Course Outline

This is a Master's-level course in international economics theory and policy. We will study aspects of international trade and finance at a rigorous level, though the analysis will be primarily graphical in nature, employing a minimum of calculus. Questions that we will study include fundamental determinants of the pattern of international trade and the gains from trade, motivations for interfering with trade, the role of international factor movements, the sources of trade imbalances, and the behavior of exchange rates. We will also read contributions in more practical areas of international economic policy, including trade institutions, calculations of the welfare effects of trade barriers, and economic reform. Thus, there are two goals in the course. First, we will develop a solid grounding in the analytics of modern theories of trade and finance and, second, we will master some tools for use in practical trade analysis. This is an ambitious agenda and will require sustained effort.

The required text is *International Trade Theory: Theory and Evidence* (McGraw-Hill, 1995) by Markusen, Melvin, Kaempfer, and Maskus (MMKM). We will attempt to complete the full volume, which means you will be expected to absorb significant amounts of material through your own reading. I also list below further required readings, particular in the area of international finance.

Grading will consist of one mid-term examination, worth 30% of your grade, a final examination worth 34%, two graded homework assignments, each worth 8%, and a term paper worth 20%. I will circulate separately some guidelines on the term paper.

I will try to keep the lectures informal and fun, though without sacrificing rigor. Please keep up with the readings and contribute actively to classroom discussion. All of the readings below are required, but I have marked with an asterisk those that I do not anticipate covering in class.

I. Introductory Material
   1. Introduction
   2. Basic Micro Theory
   3. General Equilibrium
   4. Gains from Trade

   MMKM, Ch. 1
   MMKM, Ch. 2-3
   MMKM, Ch. 4
   MMKM, Ch. 5-6

   Jan 14-16

II. Pure Theory of Comparative Advantage
   1. Ricardian Trade Theory
   2. Heckscher-Ohlin Trade Theory

   MMKM, Ch. 7
   MMKM, Ch. 8

   Jan 21-Feb 6


   Policy Issue One: Trade, Wages, and Inequality
   J.D. Richardson, "Income Inequality and Trade: How to Think, What to

3. Specific-Factors Model

PAPER PROPOSAL AND OUTLINE DUE

Feb 11

III. Distortions, Imperfect Competition, Demand, and Trade

1. Market Distortions and Trade
   MMKM, Ch. 10
2. Economies of Scale and 
   Product Differentiation
   MMKM, Ch. 11-12
3. Demand and Technological Change
   MMKM, Ch. 13
4. Empirical Studies
   MMKM, Ch. 14

MIDTERM EXAMINATION

Feb 25

IV. The Theory of Trade Policy

1. Tariffs
   MMKM, Ch. 15
2. Quotas and NTBs
   MMKM, Ch. 16
3. Strategic Trade Policy
   MMKM, Ch. 17

V. Trade Institutions and Reform

1. Preferential Trade Areas
   MMKM, Ch. 18
   Policy Issue Two: Is Regionalism Dangerous?
2. Political Economy of Trade
   MMKM, Ch. 19
3. WTO, Contingent Protection, and Other Issues
   MMKM, Ch. 20

VI. Trade in Factors

1. Labor and Portfolio Capital
   MMKM, Ch. 21
2. Foreign Direct Investment and the Multinational Enterprise
   MMKM, Ch. 22

VII. International Financial Markets

1. Factor Accumulation and Intertemporal Trade
   MMKM, Ch. 23

   April 3-8

   April 10-May 1

2. Equilibrium Exchange-Rate Determination

3. Exchange Rate Regimes

**TERM PAPER DUE**
April 24, 5 PM

**FINAL EXAMINATION**
Saturday, May 10, 11:30 am-2:30 pm