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TRADE POLICY ANALYSIS WITH GAMS AND MPSGE

Instructors:

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➤ Objectives

Over the last decades computable general equilibrium (CGE) models have become a wide-spread tool for the economic impact assessment of policy regulation. The quintessence of CGE analysis is the combination of general equilibrium theory with economic data to derive quantitative insights into the efficiency effects and distributional implications of policy interference. The primary objective is to provide a foundation for students and researchers to access these powerful techniques in the context of the contemporary policy environment.

This workshop provides a practical guideline to CGE modeling of open economies using data of the Global Trade Analysis Project (GTAP) which includes detailed national accounts on production and consumption together with bilateral trade flows for a large number of countries. The workshop will discuss alternative approaches to study international trade in a general equilibrium framework: (i) the wide-spread Armington assumption that goods of different origin command different prices, (ii) the alternative notion of Heckscher-Ohlin that goods of different origin are homogenous, and (iii) monopolistic-competition models that are central to the new trade theories that include variety impacts through firm entry and exit, as well as selection effects in a heterogeneous-firms context based on the seminal work by Melitz. Numerical models for these complementary approaches to policy analysis of open economies will be developed and applied. Applications will consider the standard economic integration scenarios, nationalistic movements that back away from current commitments to cooperative trade, as well as bilateral tariff wars.

For model implementation and data management we use the Generalized Algebraic Modeling System (GAMS) which is a convenient model language for the development of large-scale mathematical programs and the processing of extensive datasets.

The course will start with the fundamental conditions defining an economic equilibrium. Exploiting the complementarity features of economic equilibria we will formulate economic equilibrium problems as mixed complementarity problems to accommodate situations where prices or quantities can drop to zero (e.g., trade reversal due to tariff changes). We initially demonstrate the attractiveness of the mixed complementarity approach vis-à-vis the standard formulation of economic equilibrium problems as a (nonlinear) system of equations along simple partial equilibrium models of global trade followed by general equilibrium extension to demonstrate the implementation of basic international trade issues (e.g., tariffs and quotas). To gain policy-relevant insights applied (computable) equilibrium analysis involves the use of empirical data. We show how we can calibrate (parameterize) models to benchmark data (input-output table, social accounting matrixes, etc.) including the structural estimation of key elasticities such as trade elasticities.

The thematic focus of the workshop is on economic integration under current threats to cooperative international trade and environmental policy. To provide the basis for subsequent large-scale applications we discuss and implement alternative theoretical approaches to study international trade (Armington, Heckscher-Ohlin, Krugman, and Melitz) as well as standard extensions to represent greenhouse gas emissions and abatement possibilities. Pedagogic analysis based on small-dimensional models with stylized data will be complemented with large-scale applications based on the GTAP data set. We will explain the structure of the GTAP data set and show how the data can be easily made amenable for applied policy analysis using multi-sector, multi-region CGE models implemented in GAMS.

To facilitate the formulation and calibration of large-scale CGE models we introduce MPSGE (Mathematical Programming System for General Equilibrium analysis) – a powerful meta-language for CGE modeling operated under GAMS. We discuss in detail the implementation of a generic multi-sector, multi-region CGE model based on GTAP data. The standard trade model adopts the Armington assumption of regionally differentiated products, which we subsequently modify to alternative representations of trade in homogenous goods and monopolistic competition among heterogeneous firms. To investigate the economic implications of greenhouse gas control strategies the trade models will be parameterized with satellite CO₂ emission data. Applied policy analysis based on large-scale CGE trade models will compromise the impact assessment of BREXIT and potential tariff wars between the US, Mexico, and China.

Edward J. Balistreri

University of Nebraska-Lincoln, USA

Prof. Edward J. Balistreri, PhD, joined the Economics Department at University of Nebraska—Lincoln as an Associate Professor starting in August 2020. Professor Balistreri's research focuses on the formulation and parameterization of numeric simulation models of international and regional markets under advanced theories of industrial organization. His applications include international trade policy, economic integration and development, and climate policy. Balistreri has also contributed to the literature on structural estimation and the empirical calibration of models of trade and industrial organization. He has published in international journals like *Journal of International Economics*, *The World Economy*, *Economic Letters*, *Economic Modelling*, *Economic Inquiry*, *The Energy Journal*, *The Canadian Journal of Economics*, *Energy Economics*, *Review of International Economics*, and *Environmental and Resource Economics*.

Christoph Böhringer

University of Oldenburg

Prof. Dr. Christoph Böhringer is Professor of Economic Policy at the University of Oldenburg and expert advisor to the German government on research and innovation policies. His research focuses on the economic impact assessment of policy regulations using partial and general equilibrium models. Since 1994, he has been regularly conducting workshops on applied analysis in the fields of environmental, energy, fiscal and trade policies. He has widely published in international journals, including *Applied Economics*, *Canadian Journal of Economics*, *Computational Economics*, *Ecological Economics*, *Energy Economics*, *Energy Journal*, *Energy Policy*, *Environmental and Resource Economics*, *European Economic Review*, *European Journal of Political Economy*, *Journal of Economic Dynamics and Control*, *Journal of Environmental Economics and Management*, *Journal of Policy Modeling*, *Journal of Public Economics*, *Journal of Regulatory Economics*, *Kyklos*, *Oxford Review of Economic Policy*, *Scandinavian Journal of Economics*, and *The World Economy*.

Volker Clausen

University of Duisburg-Essen

Prof. Dr. Volker Clausen has been Professor of International Economics, University of Duisburg-Essen, Campus Essen since 2001. Previously he worked at the Universities of Kiel and Bonn in Germany and at Indiana University, in Bloomington, Indiana (USA). He holds a Ph.D. in Economics from the University of Kiel, Germany, and a Master of Science in Economics from the London School of Economics and Political Science. His current research interests include general equilibrium modelling with a focus on open economies. His publications have a focus on international topics and appeared in, among others, *Economic Modelling*, *Journal of Economics and Statistics*, *Journal of Economic Integration*, *Journal of International Money and Finance*, and *Review of World Economics*.

➤ **Workshop contents**

Day 1: Introduction and data management in GAMS

- Introduction to applied equilibrium analysis.
Hands-on exercise: The incidence and excess burden of taxation in a single commodity market
- Review of data sources and techniques for quantitative analysis of trade and policy
- Data management in GAMS: GTAPinGAMS
Hands-on exercise: GTAP trade flow and GTAP elasticity extraction with reporting of summary statistics
Hands-on exercise: Tariff analysis in a partial equilibrium global trade model
- Micro-consistent social accounts and the GTAP data structure
Hands-on exercise: GAMS to Excel extraction of the GTAP regional (Philippines) input-output accounts

Day 2: Trade models in partial and general equilibrium

- The Armington structure of international trade
- WTO dispute-settlement calculations under the partial-equilibrium Armington structure
- Krugman monopolistic competition in partial equilibrium
Hands-on exercise: WTO dispute settlement (DS 464): United States---Anti-Dumping and Countervailing Measures on Large Residential Washers from Korea.
- From partial to general equilibrium – Mathiesen’s equilibrium programming framework
- Economic equilibrium as a mixed complementarity problem (MCP)
Hands-on exercise: The economic effects of free trade agreements

Day 3: Trade models for policy analysis

- CES in calibrated share form
- A useful template for CGE analysis of trade policies: The 1-2-3 model
Hands-on exercise: The welfare effects of trade liberalization
- MPSGE: a meta-language for large-scale CGE modeling
Hands-on exercises: GE models – from algebraic MCP into MPSGE syntax
 - *Initial tax distortions*
 - *Nested CES*
 - *Open economy extensions*
 - *Price and quantity constraints*
- The 1-2-3 model in MPSGE
Hands-on exercise: The effect of international price shocks

Day 4: Advanced trade structures and large-scale applications

- Armington-Krugman-Melitz in trade – an overview
Hands-on exercise: Melitz PE
Hands-on exercise: Melitz GE
- A canonical multi-region trade model based on GTAPinGAMS
Hands-on exercise: Non-tariff barriers and the importance of rent capture

Day 5: Advanced trade policy applications

- Optimal tariffs
- Structural sensitivity: Balistreri and Tarr, 2022
- Nash equilibrium trade wars
- Decomposition strategies for Melitz computation
- Structural estimation and gravity

Note: An exact schedule as well as coverage of aforementioned topics depend on the previous experience of participants with GAMS, MPSGE and CGE modeling and their research interests. Some parts might be covered more quickly at the beginning of the workshop which allows for more discussion and implementation of recent research toward the end of the workshop. This will be decided on the basis of the actual list of participants who will be asked about their previous experience in the field before the workshop starts.

➤ *Target group*

The workshop is targeted to scientific researchers and policy analysts at universities, research centers, consulting companies and ministries who are interested in the economic impact assessment of policy interventions using computable general equilibrium (CGE) models. While the field of application for CGE models is broad, the workshop will pay special attention to the applied analysis of international trade policy.

➤ *Your benefit*

The workshop provides you with state-of-the-art CGE modeling techniques. Application of these techniques will allow you to gain insights into economic theory with numbers and to undertake comprehensive economic impact assessment of policy reforms based on real data.

➤ *Prerequisites*

Material and teaching is in English. Registered participants will receive teaching material prior to the start of the workshop such that they can prepare in advance. Teaching will combine lectures on theoretical underpinnings with worked examples on model implementation as well as hands-on sessions with exercises for participants.

Participants should be familiar with intermediate microeconomics (Master's level). In the run-up to the workshop, participants should get to know the basics of the programming language GAMS which is used for the numerical implementation of equilibrium models as well as data management. A compact do-it-yourself GAMS tutorial will be sent out to participants in advance.

Participants are required to bring a laptop and adapters to German power supply if necessary. The GAMS workshop license (valid for 2 months) as well as extensive course material will be provided to each participant in advance.

➤ **Payment**

The fee for participating in the training workshop is 2,500 Euro and includes lectures, course material and lunches. Academic participants from accredited universities or research institutions will be admitted on a space-available basis for a discount of 20%. Graduate students from accredited academic institutions are likewise admitted on a space-available basis for a discount of 40%. Please fax or email a copy of your student ID to get the discount. There will be a limited number of scholarships (*excluding travel and subsistence expenses*) that have been set aside for qualified participants from developing countries. Deadline for the application for a scholarship is **July 21, 2023**. Preference will be given to applicants who have documented previous experience in general equilibrium modelling with GAMS. To apply for a scholarship in the form of a tuition waiver, send your CV and a research paper via email to the course coordinator Ioannis Arampatzidis. A decision on the allocation of scholarships will be made until **July 28, 2023**, in order to allow for an early arrangement of flights, visa etc.

➤ **Registration**

Please contact the course coordinator if you have any questions:

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The registration deadline is **August 18, 2023**. The maximum number of participants is restricted to 16! **Slots are guaranteed only upon full payment of fees through the course coordinator.** Cancellations will be fully refunded if made prior to **August 18, 2023**. No refunds will be made after the registration deadline. **Note the following disclaimer and limited liability:** The program and the list of instructors are confirmed and correct at the time of publication. In case of any serious circumstances or acts of nature beyond control of the organizers, such as for example illness, death, cancellation of flights etc., the organizers aim for an adequate substitution. In the very unlikely, but still possible case, the maximum liability of the organizers is limited to the tuition. The organizers do not cover any other costs of the participants, such as travel bookings, visa fees etc. The organizer also reserves the right, in the unlikely case of very limited enrolment, to run the workshop with one instead of two external instructors.

➤ **Times and location**

Morning sessions will begin at 9am. Lunch is provided for workshop participants at noon. The afternoon sessions will run from about 1-4pm. Between 4 and 5 pm there will be time for further individual programming and consultation. All sessions take place in the **Casino Gästehaus** located in the east of the University of Duisburg-Essen, Campus Essen:

*University of Duisburg-Essen, Campus Essen
Universitätsstraße 12
45117 Essen, Germany*

➤ *Venue and accommodation*

Workshop participants must make their own arrangements for accommodation. The workshop will be held at the Department of Economics at the University of Duisburg-Essen, Campus Essen. Detailed venue information will be provided after reservation.

➤ *How to prepare*

No previous knowledge of GE modeling is assumed. However, participants should be familiar with intermediate microeconomics and get somewhat acquainted **beforehand** with GAMS which is the (rather intuitive) programming language used for computer-based model implementation. To be able to follow during the workshop, we suggest for the purpose of preparation the following introductory readings and a short do-it-yourself GAMS tutorial:

- Böhringer, C., Rutherford, T.F., Wiegard, W. (2003): Computable General Equilibrium Analysis: Opening a Black Box, ZEW discussion paper 03-56.
- Rutherford, T.F. (1999): Applied General Equilibrium Modelling with MPSGE as a GAMS Subsystem, *Computational Economics* 14, 1-46.
- Rosenthal R. E.: A GAMS Tutorial.
- J. R. Markusen teaching materials for a course “Simulation Modeling in Microeconomics”, especially chapters 1-4.

Get familiar with GAMS:

- Download the GAMS User's Guide.
- Download the Demonstration Version of GAMS. The GAMS workshop license will be provided on the first day of the workshop.
- Study background material provided over the web, including the MPSGE home page at GAMS and an introduction to GAMS from Jensen (2006).