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, only down a little from the peak of $753 billion reached in 2006. Is that a sign of U.S. economic strength or an unsustainable position that eventually must be reversed?
- Over the past year, the Chinese currency rose in value from 13.2 cents/yuan to 14.6 cents/yuan. This change presumably was not a direct response to U.S. pressure, but rather a decision by the Chinese government that an appreciation of its currency was desirable. What are the positive and the negative consequences of a stronger yuan?
- Why are the effects of a currency depreciation likely to be different for the United States than for Austria or for Brazil or for India?

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

- If turmoil in U.S. financial markets makes OPEC investors less willing to buy U.S. assets, what economic adjustments in the United States and elsewhere would likely follow? Would that be a positive step in rebalancing the global economy?
- Does the IMF have a role to play in controlling international financial crises, or should its current contraction be accelerated, as claimed by critics on the left and the right?
- The euro is the common currency for 15 members of the European Union. Why have countries such as Britain chosen not to adopt the euro? Why did Slovenia want to join the European Monetary Union as soon as possible?
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? Under what circumstances is it likely to result in a more unequal distribution, and when will it result in a more equal distribution?

Our second bloc of trade material deals with policy questions:

- In October 2006 the EU imposed anti-dumping (AD) duties on imports of shoes from China and Vietnam. AD provisions are intended to deal with unfair trade. What evidence would justify a charge of unfair trade and what remedy would be appropriate?
- In July of 2008 trade negotiations at the World Trade Organization broke down, reportedly due to disagreements over EU and US agricultural subsidies and Chinese and Indian efforts to protect their farmers. In what ways can successful negotiations benefit member countries?
- Senator Obama says he wants to renegotiate the North American Free Trade Agreement (NAFTA). Are mutually beneficial changes possible? Do regional agreements simply allow members to gain at the expense of non-members?
- Economists generally advocate policies of export-led growth as superior to import substitution. How can the experience of China and India be interpreted from this perspective?

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 #1 125 points
Hour exam #2 100 points
Journal, assignments 75 points
and participation
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 on-line from the library web page. In preparing your term paper, you will 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. 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 having 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 (September 1 – October 31)

A. Interpreting the Balance of Payments and Determining an Exchange Rate
   C: 10, 11, 12

B. Adjusting to Balance of Payments Disequilibria - Income and Price Effects
   C: 13, 14

EXAM #1 - approximately October 6th

C. Choices of Exchange Rate Systems and Implications for Macroeconomic Policy
   C: 15, 16, 17, 8 (280-284)

** FIRST INSTALLMENT OF READING JOURNAL DUE October 17th **

*** TERM PAPER DUE OCTOBER 31st ***

II. International Trade (November 3 – December 12)

A. The Basis for Potential Gains from Trade and Expected Patterns of Trade
   C: 1, 2, 3

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

EXAM #2 - approximately December 1st

C. Multilateral Trade, Special Interests of Developing Countries, and Trade Blocs
   C: 6, 7, 8

*SECOND INSTALLMENT OF READING JOURNAL DUE DECEMBER 10th*

**FINAL EXAM – Tuesday, December 16th, 2:00 pm.**