Melitz
- Bernanke: “Global Economic Integration: What’s New and What’s Not?”
- Leamer: “Flat World, A Level Playing Field, a Small World After All, or None of the Above?”