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, and Japan has a large surplus. How long can that continue? Is that a sign of U.S. economic weakness and Japanese strength?
- The exchange rate between the Chinese yuan and the dollar remained constant in 2003, but the dollar fell sharply against the euro. What conditions are necessary for an exchange rate to remain constant?
- 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 and Sweden chosen not to adopt the euro?
- 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? Is the Japanese challenge to U.S. technological leadership a predictable result of free market forces or the outcome of successful government industrial targeting?
- 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:

- In March 2002 President Bush imposed tariffs on imports of steel into the United States. What are the economic consequences of such protection? (In 2003 the WTO ruled these tariffs were not consistent with U.S. obligations to the WTO, and in December the U.S. chose to remove them rather than face retaliation.)
- 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?
- China joined the WTO in 2001, and Russia hopes to join in the near future. What do these countries expect to gain by joining?
- WTO members launched a new round of multilateral trade negotiations in November 2001, but the subsequent 2003 ministerial meeting in Cancun, Mexico demonstrated little consensus over how to proceed. What agenda items are especially important to gain participation of developed and developing countries?

**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 50 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 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 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. 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 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

A. Balance of Payments Interpretation and Exchange Rate Determination
B. Adjusting to Balance of Payments Disequilibria - Income and Price Effects

EXAM #1 - approximately February 27\textsuperscript{th}

C. Choices of Exchange Rate Systems, Implications for Macroeconomic Policy, and the Role of the IMF

C: 16, 17, 18

** FIRST INSTALLMENT OF READING JOURNAL DUE March 12th **

Spring Break

*** TERM PAPER DUE April 2nd ***

II. International Trade

A. The Basis for Potential Gains from Trade and Expected Patterns of Trade

C: 2, 3, 4

B. Trade Restrictions and Policy Choices

C: 5, 6

EXAM #2 - approximately April 23rd

C. Multilateral Trade, Special Interests of Developing Countries, and Trade Blocs

C: 7, 8, 9

*SECOND INSTALLMENT OF READING JOURNAL DUE May 7th*

FINAL EXAM – Thursday, May 13\textsuperscript{th}, 2:00 pm