

ECON 8401  
INTERNATIONAL TRADE AND PAYMENTS THEORY  
SOME IDEAS FOR RESEARCH PROJECTS

T. J. KEHOE  
FALL 2022

- 1. Closing a country to trade:** Much research has been devoted to the impact of opening a country to trade through multilateral trade agreements, regional trade agreements, and unilateral trade liberalization. Very little research has been devoted to closing down trade by dropping out of trade agreements or unilaterally raising trade barriers. Brexit and policies of the Trump administration have made it essential to study the impact of closing to trade. Does closing to trade simply reverse the process of opening? Look for data relevant for this question. Propose a model.
- 2. Antiglobalization:** Look at the economic arguments made by the antiglobalization movement. Construct a model that formalizes some of these arguments. Look at the data relevant to this model.
- 3. Crises and the drop in world trade:** World trade fell sharply during the 2008–2012 worldwide financial crisis. Trade has recovered partially, but not completely after the crisis. What countries experienced the sharpest declines? What goods? Propose a model to account for these patterns.
- 4. Global imbalances:** Since the 1990s policy some economists and policy makers have been concerned with what they called global imbalances. In the 1990s this term referred to Japan's trade surplus with the United States; in the first decade of the 2000s it referred to China's trade surplus with the United States. Currently, Germany has the largest trade surplus in the world and its surplus corresponds to deficits on the part of countries like the Netherlands, the United Kingdom, and the United States. Do these large trade surpluses have common causes? If so, propose a model. Are they a cause for concern on the part of policy makers?
- 5. Growth in China:** Why has the Chinese economy grown so rapidly over the past thirty years? Why is economic growth in China slowly down so rapidly now? What impact will a sharp drop in Chinese growth have on the rest of the world?
- 6. Self-fulfilling crises:** Could the sort of financial crisis that is currently threatening some countries in the Eurozone threaten the United States? Does it make a difference that the United States can easily inflate away some of its debt?
- 7. International transmission and contagion:** The recent financial crisis has impacted economies around the globe. What theories explain how negative shocks transmitted from country to country? How do these theories fit the data from the current crisis?
- 8. World trade patterns:** Who trades with whom and how much? Investigate how the gravity "model" fits world trade flows. Investigate what are the goods that countries trade.

9. **World capital flows:** Who invests where and how much? Look at the patterns of foreign investment, both direct and portfolio investment. Re-examine Lucas's famous question, "Why doesn't capital flow from rich countries to poor countries?" in the wake of the explosion of "emerging markets" investment over the past two decades.
10. **Industrial organization and trade liberalization:** Look at a country that has gone through trade liberalization, for which there is good industrial organization data available, such as industrial census data. What do models say should have happened to things like average firm size and the number of firms? What happened?
11. **Transnational corporations and intraindustry trade:** Study models of transnational corporations. Find data on trade within such corporations. Propose a new model.
12. **International trade and the wage gap:** Study models of the impact of international trade on income inequality. Compare the experiences of different countries. Propose a new model.
13. **International trade and the environment:** Study models of the impact of international trade on the environment. Compare the experiences of different countries. Propose a new model.
14. **Trade and growth:** What do models say should happen to developing countries that decide to liberalize their foreign trade and investment policies? Study the experiences of one or more countries.

There is a graduate textbook, R. C. Feenstra, *Advanced International Trade: Theory and Evidence*. Princeton University Press, 2003, that contains some interesting exercises matching trade theory with data. The exercises and the data are available on Feenstra's web site: <http://www.econ.ucdavis.edu/faculty/fzfeens/textbook.html>.