INTERNATIONAL ECONOMICS

Objectives and Scope
I hope that by taking this course you will be able to: (1) identify the causes and consequences of changes in international trade and financial flows, and (2) evaluate the effects of government intervention to alter patterns of production, trade, investment, and international payments. I also hope you will be better able to assess current controversies over globalization and the role of international organizations such as the WTO, IMF, and World Bank.

The first half of the course is devoted to international finance issues, which are more closely related to macroeconomic material you have studied. In this section of the course, we first learn how economists keep track of international transactions in balance of payments accounts and then relate those measures to movements in the exchange rate and changes in the domestic money supply. We are then prepared to evaluate how changes in prices and income in an economy affect its balance of payments, and, in turn, how changes in the balance of payments affect the performance of the economy. We will consider questions of the following type:

- The United States has a large balance of trade deficit, likely to exceed $800 billion in 2006. Is that a sustainable position?
- The U.S. government has pressured the Chinese to allow the yuan to appreciate in value. In the past year it has only risen from 12.1 cents/yuan to 12.5 cents/yuan, perhaps a sign of the limited U.S. influence on Chinese policy. Why have the Chinese resisted an appreciation of their currency?
- Why are the effects of a currency depreciation likely to be different for the United States than for the Netherlands or for Argentina or for India?

In a second bloc of international finance material we consider questions that involve several countries simultaneously.

- The euro is the common currency for 11 members of the European Union. Why have countries such as Britain chosen not to adopt the euro? Why do countries like Estonia want to join the European Monetary Union as soon as possible?
- Does the IMF play a helpful role in controlling international financial crises, or should it be abolished, as claimed by critics on the left and the right? What conditions should the IMF attach to its loans?
- Are international financial crises primarily the consequence of ill-informed speculation? Should international capital flows be discouraged?
The second half of the course is devoted to international trade issues, which are more closely related to microeconomic material you have studied. In this section of the course, there are two major blocs of material to cover. The first bloc deals with the questions of the following sort:

- What can a country gain by trading? Should poor countries simply refuse to trade, or do they stand to lose more from marginalization than from globalization?
- What determines which goods a country will export and import? Can a country simply choose to create a competitive advantage in a favored sector?
- In what ways does trade alter the distribution of income in a country? How may short-run and long-run perspectives differ?

Our second bloc of trade material deals with policy questions:

- US and EU quotas on textile imports were to be removed January 1, 2005, but both countries imposed additional restraints. What political and economic factors are involved?
- How do subsidies affect international trade? In what ways are subsidies to Airbus to develop a new jet different than subsidies to EU farmers to export wheat?
- In July of 2006 trade negotiations at the World Trade Organization broke down. If this round of trade talks fails, who will be adversely affected?
- The U.S. Congress ratified the Central American Free Trade Agreement by a very narrow margin in the summer of 2005. Does the world gain from these regional agreements, or do the members gain at the expense of non-members?
- The U.S. Congress discouraged the Chinese National Offshore Oil Corporation from buying UNOCAL. The French government discouraged its domestic pharmaceutical producer Aventis from merging with the Swiss company Novartis, preferring a marriage with the domestic firm Sanofi instead. Are such cases examples of misguided nationalism?
**Textbook and Reading**


Student subscription to *The Financial Times*.

**Course Requirements**

Your grade depends upon the following components:

- **Hour exam #1**: 100 points
- **Term paper**: 150 points
- **Hour exam #2**: 100 points
- **Journal, assignments and participation**: 50 points
- **Final exam**: 100 points

500 points

Your **term paper** will interpret the international macroeconomic position of a country and the policy options it faces, based on our study of balance of payments concepts and exchange rate determination in the first half of the course. Two key data sources will be the International Monetary Fund, *International Financial Statistics*, and the World Bank, *World Development Indicators*, which can be accessed from the storage server. (We also have electronic access to the World Bank’s *Global Development Finance*, a particularly relevant source if you pick a heavily indebted country.) In preparing your term paper, you must complete various analyses of these data and post them on our class web page.

You also will keep a current economic events **reading journal** to be handed in twice during the semester. You may complete this assignment with one partner or by yourself. The purpose of the journal is to encourage us to be aware of changing international economic circumstances and to apply some of our classroom insights in explaining those situations. Due dates are noted on the outline. For each day that a term paper or journal is late, you lose one-third of a grade (eg. you drop from a B to a B-). Thus, you weigh the benefits and costs of giving yourself an extension.

Homework assignments are intended to provide an early warning signal, before exams or papers, of whether you are mastering course concepts. You may work together in discussing homework assignments, but each individual must turn in a paper in her/his own words.
Course Outline

I. International Finance

   A. Balance of Payments Interpretation and Exchange Rate Determination
      C: 10, 11 (pp.340-347, 350-356, 362-367), 12
   
   B. Adjusting to Balance of Payments Disequilibria - Income and Price Effects
      C: 13, 14

EXAM #1 - approximately October 4th.

   C. Open Economy Macroeconomic Policy Choices, and Exchange Rate Management and Crises
      C: 16, 15, 17

   ** FIRST INSTALLMENT OF READING JOURNAL DUE October 13th **

Fall Break

   *** TERM PAPER DUE October 30th ***

II. International Trade

   A. The Basis for Potential Gains from Trade and Expected Patterns of Trade
      C: 2, 3

   B. Trade Restrictions and Policy Choices
      C: 4, 5

EXAM #2 - approximately November 29th

   C. The WTO, Special Interests of Developing Countries, Trade Blocs, Multinational Corporations
      C: 6, 7, 8, 9

*SECOND INSTALLMENT OF READING JOURNAL DUE December 6th *

   FINAL EXAM – Wednesday, December 13th, 9:00 am