

Management Department
The Wharton School

Multinational Firms in the Global Economy (MGMT 962001 and MGMT 963001)
Spring 2016

Course Times: Wednesdays, 3 to 6 pm, SH-DH 2034

Office Hours: Tuesdays, 4 to 6 pm and by appointment

Professor Ann Harrison (Management Department and Business Economics and Public Policy)

2016 SH-DH

E-mail address: annh@wharton.upenn.edu

This is a graduate course focusing on the empirical aspects of multinational firms and international trade. We will focus on a variety of issues that are related to the multinational firm, beginning with trends in multinational activity, then moving to both horizontal and vertical theories of the multinational firm. In the first half of the course (MGMT962001) the topics will include patterns in the expansion of multinational firms, horizontal and vertical multinational firms; the linkages between openness to trade and investment and growth; trade orientation and firm performance, and labor markets and multinational firms. We complete the first half of the course reviewing the evidence on offshoring and multinationals and the implications for the US labor market, as well as new evidence on corporate social responsibility and the multinational firm.

In the second half of the course (MGMT963001) we examine the empirical evidence on multinational firms and technology transfer via horizontal and vertical channels, and then examine the relationship between multinational firms and the environment. We then turn to the implications of the new theories of firm heterogeneity for multinational activity and empirical tests. We conclude the course by surveying the evidence on how government policies via taxes and trade policy affect multinational firm behavior.

We will rely primarily on journal articles and working papers, although students will consult Robert Feenstra's book, *Advanced International Trade: Theory and Evidence*, which is recommended but not required.

The goal of this course is to familiarize graduate students with empirical work on multinational firms in the global economy, by reviewing the recent as well as older literature on this topic. Econometrics and statistical techniques for doing empirical work in international trade will also be discussed. The main requirement for the course will be a paper and a presentation. Students may choose a topic of their choice in the area of multinational firms in the global economy.

The breakdown for grading the course will be as follows: 20 percent class participation, 80 percent a final paper.

Week #1, January 13: Trends in Multinational Activity

- Bureau of Economic Analysis (2012), "U.S. Multinational Companies: Operations of U.S. Parents and Their Foreign Affiliates in 2010". November, by Kevin Barefoot.
- UNCTAD (2015), *World Investment Report 2015: Reforming International Investment Governance*
- Wynne, Mark A. & Erasmus K. Kersting (2008), "The Globalization of U.S. Business Investment," *Federal Reserve Bank of Dallas Staff Papers* No 3, pages 1-13, 15-17, 25-26.
- Watch What I Do, Not What I Say: The Unintended Consequences of the Homeland Investment Act, Dhammika Dharmapala, C. Fritz Foley, and Kristin J. Forbes, *Journal of Finance*.
- Investment and Capital Constraints: Repatriations Under the American Jobs Creation Act Michael Faulkender and Mitchell Petersen, *Review of Financial Studies*.

Week #2 , January 20: Why Multinational Firms Exist: Horizontal foreign investment

- Brainard, S. Lael (1997), "An Empirical Assessment of the Proximity-Concentration Trade-off Between Multinational Sales and Trade," *American Economic Review*, 87(4): 520-544.
- Markusen, James R. & Anthony J. Venables (2000), "The Theory of Endowment, Intra-industry and Multi-national Trade," *Journal of International Economics* 52(2): 209-234.
- Markusen, James R. (1984), "Multinationals, Multi-Plant Economies, and the Gains from Trade," *Journal of International Economics* 16(3-4): 205-226.
- Markusen, James R. (1995), "The Boundaries of Multinational Enterprises and the Theory of International Trade," *Journal of Economic Perspectives* 9(2): 169-189.
- Yeaple, Stephen R. (2009), "Firm Heterogeneity and the Structure of U.S. Multinational Activity," *Journal of International Economics* 78(2): 206-215.

Week #3, January 27: NO CLASS.

Week #4, February 3: Vertical FDI and the Boundaries of the Multinational Firm

- "The Gravity of Knowledge," Wolfgang Keller and Stephen R. Yeaple, *American Economic Review*, 2013.
- Carr, David L., James R. Markusen, & Keith E. Maskus (2001), "Estimating the Knowledge-Capital Model of the Multinational Enterprise," *American Economic Review* 91(3): 693-708.
- Yeaple, Stephen (2003), "The Role of Skill Endowments in the Structure of U.S. Outward FDI," *Review of Economics and Statistics*, 85(3): 726-734.

- Yeaple, Stephen (2003), “The Complex Integration Strategies of Multinationals and Cross Country Dependencies in the Structure of FDI,” *Journal of International Economics* 60(2): 293-314.
- Yi, Kei-Mu (2003), “Can Vertical Specialization Explain the Growth of World Trade?” *Journal of Political Economy* 111(1): 52-102.
- Grossman, Gene M. & Esteban Rossi-Hansberg (2008), “Trading Tasks: A Simple Theory of Offshoring,” *American Economic Review* 98(5): 1978–1997.
- Helpman, Elhanan (2006), “Trade, FDI and the Organization of Firms,” *Journal of Economic Literature* 44(3): 589–630.
- Yeaple, Stephen R. (2006), “Offshoring, Foreign Direct Investment, and the Structure of U.S. Trade” *Journal of the European Economic Association* 4(2-3): 602–611.

Week #5, February 10: Macro-level: Globalization and Outcomes Across Countries

- David Renelt and Ross Levine, “A Sensitivity Analysis of Cross-Country Growth Regressions”, *American Economic Review*, Sept 1992, 82(4): 942-63
- Rodriquez and Rodrik, 2000, “Trade Policy and Economic Growth: A Skeptic’s Guide to the Cross-National Evidence”, in Ben S. Bernanke and Kenneth Rogoff, eds., *NBER Macroeconomics Annual 2000*, 261-325
- A. Harrison, 1996, “Openness and Growth”, *Journal of Development Economics* 48, 419-447.
- Frankel, Jeff and David Romer, 1999, “Does Trade Cause Growth?”, *American Economic Review* 89(3), 379-399.
- Railroads of the Raj: Estimating the Impact of Transportation Infrastructure Dave Donaldson, *American Economic Review*, Forthcoming.

Week #6, February 17: Micro-level: Firm Performance in the Global Economy

- Harrison, A, “Productivity, Imperfect Competition, and Trade Reform: Theory and Evidence”, *Journal of International Economics*, February 2004, 36/(1/3), 53-73.
- Nina Pavcnik, “Trade Liberalization, Exit, and Productivity Improvement: Evidence from Chilean Plants”, *Review of Economic Studies*, January 2002, 69(1): 245-76
- Andrew Bernard and Bradford Jensen, “Exceptional Exporter Performance: Cause, Effect, or Both?”, *Journal of International Economics*, February 1999; 47(1):1-25.
- Goldberg, Khandelwal, Pavcnik, and Topalova, “Multiproduct Firms and Product Turnover in the Developing World: Evidence from India”, 2012.
- “Routes, Exports, and Employment in Developing Countries: Following the Trade of the Inca Roads, Christian Volpe Martinicus, mimeo, 2013.

Week #7 and #8, February 24 and March 2: Labor Markets and Multinational Firms, Corporate Social Responsibility.

- Chapter 4, Feenstra (2003)
- Daniel Trefler, *American Economic Review*, “The Long and the Short of the US-Canada Free Trade Agreement”
- Edward Leamer, Review of “The World is Flat”, *Journal of Economic Literature*, 2006
- Feenstra and Hanson, 1999, “Foreign Direct Investment and Relative Wages: Evidence from Mexico’s Maquiladoras”, *Journal of International Economics* 42(3/4), May, 371-393
- Feenstra and Hanson, 1999, “The Impact of Outsourcing and High-Technology Capital on Wages: Estimates for the U.S., 1979-1990, *Quarterly Journal of Economics*, August, 114(3), 907-940.
- Marc-Andreas Muendler and Menezes-Filho, “Labor Allocation in Response to Trade Reform”, *American Economic Review*.
- “Offshoring Jobs? Multinationals and U.S. Manufacturing Employment,” Ann Harrison and Margaret McMillan, *The Review of Economics and Statistics*, MIT Press, vol. 93(3), pages 857-875, 2011.
- “Estimating the Impact of Trade and Offshoring on American Workers Using the Current Population Surveys”, Avraham Ebenstein, Ann Harrison, Margaret McMillan and Shannon Phillips, forthcoming, *The Review of Economics and Statistics*.
- Ann Harrison and Jason Scorse, “Multinationals and Anti-sweatshop Activism,” *American Economic Review*, March 2010, 100(1): 247-73.
- David Autor, David Dorn, and Gordon Hanson, “The China Syndrome: Local labor market effects of import competition in the United States,” Forthcoming, *American Economic Review*.
- Peter K Schott and Justin Pierce, “The Surprisingly Swift Decline of US Manufacturing Employment”, NBER Working Paper, 2012.
- Raluca Dragusanu, Daniele Giovannucci and Nathan Nunn, “The Economics of Fair trade”, *Journal of Economic Perspectives*, Summer 2014.
- Raluca Dragusanu and Nathan Nunn, “The Impact of Fair Trade Certification: Evidence from Coffee Producers in Costa Rica”, Mimeo, 2013.

Week #8, March 4 or 9 (Make-up for April 6): Management of Multinational Firms

- “*Measuring and Explaining Management Practices across Firms and Countries*” Bloom, Nicholas, and John Van Reenen (2007), *Quarterly Journal of Economics*, 122(4), 1341-1408.
- “*Does management matter: evidence from India*”, Nicholas Bloom, Ben Eifert, Aprajit Mahajan, David McKenzie and John Roberts *Quarterly Journal of Economics*, 2013.
- “The organization of firms across countries, Nicholas Bloom, Raffaella Sadun, and John Van Reenen, *Quarterly Journal of Economics*, 2012.

- “Americans do I.T. Better: US Multinationals and the Productivity Miracle, Nicholas Bloom, Raffaella Sadun and John Van Reenen, *American Economic Review* (2012).
- “Modern Management: Good for the Environment or just Hot Air,” Nicholas Bloom, Christos Genakos, Ralf Martin, and Raffaella Sadun, *Economic Journal*, 2010.

Week #9, March 16: The multinational firm and technology transfer

- Aitken, Brian and Ann E. Harrison, 1999, “Do Domestic “Firms Benefit from Foreign Investment? Evidence from Venezuela,” *American Economic Review*, 89, 605-618.
- Beata Smarzynska, “Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers Through Backward Linkages”, *American Economic Review*. 2003.
- Luosha Du, Ann Harrison, and Gary Jefferson, “Testing for Horizontal and Vertical Foreign Investment Spillovers in China, 1998-2007”, *Journal of Asian Economics*, Volume 23, Issue 3, pages 234-243, June 2012.

Week #10, March 23: Multinational Firms, International Trade, and the Environment

- G. Grossman and A. Krueger, “Economic Growth and the Environment”, *Quarterly Journal of Economics*, 1995, 353-377
- G. Eskeland and A. Harrison, “Moving to Greener Pastures? Multinationals and the Pollution Haven Hypothesis”, *Journal of Development Economics*
- Antweiler, W., B. Copeland and M. Scott Taylor, “Is Free Trade Good for the Environment?”, *American Economic Review*, 91, No. 4, September 2001, 877-908.
- J. Frankel and A. Rose, “Is Trade Good or Bad for the Environment? Sorting Out the Causality”, NBER Working Paper 9201, September 2002
- Millimet and John List, “The Case of the Missing Pollution Haven Hypothesis”.
- Arik Levinsohn and Scott Taylor, “Unmasking the Pollution Haven Effect”.

Week #11, March 30: FDI and Trade with Heterogeneous Agents

- “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity”, MJ Melitz, *Econometrica*, 2003.
- Helpman, Elhanan, Marc J. Melitz, & Stephen R. Yeaple (2004), “Export versus FDI with Heterogeneous Firms,” *American Economic Review* 94(1): 300–316.
- Ann Harrison, Leslie Martin, and Shanthi Nataraj, “Learning versus Stealing: How Important are Market-Share Reallocations to India’s Productivity Growth?”, *World Bank Economic Review*, 2012.

Week #12, April 6: NO CLASS (Make up on Week #8)

Week #13, April 13: Multinational Firms and Government Policy

- Chor, Davin (2009), “Subsidies for FDI: Implications from a Model with Heterogeneous Firms,” *Journal of International Economics* 78(1): 113-125.
- Desai, Mihir, Fritz Foley & James Hines (2004). “Foreign Direct Investment in a World of Multiple Taxes,” *Journal of Public Economics* 88(12): 2727-2744.
- Mattoo, Aaditya, Marcelo Olarreaga & Kamal Saggi (2004), “Mode of Foreign Entry, Technology Transfer, and FDI Policy,” *Journal of Development Economics* 75(1): 95-111.
- Branstetter, Lee, Raymond Fisman & Fritz Foley (2006), “Do Stronger Intellectual Property Rights Increase International Technology Transfer? Empirical Evidence from U.S. Firm-Level Panel Data,” *Quarterly Journal of Economics* 121(1): 321-349
- FDI Promotion Policy and Comparative Advantage, Beata Javorcik, Torfinn Harding and Daniela Maggioni, mimeo, 2013.
- Wagner, Rodrigo and Andres Zahler, “New Exporters from Emerging Markets: Do Followers Benefit from Pioneers?”, mimeo, 2013.
- A. Harrison and A. Rodriguez-Clare, “Trade, Foreign Investment, and Industrial Policy for Developing Countries”, *Handbook of Development Economics*, 2010.

Week #14, April 20: Student Presentations

Week #15, April 27: Student Presentations