

International Trade: USA and EU in An Interconnected World

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Office hours: TBA

Course Description:

This course covers, with a focus on both theory and empirics, essential topics in international (interregional) trade and trade policy analysis at the undergraduate level. These basics are complemented by hands-on work with empirical data and discussions of topics that appear in current debates on trade policies and protectionism. The course attempts to provide insight into the following questions:

- Why do countries (regions) trade? And how does trade influence the welfare of their citizens?
- What determines which goods/services will be exported/imported by particular countries?
- To what extent did trade openness lead to higher income inequality and the “disappearance” of some types of jobs from the USA?
- How do trade policies influence the effects of trade on economies and their welfare?
 - How are US and EU policies formed, and how do they differ?
 - Why were the US “Liberation tariffs” described as a rather unusual step?
 - Who really pays for tariffs?
 - How do Trump-era trade negotiations and trade agreements differ from the previous ones?
- How can we identify and evaluate vulnerabilities caused by dependencies on countries such as China, Russia, etc., in products such as microchips or rare earth metals?
- What kind of sanctions can be used (and are used by the USA, EU, and China), and how do they influence our economies and welfare?
- How do group interests (and lobbying) influence trade policies?

In short, we will start by analysing the benefits of trading and the causes (and effects) of specialisation and the development of theoretical opinions on these issues. Next, we will discuss the global trade framework, available policy instruments (tariffs, quotas, subsidies, anti-dumping measures, as well as popular traditional schemes for preferential treatment (customs unions, free trade areas) and options available to those who would want to analyse the effects of trade policies. We will also briefly touch on some current issues, i.e., sanctions, attempts at the use of economic coercion by the weaponisation of control over rare inputs (rare earth metals), as well as the changes in trade negotiations that occurred in 2025.

The course resembles standard courses in International Trade Theory as taught at many other undergraduate economics programs. However, besides theory, we will also attempt our own empirical analysis – i.e., you will learn what kind of data on trade is available and from which sources and how to work with them. Depending on your skills, you will also learn how to analyse the data (either in Excel or some more advanced type of software) and how to estimate the effects of, e.g., new tariffs or sanctions. Insight from current Czech and European debates on trade relations with China and the USA will be shared and discussed, too.

Course Prerequisites:

Although discussing topics relevant to macroeconomic policies, traditional trade theory relies on microeconomics more heavily than on complex macroeconomic models.

The prerequisites are therefore as follows:

The course is designed for students who have passed an **intermediate course in Microeconomics (or a course in Industrial Organisation)** and an **elementary/introductory course in Macroeconomics**.

Course Objectives/Learning Outcomes:

This course should help students:

- Gain a basic insight into the empirics of contemporary international trade, especially the role of international supply chains
- Be able to explain the determination of the pattern of trade, gains from trade, and distributional effects of trade according to the main theoretical concepts of international trade
- Know the main instruments of trade policy and gain the ability to analyze/demonstrate their effects in simple models

- Understand the logic of arguments used in current debates on sanctions, protectionism, or topics such as decoupling/derisking in relations with China
- Understand the causes of the different attitudes of the EU and US authorities to some global trade issues

Course Requirements:

The course includes both theory (learning about existing models of international trade and trade policy effects) and hands-on empirics (working with actual trade data).

Besides attending the lectures and taking the final written exam, you are expected to participate in weekly online Moodle quizzes (open-book quizzes opened for several days and focused on motivating you to review the topics from the previous week for the next session) and in assignments. There will be 3 assignments during the semester; in these assignments, you will usually work with relevant empirical data and demonstrate your understanding of the discussed topics/models and your analytical skills.

Grading Policy:

The overall grade will be calculated as a weighted average of the aforementioned components. Here are the weights:

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| • Class participation/attendance: | 10 % |
| • Brief online quizzes during the semester | 16 % |
| • Assignments: | 24 % |
| • Final exam: | 50 % |

Mandatory Completion Policy

Note that all mandatory assignments and exams must be completed to the best of your ability in order for your final grade to be issued. Failure to complete a mandatory assignment or exam may result in a failing grade.

Letter Grade	Percentage	Description
A+	97-100	Excellent Work
A	93-97	Outstanding Work
A-	90-92	
B+	87-89	Good work
B	83-86	
B-	80-82	
C+	77-79	Acceptable Work
C	73-76	
C-	70-72	
D+	67-69	Work that is significantly below average
D	63-66	
D-	60-62	
F	0-59	Work that does not meet the minimum standards for passing the course

AEP Academic Integrity Policy

Plagiarism and other forms of academic dishonesty are not tolerated. The use of Artificial Intelligence (AI) for the development of knowledge and learning is encouraged at many stages of the learning process. While we value technology for educational purposes, we also value originality and the retainment of knowledge, and thus using AI for assignments and examinations, even if rephrased, is strictly prohibited and considered an academic integrity violation, unless the instructor explicitly allows for it in the context of evaluated work

AEP Non-Discrimination/Harassment Policy

The AEP program in Prague promotes a diverse learning environment where the dignity, worth, and differences of each individual are valued and respected. Discrimination and harassment, whether based on a person's race, gender, sexual orientation, color, religion, national origin, age, disability, or other legally protected characteristics, are repugnant and completely inconsistent with our objectives. Retaliation against individuals for raising good faith claims of harassment and/or discrimination is prohibited.

AEP Diversity Policy

AEP is committed to fostering an inclusive and welcoming community that values diversity in all its forms. We believe that one of the most meaningful lessons of studying abroad is learning to navigate and appreciate differences with curiosity and an open mind. While engaging across differences can sometimes be challenging or uncomfortable, these moments are essential for growth and learning. We recognize that every member of our community, even with the best intentions, may occasionally make missteps. Our commitment is to provide a supportive environment where respectful and honest dialogue helps us learn from these experiences, ensuring that every student has the opportunity to thrive and broaden their perspective.

Weekly Schedule (Tentative)

Week 1

CEE Introductory Lecture Series

AEP Introductory Lecture Series

Week 2

Overview of the course, interesting facts on trade and trade policy

Outline of the course, basic features of current trade relations, and global trade framework

- KOM – Chapter 1: Introduction
- WTO World Trade Report 2024 - Introduction

Empirics of trade relations: data on trade and trade policies and problems with them.

- What kind of data can we get and where? What kind of problems should we be aware of when using them?
- Do trade imbalances matter?
- Basic instruments of trade policy

Week 3

Reality of modern trade relations: global supply chains and multinational companies

Global value chains (GVCs): why do they exist and why do they matter? How can we analyze them?

- Baldwin (2006): Globalisation: the great unbundling(s)
- Global Value Chain Development Report 2023 – Section 1: Examining Global Value Chains in Times of International Shocks

Introduction to TiVA analysis and data on GVCs: implications for mutual dependencies. So, who really depends on whom more? EU on the USA or vice versa? USA on China? You will be provided with datasets (via Moodle) for your own analysis.

Week 4

Why do nations trade: classical approach

We will discuss the traditional concept of comparative advantages and its importance for understanding welfare effects of trade, as well as the stronger/weaker features of the Ricardian trade model.

- P. Krugman: Ricardo's Difficult Idea. <http://web.mit.edu/krugman/www/ricardo.htm>
- KOM – chapter 3
- A. Deardorff: Comparative advantage: The theory behind measurement
- J. Eaton & S. Kortum (2012): Putting Ricardo to Work

Week 5

Trade and endowments: Heckscher-Ohlin model. Divisive effects of trade.

Logic of the HO model, illustration (and demonstration) of the theorems. Welfare issues: how trade generates winners and losers. Implications for trade policies, e.g., for the traditional divides on trade policy voting in the USA.

- KOM: chapter 5
- W.J. Bernstein. A Splendid Exchange – How Trade Shaped the World. Atlantic Monthly Press, New York, 2008 – chapter 13
- Lu & Hufbauer: Has Global Trade Fueled US Wage Inequality? A Survey of Experts
- <https://www.piie.com/blogs/trade-and-investment-policy-watch/has-global-trade-fueled-us-wage-inequality-survey-experts>

Week 6

Beyond traditional trade models

Empirical (and other issues) of classical and neoclassical models

- Home market and other issues: why do we need other models?
- A brief intro into early alternatives (product life cycle, etc.).

Krugman: firms and monopolistic competition in international trade

- KOM: chapter 7

Heterogeneous firms: empirics and concepts. Empirical data on differences between exporter and non-exporter companies in the USA and EU. A very basic intro to the logic of the Melitz model

- Mayer & Ottaviano: The Happy Few: The Internationalisation of European Firms
- KOM: chapter 8

Week 7

Trade models used for empirical work: gravity models

We will discuss the logic of gravity models and their application for the analysis of policy changes (e.g., sanctions, embargoes).

- WTO: A Practical Guide to Trade Policy Analysis, 2012. - Chapter 3
- Kirilakha et al (2022): The Global Sanctions Data Base: An Update that Includes the Years of the Trump Presidency

Week 8

Trade policies: partial equilibrium analysis of effects of trade policy instruments

Typology of trade policy instruments. Partial equilibrium analysis of the effects of tariffs, quotas, and subsidies (small and large country cases). Examples of empirical estimates based on PE models

Note: Depending on the background of enrolled students, a brief introduction to GE models can be included instead.

- KOM – chapter 9

Week 9

Trade policy: imperfect competition

Dumping and antidumping, price discrimination, strategic trade policy (and beyond)

- KOM – chapter 9 – appendix.

Week 10

Global trade rules. Preferential trade agreements and their effects

GATT and WTO: rules-based trade framework: How and why were GATT and WTO created?.

Preferential trade agreements and their effects (trade diversion, etc.), discussion of the effects of European integration on trade (and discussion of the effects of Brexit).

- Irwin (2017): Clashing over Commerce: A History of US Trade Policy, chapter 10
- D. Rodrik (2018): What Do Trade Agreements Really Do?

Week 11

Political economy of trade policy

Interaction between individual/group interests and trade policy formation. US and EU trade policy formation. Lobbying.

- Tradetalks #198: Inside Washington's lobbying industry.
<https://tradetalkspodcast.com/podcast/198-inside-washingtons-lobbying-industry/>
- Tradetalks #83: Tariffs for Sale and Identity Politics.
<https://tradetalkspodcast.com/podcast/83-tariffs-for-sale-and-identity-politics/>

Week 12

Latest issues in EU, US, and Czech trade

The latest development in mutual trade relations and examples of recent applied empirical work will be discussed. Possible issues: strategic dependencies (e.g., rare earth metals), effects of sanctions, trade relations with China, comparisons of US/EU tariff schedules, etc.

- TBA

Week 13

Final exam week

Final exams, consultations, etc.

Consultations for final exam: TBA

Final exam: TBA

Readings:

Basic textbooks

P. Krugman, M. Obstfeld, M. J. Melitz (**KOM**): International Trade, Theory & Policy. 9th edition or newer. Addison-Wesley (Pearson), 2012.

E. Helpman: Understanding Global Trade. Harvard University Press, 2011

Books – alternative options:

R.C. Feenstra, A.M. Taylor: International Trade, (Macmillan, any recent edition)

T. A. Pugel, International Economics, 15 Edition (McGraw-Hill/Irwin, 2011)

D. Appleyard, A. Field, S. Cobb: International Economics, McGraw-Hill/Irwin, any recent edition

S. Suranovic - International Economics Study Center: <http://internationalecon.com/>

Papers and articles, chapters from books:

R. Baldwin (2006): Globalisation: the great unbundling(s)

W.J. Bernstein. A Splendid Exchange – How Trade Shaped the World. Atlantic Monthly Press, New York, 2008 – chapter 13

L. De Benedictis et al (2013): Network Analysis of World Trade using the BACI-CEPII dataset. CEPII working paper, 24/2013

A. Deardorff: Comparative advantage: The theory behind measurement

J. Eaton & S. Kortum (2012): Putting Ricardo to Work (JEP)

D. A. Irwin (2017): Clashing over Commerce: A History of US Trade Policy, chapters 8 & 10

A. Kirilakha et al (2022): The Global Sanctions Data Base: An Update that Includes the Years of the Trump Presidency in van Bergeijk (2023): The Research Handbook on Economic Sanctions

P. Krugman: Ricardo's Difficult Idea. <http://web.mit.edu/krugman/www/ricardo.htm>

T. Mayer & Ottaviano (2008): The Happy Few: The Internationalisation of European Firms

D. Rodrik (2018): What Do Trade Agreements Really Do? Journal of Economic Perspectives, Vol. 32, No. 2, Spring 2018

WTO: A Practical Guide to Trade Policy Analysis, 2012. - This comprehensive text comes with a website with additional data and useful materials: <http://vi.unctad.org/tpa/>

Other sources:

Additional up-to-date sources from media such as The Economist or podcasts (TradeTalks) will be used for some of the topics.

Examples:

- Tradetalks #198: Inside Washington's lobbying industry.
<https://tradetalkspodcast.com/podcast/198-inside-washingtons-lobbying-industry/>
- Tradetalks #180: The WTO is in trouble. Econ 101 to the rescue?
<https://tradetalkspodcast.com/podcast/180-the-wto-is-in-trouble-econ-101-to-the-rescue/>
- Tradetalks #157: Europe's Trade Policy and Open Strategic Autonomy.
<https://tradetalkspodcast.com/podcast/157-europes-trade-policy-and-open-strategic-autonomy/>
- Tradetalks #144: Trade policy transitions, with Ambassador Susan Schwab.
<https://tradetalkspodcast.com/podcast/144-trade-policy-transitions-with-ambassador-susan-schwab/>
- Tradetalks #83: Tariffs for Sale and Identity Politics.
<https://tradetalkspodcast.com/podcast/83-tariffs-for-sale-and-identity-politics/>