

Economics 3403 - International Economics and Policy  
Fall 2007 – TR 3:30-4:45 - EKLC 1B20

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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 and trade disputes, connections between trade and economic growth, preferential trade agreements such as NAFTA and CAFTA, and the Doha Round 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 trade and financial interdependence, the policies of the International Monetary Fund, problems of sovereign debt and debt relief, and the evolution of institutions of international finance into their current form.

### **Assignments and Evaluation**

Seventy percent of your grade will be based on the three equally weighted examinations. One of these three exams is the mandatory section of the final, as explained below. Preceding each examination you will be given a problem set. These problem sets will be graded and each will count ten percent towards your final grade. Each problem set is due by the end of class on the day indicated below. Problem sets submitted within the next 24 hours will be penalized by 20%, and none will be accepted after that time. The problem sets are designed as learning experiences and will also provide practice for related questions on the exam. These problems and other questions will be covered in review sessions scheduled prior to each exam. Additional practice exercises will be posted on CULearn, primarily in the form of exams and answer guides from previous offerings of this course. Working these practice exams (not just reading them) is highly recommended as preparation for our exams.

The two-part final exam. During our final exam period there will be both a mandatory final exam and an optional final. The mandatory section will be comparable to the two previous midterm exams, covering the final third of the course, and designed to be completed within an hour and fifteen minutes. The optional part of the final is available to students wishing to make up a midterm exam, either because of an unsatisfactory performance on a midterm or because a midterm was missed **for any reason**. The optional final serves as the only opportunity for a make-up exam. The content of this optional final may cover any of the topics on the first two

exams, but it will be designed to be completed within an hour and fifteen minutes. The score on the optional final will replace the lowest midterm exam score, but only if this results in an improvement of the overall grade.

## OUTLINE AND READING ASSIGNMENTS

Text: Husted, Steven, and Michael Melvin, International Economics, seventh edition (2007). Earlier editions are acceptable substitutes for the seventh, but it is your responsibility to coordinate the pages in your edition with the assigned readings below.

In addition to the reading assignments in the text, I will post on our CULearn 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 Tuesday's class, log on to CULearn 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, especially graphs that we will work through in class.

### I. Fundamentals of International Trade Theory

A. Overview of international economics; recent trends towards globalization; fundamental tools of analysis: chapters 1,2 (pages 1-45). [week of 8/27]

B. Comparative advantage, classical trade theory, the Heckscher-Ohlin model, gains from trade and effects of trade on income distribution: chapters 3-4 (appendices excluded) [weeks of 9/3 and 9/10]

C. Tests and extensions of basic trade model: chapters 3-5. [week of 9/17]

Problem Set 1 Due - Thursday, September 20

Examination I - Thursday, September 27

### II. Trade Barriers and Commercial Policy

A. Economic analysis of tariffs; welfare loss from tariffs; effective rate of protection: chapter 6. [week of 10/1]

B. Nontariff barriers; quotas and voluntary export restraints: chapter 7. [week of 10/8]

C. Political and economic aspects of trade restrictions; US commercial policy; the GATT and the World Trade Organization: chapter 8. [week of 10/15]

D. Customs unions and free trade agreements; NAFTA, CAFTA, and the EU: chapter 9. [week of 10/22]

E. Trade policy and economic growth, import substitution and export promotion strategies; multinational corporations: chapter 10. [week of 10/29]

Problem Set 2 Due - Thursday, October 25

Examination II - Thursday, November 1

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

A. Exchange rate basics; balance of payments accounting: chapters 11, 12; chapter 13 (pages 331-9 and 343-344 only). [week of 11/5]

B. Purchasing power parity (price levels and exchange rates); Interest parity (interest rates and exchange rates): chapter 14; chapter 15 (Pages 369-373). [week of 11/12]

C. Theories of the balance of payments and exchange rates, elasticities approach and the J-curve, absorption approach: chapter 17 (pages 409-422 only). [week of 11/26]

D. Alternative institutions of international finance; gold standard; fixed and flexible exchange rates; Bretton Woods; current monetary arrangements: chapter 19 [week of 12/3]

E. Currency crises; third world debt problems: chapter 16 (pages 396-405); chapter 20 (pages 498-509). [week of 12/10]

Problem Set 3 Due – Thursday December 6

Final Examination – Wednesday, December 19, 7:30-10:00 a.m.