International economics. Pick up a copy of the New York Times or the Wall Street Journal any day of the week and there will be some prominent piece of news related to international economics: the latest on NAFTA, progress (or lack thereof) on monetary union in the European Community, the establishment of new trade links with Brazil, and on and on. In international economics we are interested in understanding these events. Before we can understand them, however, we need to learn how to approach these often fairly complex issues. In other words, we need to develop a framework which will allow us to think systematically about economic interactions among countries. This requires that we first learn some of the tools of the trade. Only then will we be ready to tackle some of the interesting issues that appear in an international setting.

Typically, international economics is divided in two: international trade and international finance. In this class we will consider each of these. While international trade is primarily concerned with the exchange of goods and services across countries, international finance focuses on the use to which international asset markets are put and on the determination of exchange rates.

In international trade we ask why countries trade? Which goods are exported and which imported? How do government regulations, such as tariffs and quotas, affect trade and income levels across countries?

In international finance we ask why do some countries run trade deficits or surpluses? How are international asset markets used to diversify risk across countries? How are movements in exchange rates related to the current account, production, and monetary policy?

This promises to be an exciting four months in the international arena: the debate on NAFTA rages on and the treaty is due to be considered by the Senate and House; the Asia-Pacific Economic Cooperation (APEC) Forum is gearing up for a major conference this November to promote trade among Pacific-rim countries; the European Community will be continuing its debate on a move towards monetary union. All this in addition to the ever-present trade disputes around the world and other unexpected international developments guarantees to give us plenty to consider throughout the term.
Course Information

Textbooks


Course Requirements

Readings

All readings on this list are required. In addition, it is strongly recommended that you read the New York Times or the Wall Street Journal on a daily basis.

Homework

Problem sets may draw from (but are not limited to) the problems listed on this outline. In addition, you will be asked to provide written analyses of articles (from the Times or the Journal, for example) that will be distributed in class. The objective of such an assignment is to learn to use the tools discussed in class to understand current world events. Each assignment will be announced at least one week prior to its due date.

Exams

There will be two hour exams and a cumulative final exam. Make-up exams will be given only under extremely extenuating circumstances. Notification and arrangements must be made before the exam.

Exam dates will be announced in class at least two weeks prior to exam. It is your responsibility to know when an exam is to be given.

Grading

Homeworks: 20%
Hour Exams: 20% each
Final Exam: 40% (yes, the final is cumulative)

Final Exam Date:
Course Outline and Reading List

I. Introduction to International Economics

Readings: Caves, Frankel, Jones: Ch. 1

II. International Trade in Consumer Goods

A. The Benefits from the Exchange of Goods
   Readings: Caves, Frankel, Jones: Ch. 2
   Problems: Workbook: Ch. 2 - Short answer problems #1, 2, 3, 6, 10
             - Longer Problems #1, 2, 6
   Caves, Frankel, Jones: Ch. 2 - #4

B. Altering Production to Increase the Gains from Trade
   Readings: Caves, Frankel, Jones: Ch. 3
   Problems: Workbook: Ch. 3 - Short answer problems #2, 4, 6, 11
             - Longer problems #3, 4, 6, 8, 10
   Caves, Frankel, Jones: Ch. 3 - #1, 3

C. Applications of the Basic Trade Model
   Readings: Caves, Frankel, Jones: Ch. 4
   Problems: Workbook: Ch. 4 - Short answer problems #2, 4
             - Longer problems #2, 3, 7

D. The Role of Technological Differences across Countries
   Readings: Caves, Frankel, Jones: Ch. 5

E. The Role of Factor Endowment Differences across Countries
   Readings: Caves, Frankel, Jones: Ch. 7

III. Commercial Policy

A. Tariffs, Subsidies, Quotas, and VERs in Theory and in Practice
   Readings: Caves, Frankel, Jones: Ch. 11, 14
   Problems: Workbook: Ch. 11 - Short answer problems #7, 8
             - Longer problems #5, 8
             Ch. 14 - Short answer problems #2, 4, 14
             - Longer problems #1, 4, 7, 8
   Caves, Frankel, Jones: Ch. 11 - #3, 4; Ch. 14 - #4

C. The Political Economy of Protection
   Readings: Caves, Frankel, Jones: Ch. 12
   Problems: Workbook: Ch. 12 - Short answer problems #1, 8; Longer #8
D. Preferential Trading Arrangements
   Readings: Caves, Frankel, Jones: Ch. 15
   Problems: Workbook: Ch. 15 - Short answer problems #2,5
             - Longer problems #4,5,7
             Caves, Frankel, Jones: Ch. 15 - #2,7

IV. Gains from Trade on Asset Markets
   A. Trade Across Time
   B. Trade with Uncertainty
      Readings: Handout
                Caves, Frankel, Jones: Ch. 4, pg. 70-74
      Problems: Workbook: Ch. 2 - Longer problems #9
                Ch. 24 - Short answer problems #9,10
                - Longer problems #5,8

V. International Financial Markets
   A. Balance of Payments Accounting
      Readings: Caves, Frankel, Jones: Ch. 16
   B. The Foreign Exchange Market and Eurocurrencies
      1. Exchange Rate Determination
         Readings: Caves, Frankel, Jones: Ch. 19, 24, 25
         Problems: Workbook: Ch. 19 - Short Answer #5,6
                    Longer problems #7-11
                    Ch. 24 - Short Answer #7
                    Longer problems #1,4
      2. Euromarkets, Foreign Exchange Market, and Liberalization
         Readings: Caves, Frankel, Jones: Ch. 21
         Problems: Workbook: Ch. 21 - Short answer problems #2,4,7,8
                    Longer problems #5,10