Geographical Economics

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Lectures: January 8th, 11th, 15th, 18th, 22nd, 25th, 29th and February 1st 2013.
Room: Aula seminari A (Facultat d'Economia i Empresa)

Exam schedule: February 05th 2013 (16:30-19:30)

Contents
This course deals with advanced topics in international trade and economic geography. It will focus on both theory and empirics. It covers the study of important issues such as trade composition, international competitiveness, firm location, agglomeration and cluster effects. These topics will be tackled according to neoclassical settings at the industry-level as well as the firm-level and in presence of mobile and immobile factors.
The lectures will be based partly on a textbook and partly on original articles.
An important goal of the course is to focus on some selected topics and discuss recent issues in trade theory: active participation by students is strongly encouraged.

The final evaluation will be based on in-class exercises, problem sets and a final exam according to the rule described below.

Lecture outlines

PART 1:

1.1 Trade theories
We consider the simplest approach to the trade theory considering constant returns to scale and perfect competitive firms. We focus on the theory and empirics of the law of comparative advantages; the Ricardian model and the Heckscher-Ohlin settings. Furthermore, the study of the international trade was strongly influenced by the release of theoretical models accounting for imperfect competition and economies of scale. These models predict that the trade flow follows a gravity equation form.

Main references:
[1] Brakman, S., Garresten, H., van Marrewijk, Ch (2009): "The New Introduction to Geographical Economics", Cambridge University Press. Chapters: 1; 2; 9.
[2] Feenstra, R. (2004): "Advanced International Trade. Theory and Evidence", Princeton University Press. Chapter: 5 (partially)

[3] Krugman, P. (2009): "The Increasing Returns Revolution in Trade and Geography", *American Economic Review,* vol. 99(3), pp. 561-571.

For reviewing the basic concepts underpinning the theory discussed in class:
Markusen J., Melvin J., Kaempfer W. and Maskus, K. (1995) *International Trade: Theory and Evidence,* Mc Graw Hill (it can be downloaded at: http://spot.colorado.edu/~markusen/textbook.html)

1.2 The location puzzle

The development of the new trade theory allows for the development of a new framework to analyse the firm mobility. The most relevant issues are about the direction of the firm mobility and the consequences entailed by their mobility in the home and host countries. Empirical evidence would help to understand the current and future trend of the location puzzle.

Main references:
[1] Artige, L., Nicolini, R. (2010) "Market Potential, Productivity, and Foreign Direct Investments: Some Evidence from three Case Studies" *European Planning Studies,* vol 18(2), pp. 147-168,
[2] Brakman, S., Garresten, H., van Marrewijk, Ch (2009): "The New Introduction to Geographical Economics", Cambridge University Press. Chapter: 8.
[3] Feenstra, R. (2004): "Advanced International Trade. Theory and Evidence", Princeton University Press. Chapter: 11 (partially)

Other readings will be suggested in class.

1.3 Productivity and competitiveness

Trading is one of the principal activities and one of the principal factors of the economic growth. However not all countries are identically competitive in the internal and international markets. For instance, important productivity differences are present across EU member states and affect their international competitiveness. In this section we review the principal updated data on the intensity and composition of trade flows of EU member states. Then, we will focus on the difficulties in underpinning competitiveness with productivity. In this respect we will discuss some case studies (among others, the case of Spain) and draw some policy considerations.

Main references:

[1]Jorgenston, D.W., Ho S.,. Stirah, K.J (2008): " A Retrospective Look at the US Productivity Growth Resurgence", *Journal of Economic Perspective*, vol. 22(1), pp. 3-24.
[2] Inklaar, R., Timmer M.P., van Ark, B. (2008): "Market Service Productivity across Europe and the US", *Economic Policy*, January, vol. 53, pp.139-194.
[3] Nicolini, R. (2011) "Labor Productivity in Spain: 1977-2002" *Applied Economics*, vol.43, pp. 465-485 (2011),
[4] van Ark, B., O'Mahoney, M., Timmer, M.P. (2008): "The Productivity Gap between Europe and the United States: Trends and Causes", *Journal of Economic Perspective*, vol. 22(1), pp. 25-44.

Some articles extracted from "The Economist" turned in class.

PART 2:

2.1 Theories of agglomeration
In this part the different theories explaining the spatial agglomeration, location of firms and population will be reviewed. The different sources and types of economies of agglomeration will be explained as well as the empirical evidence and the implications they have on spatial inequalities.

Main references:

[1] Puga, D. (2010) "The magnitude and causes of agglomeration economies", *Journal of Regional Science*, 50, pp. 203-219.
[2] Combes P., Duranton, G. y Overman, H. (2005) "Agglomeration and the adjustment of the spatial economy", *Papers in Regional Science*, Vol. 84, pp. 311-349
[3] Rosenthal, S.S. y W.C. Strange (2008) "The micro-empirics of agglomeration economies", en R.J. Arnott y D.P. McMillen (eds.) *A companion to urban economics*. Blackwell Pub.

Other readings will be suggested in class.

2.2. Clusters and local development
The analysis of clusters has attracted considerable interest over the last decades. Cluster development is now widely viewed as a key pillar of local governmental policy. Different approaches have been developed to explain the existence and functioning of clusters. These different approaches will be reviewed. Also clusters are supposed to have a differential positive effect on innovation, entrepreneurship and labour market performance. We will revise empirical evidence on these aspects.

Main references:

[1] Porter, M.E. (2000) "Location, competition, and economic development: local clusters in a global economy", *Economic Development Quarterly*, 14(1), pp. 15-34
[2] Gordon, I. y P. MacCann (2000) "Industrial clusters: complexes, agglomeration and/or social networks?", *Urban Studies*, 37, 3, pp. 513-532
[3] Delgado, M., Porter, M.E. and Stern, S. (2010) "Clusters and entrepreneurship", *Journal of Economic Geography*, 10, pp. 495-518.
[4] Capello, R.(1999) "Spatial transfer of knowledge in high technology milieux: learning versus collective processes", *Regional Studies*, 33, pp. 353-365.

Other readings will be suggested in class.

2.3 Policies: place-neutral vs place-based
Place-based policies have traditionally been considered as wasteful. The policies addressed to attract firms to local economies will become a zero-sum game. Furthermore, it is not clear who ultimately benefits from this kind of policy. Many economists advocate for policies oriented to help people instead of places. This casts serious doubts on policies to create clusters. We will revise in this part the pros and cons of place-based policies and existent evidence of the effects of place-based on welfare.

Main references:

[1] Barca, F., McCann, P. and Rodríguez-Pose, A. (2012) "The case for regional development intervention: place-based versus place-neutral approaches", *Journal of Regional Science*, 52(1), pp. 134-152.
[2] Duranton, G. (2008) "California dreamin': the feeble case for cluster policies", *mimeo*
[3] Greenstone, M and Moretti, E. (2004) "Bidding for industrial plants: does winning a 'Million Dollar Plant' increase welfare?", *Working Paper no. 9844 (July), NBER, Cambridge, MA*.

Other readings will be suggested in class.

Grading:

In order to pass the exam, each student has to fulfil the following requirements:

- Participating to the in-class activities and get a score of at least 5(/10)
- Turning in the assigned problem sets at the due deadline and get a score (for each individual problem set) at least of 5(/10)
- Participating and passing a final exam with a minimum score of 5(/10)

Grading policy: each instructor is in charge of grading the evaluation material correspondent to his own teaching material according to the policy described below. The final grade will be the average of the overall grade of each single part.

Part 1:
(Instructor: Rosella Nicolini)

1. **In class activity and participation: 5%**
2. **Solve individually two problem sets (35%).** This builds on a mixture of theoretical and empirical skills and is aimed to provide further insights about the topics discussed in class.
   Problem set # 1: Delivered on January 8th and to be turned in on January 15th 2013
   Problem set # 2: Delivered on January 15th and to be turned in on January 22nd 2013.
3. **Final exam (60%):** the (written) final exam would consist in a question organized in different subsection tackling the topics discussed in class.
   Date: February 05th 2013 at 16:30
   Time: 1h 15.

Part 2:
(Instructor: José Luis Roig Sabaté)

1. **In class activity and participation: 5%**
2. **Answer two lists of questions (35%).**
   First list: Delivered on January 22nd and to be turned in on January 29th 2013
   Second list: Delivered on January 29th and to be turned in on February 5th 2013
3. **Final exam (60%):** the (written) final exam would consist in a question organized in different subsection tackling the topics discussed in class.
   Date: February 05th 2013 at 16:30
   Time: 1h 15.

Calendar: provisional schedule

	Date	Topic
Part 1: Instructor: Rosella Nicolini	**January 08th 2013**	Topics in international trade
	January 11th 2013	Topics in international trade
	January 15th 2013	The location puzzle (Turn in problem set #1)
	January 18th 2013	Productivity and competitiveness
Part 2: Instructor: José Luis Roig Sabaté	**January 22nd 2013**	(Turn in problem set #2) Theories of agglomeration
	January 25th 2013	Theories of agglomeration
	January 29th 2013	Clusters and local development (Turn in first list)
	February 01st 2013	Policies: place-neutral oriented vs place-based
	February 05th 2013	**Final Exam** (Turn in second list)