



Master Seminar: Topics in the Organization of International Trade

“Managing Incomplete Contracts”

Introduction:

The ability to enforce contracts is a fundamental characteristic of properly functioning markets as reducing uncertainty by assuring that contractual rights will be enforceable by local courts is a necessary precondition to creditors' investment decision. On the contrary, when procedures for enforcing contracts are cumbersome due to bureaucratic burdens or when disagreements in contractual arrangements cannot be resolved timely and cost efficiently, investors may need to rely on less efficient practices or even desist from the investment.

International trade is riddled with incomplete contracts. In this seminar, we will study how firms and governments are challenged with their presence and discuss alternatives how they can be managed. We will cover three distinct topic areas that address the incompleteness of contracts in international trade from different perspectives. First, we will be concerned with the organization of the global value chains of firms. Second, we will study the role and design of different legal and extralegal institutions and their relevance for the functioning of world markets. The third focus area of the seminar will be covering papers on relational contracts in international trade.

Requirements:

Successful participation in the seminar requires:

- Writing a **term paper** about one of the seminar topics below (Main text: 12 pages; 60% of the final grade).
- **Presenting** your work in the seminar (30 minutes presentation; 30% of the final grade)
- **Moderating** the discussion of one of the other topics (15 minutes discussion per topic; you will have to prepare and briefly present 2-3 questions to be discussed by the group; the discussed term paper will be made available to you before the seminar; 10% of the final grade)

Credit Points:

- This seminar is suited for **Master students only**
- Participation is limited to Master students in Economics, Internationale Wirtschaft & Governance, and Philosophy & Economics
- The seminar gives 6 ECTS and can be used as a substitute for the module “International Labour Markets” or for “Individueller Schwerpunkt”



Organization:

There will be **set of introductory lectures** on the following dates that introduce students to fundamental models and methods relevant in the different topic areas of the seminar. In the initial lecture, the final assignment of topics will be made:

Thursday, 19th of October 2017 from 12.30h – 15.45h (S 43, RWII)

Thursday, 26th of October 2017 from 12.30h – 15.45h (S 43, RWII)

Friday, 27th of October 2017 from 12.30h – 15.45h (S 43, RWII)

The **main part of the seminar with your presentations and discussions** is scheduled for Friday, 12th and Saturday, 13th of January 2018, 8 a.m. – 6 p.m. on both days, S 43, RWII).

For obtaining credit points, **attendance at the main part of the seminar (the January dates) is mandatory.**

Please note: The language of the seminar is English.

Application and Deadlines:

- Applicants must enrol **until 16th of October 2017** using the following link: [click here](#)
Please provide a list with your **three preferred topics** from the list below
- Students who can participate in the seminar will be notified no later than 17th of October 2017. Please make sure that the e-mail address in your application is correct and up to date, as we will use this contact information for correspondence. (Note that we do not give any information upon acceptance before that date.)
- Late applications can be considered until the introductory lecture on Thursday, 19th of October 2017, provided there is free capacity.
- The seminar is limited to 15 students (first come, first serve)
- **Deadline for handing in the term paper:** Tuesday, 19th of December 2017.
- **Deadline for handing in the presentation slides:** Thursday, 11th of January 2018

Recommended preparatory readings:

Antras, P. (2015). Global Production: Firms, Contracts, and Trade Structure. Princeton University Press.

Bolton, P., & Dewatripont, M. (2005). Contract theory. MIT press, Chapters 10-12.



Seminar topics:

Incomplete Contracts and the Organization of Value Chains

- 1) Antràs, P., & Chor, D. (2013). Organizing the global value chain. *Econometrica*, 81(6), 2127-2204.
- 2) Acemoglu, D., Antràs, P., & Helpman, E. (2007). Contracts and technology adoption. *The American economic review*, 97(3), 916-943.
- 3) Alfaro, L., Conconi, P., Fadinger, H., & Newman, A. F. (2016). Do Prices Determine Vertical Integration?. *The Review of Economic Studies*, 83(3), 855-888.
- 4) McLaren, J. (1999). Supplier relations and the market context: a theory of handshakes. *Journal of International Economics*, 48(1), 121-138.
- 5) Schwarz, C., & Suedekum, J. (2014). Global sourcing of complex production processes. *Journal of International Economics*, 93(1), 123-139.
- 6) Antràs, P., & Helpman, E. (2008). Contractual Frictions and Global Sourcing. In: *The Organization of Firms in a Global Economy*, edited by Elhanan Helpman, T Verdier, and D Marin, 9-54. Cambridge, MA: Harvard University Press, 9-54.

Incomplete Contracts and Institutions

- 7) Bragdon, J. H., Maggi, G., & Staiger, R. W. (2010). Trade agreements as endogenously incomplete contracts. *The American Economic Review*, 100(1), 394-419.
- 8) Maggi, G., Staiger, R. (2011). The role and design of dispute settlement procedures in international trade agreements. *Quarterly Journal of Economics*, 126, 475-515.
- 9) Casella, A. (1996). On market integration and the development of institutions: the case of international commercial arbitration. *European Economic Review*, 40(1), 155-186.
- 10) Araujo, L., Mion, G., & Ornelas, E. (2016). Institutions and export dynamics. *Journal of International Economics*, 98, 2-20.
- 11) Bernstein, L. (1992). Opting out of the legal system: Extralegal contractual relations in the diamond industry. *The Journal of Legal Studies*, 21(1), 115-157.

Relational Contracts in International Trade

- 12) Hemous, D., & Olsen, M. (2016). Long-term relationships: Static gains and dynamic inefficiencies. *Journal of the European Economic Association*, forthcoming.
- 13) Kukharsky, B. (2016). Relational contracts and global sourcing. *Journal of International Economics*, 101, 123-147.
- 14) Macchiavello, R., & Morjaria, A. (2015). The value of relationships: evidence from a supply shock to Kenyan rose exports. *The American Economic Review*, 105(9), 2911-2945.
- 15) Greif, A. (1993). "Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition." *American Economic Review*, 525-548.