This course addresses a wide range of issues in international economics, encompassing topics in both trade and finance. This course is designed for those not majoring in economics, but students are expected to have completed the prerequisites of Principles of Microeconomics and Principles of Macroeconomics. The theory of comparative advantage will be used to analyze trade patterns among nations, gains from trade, and the effects of trade on income distributions. We will also consider political and economic aspects of trade barriers, U.S. commercial policy, connections between trade and economic development, and recent trade treaties such as NAFTA and GATT. Financial issues covered in the course include essentials of balance of payments accounting, theories of balance of payments and exchange rate determination, effects of international capital flows, domestic consequences of interdependence in trade and financial markets, and the role of the International Monetary Fund in contemporary international financial markets.

In addition to the reading assignments in the text given below, you are expected to follow current newspaper and magazine stories on international economics throughout the term. One goal of the class is to use the analytical tools of the course to make sense of current events in international economics. Each student is required to (i) submit to me a copy of one article suitable for class discussion and (ii) write a brief (1 or 2 pages) analysis of an article using the tools from the course. In order to spread the article discussions throughout the term, you will be assigned topics and dates for the submission of these articles.

The written assignment (ii) may cover the same article submitted for class discussion, or another article if you prefer. Your paper should summarize the article (one paragraph), explicitly refer to analytical material from the class that relates to this article, and discuss the story in the broader context of the principles of international economics. The best papers will extend the discussion in the article through a critique or an examination of the background or wider implications of the story. For example, you might find an article on the current trade dispute between the US and Japan, in which the US is threatening to impose punitive tariffs on Japanese luxury autos. Japan may appeal this action to the World Trade Organization. A discussion of this story could (1) describe trade patterns between the two countries as a background to the dispute; (2) mention the US law that enables the Clinton administration to impose trade sanctions; (3) describe the World Trade Organization and the implications of their involvement for US sovereignty; (4) evaluate the threatened action in terms of welfare and income distribution effects.
OUTLINE AND READING ASSIGNMENTS


I. Fundamentals of International Trade Theory
   A. Descriptive statistics of national economies; fundamental tools of analysis: chapters 1,2.
   B. Comparative advantage, classical trade theory, the Heckscher-Ohlin model, gains from trade and effects of trade on income distribution: chapters 3-5.

EXAMINATION I - JUNE 15

II. Trade Barriers and Commercial Policy
   B. Nontariff barriers; political and economic aspects of trade restrictions; US commercial policy: chapters 7,8.
   C. Customs unions and free trade agreements; NAFTA: chapter 9.
   D. Trade policy and economic growth: chapter 10.

EXAMINATION II - JUNE 23

III. Foreign Exchange Markets and the Balance of Payments.
   B. Theories of exchange rate determination and the balance of payments: chapters 13, 16, 17.
   C. Alternative institutions of international finance; gold standard; fixed and flexible exchange rates; the Bretton Woods system and the IMF; current issues in international finance: chapters 18,19.
   D. Linkages between International Transactions and Domestic Macroeconomics; price level and income determination in open economies; macroeconomic policy effects under fixed and flexible exchange rates: chapter 20.

FINAL EXAMINATION - JULY 7

EVALUATION

Ninety percent of your grade will be based on the three equally weighted examinations. Preceding each examination you will be given a problem set to help prepare for the exam. These problem sets will be graded and will count towards 20 points on each subsequent examination. The remaining 80 points for each exam will come from your in-class performance. The questions on the problem sets will also provide practice for similar questions on the in-class component of the exam.

The remaining ten percent of your grade is based on the submitted article and brief report. The article report is due on the last day of our class, July 5.