

Economics 3403 - International Economics and Policy  
Fall 2005 - MWF 12-12:50 - HLMS 252

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This course addresses a wide range of issues in international economics, encompassing topics in both trade and finance. The 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, or a one-semester principles course. 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, recent trade treaties such as NAFTA and CAFTA, and the latest trade negotiations of the World Trade Organization. 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 with world trade and financial markets, the role of the International Monetary Fund in contemporary international financial markets, problems of sovereign debt and debt relief, and the evolution of institutions of international finance into their current form.

### **Assignments and Evaluation**

Seventy-five percent of your grade will be based on the three equally weighted examinations. Preceding each examination you will be given a problem set. These problem sets will be graded and each will count five percent towards your final grade. The questions on the problem sets will also provide practice for related questions on the exam, and these problems and other questions will be covered in review sessions scheduled prior to each exam. The remaining ten percent of your grade is based on an analytical essay.

For the essay assignment I will post an article on WebCT together with suggested points for discussion. Four articles will be posted throughout the semester and each student will write an essay on one of the four articles. In order to spread the workload throughout the term, you are required to submit your essay according to the schedule below. If anyone has a legitimate reason for changing their assigned article and due date, this can be arranged by contacting me within one day after the essay assignment is posted. Essays will be due one week after the article is posted.

Last name beginning with	Article posting date	Article due date	general topic
L - P	9/30	10/7	International Trade Policy
R - Z	10/5	10/12	International Trade Policy
A - C	11/16	11/23	Issues in International Finance
D - K	11/28	12/5	Issues in International Finance

## OUTLINE AND READING ASSIGNMENTS

Text: Husted, Steven, and Michael Melvin, International Economics, sixth edition (2004).

In addition to the reading assignments in the text, I will post on our WebCT site current readings related to the topics of the week. These will be discussed in class as time permits, and all readings will be fair game for the examinations. Each week before Monday's class, log on to WebCT and check the week's assignment and readings under the "Readings and Class Notes" module. You may also want to print out any notes posted there for that week's classes.

### I. Fundamentals of International Trade Theory

A. Overview of international economics; recent trends towards globalization; 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; tests and extensions of basic trade model: chapters 3-5.

Problem Set 1 Due - Friday, September 16

Examination I - Friday, September 23

### II. Trade Barriers and Commercial Policy

A. Economic analysis of tariffs; welfare loss from tariffs: chapter 6.

B. Nontariff barriers; quotas and voluntary export restraints; political and economic aspects of trade restrictions; US commercial policy; the GATT and the World Trade Organization: chapters 7,8.

C. Customs unions and free trade agreements; NAFTA, CAFTA, and the EU: chapter 9.

D. Trade policy and economic growth, import substitution and export promotion strategies: chapter 10.

Essay 1: posted Friday, September 30 – due Friday, October 7

Essay 2: posted Wed., October 5 – due Wednesday, October 12

Problem Set 2 Due - Wednesday, October 19

Examination II - Wednesday, October 26

### III. Foreign Exchange Markets and the Balance of Payments.

A. Exchange rate basics; balance of payments accounting: chapters 11, 12.

B. The foreign exchange market: chapter 13 (pages 336-344, 348-349)

- C. Purchasing power parity – price levels and exchange rates: chapter 14.
- D. Interest parity – interest rates and exchange rates: Chapter 15 (Pages 376-380).
- E. Theories of the balance of payments and exchange rates, elasticities approach and the J-curve, absorption approach: chapter 17.
- F. Alternative institutions of international finance; gold standard; fixed and flexible exchange rates; the Bretton Woods system and the IMF; currency crises; third world debt problems: chapter 19; chapter 20 (pages 506-516).

Problem Set 3 Due - Monday, November 14

Essay 3: posted Wednesday, November 16 – due Wednesday, November 23

Essay 4: posted Monday, November 28 – due Monday, December 5

Final Examination – Saturday, December 10, 10:30-1:00