

# International Economics

## GOALS

What is international economics about? International economics is about how nations interact through trade of goods and services, through flows of money and through investment.

International economics is an old subject, but it continues to grow in importance as countries become tied to the international economy. Nations are more closely linked through trade in goods and services, through flows of money, and through investment than ever before. Our goal is to examine these issues to understand today's globalized world.

## EVALUATION

Given the course's format, I expect you to read in advance the material for every session. Active participation is encouraged; my assessment of class participation will include the comments on real-world issues which are parallel to the course's material, and relevant contributions to class discussion.

There will be 6 homework assignments. They will be posted on the course's website. All problem sets should be typed, yet graphs and algebra can be hand-written as long as they are clear and legible. Your lowest homework grade will be dropped. Late assignments will not be accepted under any circumstance.

There will be two midterm exams and one final exam. All exams will be cumulative. Your final grade in the class will be determined as the following weighted average of your work throughout the semester

Participation	10%
Problem Sets	10%
Midterm Exam I	25%
Midterm Exam II	25%
Final Exam	30%

## TEXTBOOK

**Krugman, Paul R. and Obstfeld, Maurice.** *International Economics: Theory and Policy*. Addison-Wesley, 2008 (8<sup>th</sup> edition).

Krugman and Obstfeld (hereafter KO) is the required text for this course. Alternative sources such as electronic notes and other useful texts will be posted electronically on the course's website. Moreover, we will study scientific papers published in top economic journals to improve our understanding of the materials.

Lectures and text readings are complements, not substitutes, and students are responsible for material presented in both lectures and readings. Regular class attendance is strongly advised.

## COURSE OUTLINE

### I International Trade Theory

1. “The Ricardian Model”, KO Ch. 3
  - Opportunity costs and comparative advantage
  - A one factor Ricardian model
  - Production possibilities
  - Gains from trade
  - Wages and trade
  - Misconceptions about comparative advantage
  - Transportation costs and non-traded goods
  - Empirical evidence
  
2. “Resources, Comparative Advantage, and Income Distribution”, KO Ch. 4
  - Production possibilities
  - Relationship between goods prices, factor prices and factor levels
  - Relationship between goods prices, factor prices and factor levels
  - Trade in the Heckscher-Ohlin model
  - Factor price equalization
  - Income distribution and income inequality
  - Empirical evidence
  
3. “The Standard Trade Model”, KO Ch. 5
  - Measuring the values of production and consumption
  - Welfare and terms of trade
  - Effects of economic growth
  - Effects of international transfers of income
  - Effects of import tariffs and export subsidies
  - Income distribution
  
4. “Economies of Scale, Imperfect Competition, and International Trade”, KO Ch. 6
  - Types of economies of scale
  - Types of imperfect competition
  - Monopolistic competition and trade
  - Inter-industry trade and intra-industry trade
  - Dumping
  - External economies of scale and trade
  
5. “International Factor Movements”, KO Ch. 7
  - International labor mobility
  - International borrowing and lending
  - Foreign direct investment and multinational firms

## **II International Trade Policy**

1. “The Instruments of Trade Policy”, KO Ch. 8
  - Partial equilibrium analysis of tariffs
  - Costs and benefits of tariffs
  - Export subsidies
  - Import quotas
  - Voluntary export restraints
  - Local content requirements
2. “The Political Economy of Trade Policy”, KO Ch. 9
  - The cases for free trade
  - The cases against free trade
  - Political models of trade policy
  - International negotiations of trade policy and the WTO
3. “Trade Policy in Developing Countries”, KO Ch. 10
  - Import substituting industrialization
  - Trade liberalization since 1985
  - Export oriented industrialization

## **III Open Economy Macroeconomics**

1. “National Income Accounting and the Balance of Payments”, KO Ch. 12
  - National income accounts
  - National saving, investment and the current account
  - Balance of payments accounts
2. “Exchange Rates and the Foreign Exchange Market”, KO Ch. 13
  - The basics of exchange rates
  - Exchange rates and the prices of goods
  - The foreign exchange markets
  - The demand for currency and other assets
  - A model of foreign exchange markets
3. “Money, Interest Rates, and Exchange Rates”, KO Ch. 14
  - What is money?
  - Control of the supply of money
  - The demand for money
  - A model of real money balances and interest rates
  - A model of real money balances, interest rates and exchange rates
  - Long run effects of changes in money on prices and interest rates

4. “Price Levels and the Exchange Rate in the Long Run”, KO Ch. 15
  - Law of one price
  - Purchasing power parity
  - Long run model of exchange rates: monetary approach
  - Relationship between interest rates and inflation: Fisher effect
  - Shortcomings of purchasing power parity
  - Long run model of exchange rates: real exchange rate approach
  - Real interest rates
  
5. “Output and the Exchange Rate in the Short Run”, KO Ch. 16
  - Determinants of aggregate demand in the short run
  - A short run model of output market equilibrium
  - A short run model of asset market equilibrium
  - A short run model for both output market and asset market equilibrium
  - Effects of changes in monetary and fiscal policies
  - Adjustment of the current account over time
  - *IS-LM* model

## **IV International Macroeconomic Policy**

1. “The International Monetary System, 1870-1973”, KO Ch. 18
  - Goals of macroeconomic policies
  - Gold standard
  - Interwar years
  - Bretton Woods system
  - Collapse of the Bretton Woods system
  - International effects of US macroeconomic policies
  
2. “Macroeconomic Policy under Floating Exchange Rates”, KO Ch. 19
  - Arguments for flexible exchange rates
  - Arguments against flexible exchange rates
  - Foreign exchange markets since 1973
  - Interdependence of large countries
  
3. “Optimum Currency Areas”, KO Ch. 20
  - The European Union
  - The European Monetary System
  - Policies of the EU and the EMS
  - Theory of optimal currency areas
  - Is the EU an optimal currency area?
  - Other considerations of an economic and monetary union

*Good Luck!*