

International Economics and Policy
Economics 3403
Fall 1995
TR 2:00-3:15

Professor Feeney
Office Hours: M 3:30-5:00
W 1:00-2:30
Office: Economics 14B

Course Description

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 the World Trade Organization, progress (or lack thereof) on monetary union in the European Union, 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? How and why do such impediments to trade become adopted by 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 recent shift in multilateral trade negotiations from the forum of the GATT (General Agreement on Tariffs and Trade) to that of the WTO (World Trade Organization) may lead to improved trade relations among countries; the implications of the new US-Japan trade agreement on autos and auto parts are yet to be determined; the battle in the photography industry between Kodak and Fuji continues; the US trade deficit remains a prominent topic in the press; the European Union 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

Required: Caves, Frankel, and Jones: World Trade and Payments: An Introduction, 6th Edition, Harper-Collins, 1993.

Recommended: Kowalczyck and Tesar: Study Guide/Workbook to World Trade and Payments, 2nd Edition, 1993.

Bovard, The Fair Trade Fraud, St. Martin's Press, 1991
(a collection of facts and figures on impediments to trade presented in an amusing way)

Roberts, The Choice, Prentice Hall, 1994.
(an allegory that captures the debate between free trade and protectionism)

Course Requirements

Readings

All readings on this list are required. Supplemental notes will be available on reserve at Norlin Library to accompany some of the text readings. These are noted on the reading list which follows.

In addition to the text and other handouts, it is strongly recommended that you read the New York Times, the Wall Street Journal, or similar international paper on a daily basis. A sign-up form for the WSJ will be available in class, while Jones Drugs on College Avenue sells subscriptions to the NYT.

Homework

Problem sets will be given frequently in order to give you the maximum opportunity to practice that which you have learned. Review sessions will be scheduled to go over the answers and answer keys will be placed on reserve at Norlin Library.

Some of the assignments will be designed to reinforce your understanding of the tools that will be learned during the semester, while others will give you the opportunity to apply these tools to an analysis of current international events. The former problems will draw from (but are not limited to) the questions at the end of each chapter of the text and from old exams. In the applied problems, you will be asked to provide written analyses of articles (from the Times or the Journal, for example) that will be distributed in class.

Depending upon the quality of each of your completed problem sets, you will receive one of three possible grades: 0 points, 1 point, or 2 points. The total amount of points you earn over the semester, relative to the total possible, will determine the homework portion of your grade which then counts 10% towards the final grade.

Exams

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

As shown on the reading list, exam 1 will be given on Thursday, October 12 and exam 2 will be given on Thursday, November 16 (both in class).

The final exam is scheduled for: Thursday, December 14 from 7:30-10:30pm.

Grading

Homeworks: 10%

Midterm Exams: 30% each

Final Exam: 30% (the final, while stressing the latter third of the material, will be cumulative due to the nature of the material)

Teaching Assistant

Mr. Kevin Zhang is the teaching assistant for this class. Mr. Zhang is an advanced graduate student in the economics department whose fields of specialization are international economics and econometrics. Mr. Zhang will conduct review sessions throughout the term to go over the assigned problem sets. He will also be available during his office hours to answer questions in a more informal setting. He will be a valuable resource -- please don't let him get bored in his office.

Mr. Zhang's office hours are: T 3:30-5:00 and W 10:00-11:00.

Office: Economics 306

Third Floor Phone: 492-6875

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 (Supplemental Notes avail.)

B. *Altering Production to Increase the Gains from Trade*

Readings: Caves, Frankel, Jones: Ch. 3

C. *Technology and Wage Differences across Countries*

Readings: Caves, Frankel, Jones: Ch. 5, sections 1-4 only
(Supplemental Notes avail.)

D. *Applications of the Basic Trade Model*

Readings: Caves, Frankel, Jones: Ch. 4

E. *Income Distribution and International Trade*

Readings: Caves, Frankel, Jones: Ch. 6 (Supplemental Notes avail.)

Exam 1: Thursday, October 12

III. Commercial Policy

A. *Political Impediments to Trade*

Readings: Caves, Frankel, Jones: Ch. 11, 14

B. *The Political Economy of Protectionism*

Readings: Caves, Frankel, Jones: Ch. 12
Handout

IV. International Financial Markets

A. *International Borrowing and Lending*

Readings: Handout
Caves, Frankel, Jones: Ch. 4, pg. 63-65

B. *Balance of Payments Accounting*

Readings: Caves, Frankel, Jones: Ch. 16

Exam 2: Thursday, November 16

C. International Risk Diversification

Readings: Handout

Caves, Frankel, Jones: Ch.4, pg. 65-66

D. Exchange Rate Behavior and Economic Policy

Readings: Caves, Frankel, Jones: Ch. 17 (pp 324-326)

Ch. 19 (pp 391- 404)

Ch 24 (sections 1,2)

Ch. 25 (section 1)

Handout

Final Exam: Thursday, December 14, 7:30pm-10:30pm

