ECON 210 - International Economics
Fall 2010 Course Syllabus

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Office Hours: MWF 11:50-12:20; T TH 9-10

Recommended Text: Krugman and Obstfeld, *International Economics*, 7th edition.

Required Text: *Economist*, print edition. Students should bring me a check (made out to "Teresa Beckham Gramm") for $20.00 to pay for a semester subscription to this magazine

In International Economics you will learn about the application of economic principles in the analysis and interpretation of economic interdependence among nations. Specifically, we will cover the theory of international trade, trade policy, foreign exchange markets, balance of payments, and the effects of macro policy in an open economy.

The readings for each section are outlined below. A detailed outline of the material to be discussed will be giver prior to each lecture to aid in your preparation. Readings from *The Wall Street Journal* and *The Economist* will be a regular part of the course. We will discuss current events related to international economics. Furthermore, you will have assignments to locate and analyze related articles.

Goals: The goals of this course are to expose you to the theories of international trade and international finance, to hone and expand the use of microeconomic (in trade) and macroeconomic (in finance) tools/models that you learned in Economics 101 and 102, and to train you to understand and analyze "current events" in international economics. The means by which these goals will be achieved are through lecture, out-of-class problem assignments, and current event analyses, which are explained in further detail below. Exams will include both problems/essays and analysis of current events.

Exams: There will be three exams. The first is tentatively scheduled for 10/1. The second is tentatively scheduled for 11/5. While I reserve the right to change the exam dates, I will notify you at least one week in advance if it becomes clear that an exam date needs to be moved. The final exam will be held during the final exam period.
If you are going to miss an exam you must let me know IN ADVANCE, <u>otherwise there will be no make-up exam and the missed weight will go into a specially prepared cumulative final</u>.

Assignments: There are two types of assignment.

1) *PROBLEMS* will be distributed at the end of most classes. The problem(s) will cover material gone over in that class or a previous class. They are due AT THE BEGINNING of the next class period, since we will go over the problem first. You will assign yourself a grade between 0 ("I didn't do it) and 4 ("I did it perfectly") and turn each problem in to me.

- You MAY: drop your 3 lowest grades (including unexcused and excused absences).

- You MAY: come by with questions about a problem once you have made a valiant attempt on your own, as demonstrated by the reams of scribbling that you'll have with you.

- You MAY NOT: come in late and have someone else grade your problem or send your problem with someone else.

2) *CURRENT EVENT ANALYSES* will be due on 3 occasions. More details about what I expect of these written assignments will be forthcoming. The first will be due in mid-October. Their purpose is to give you the opportunity to apply one of the theoretical models to a real world events, either to make a prediction of an economic outcome or to explain the cause of an outcome. Again, these will be due at the beginning of class. I will accept them late, but there will be a 5 point penalty for each day the analysis is late.

Due dates for Analyses: 10/15, 11/19, 12/8

Grade Distribution:

Exam 1	25%
Exam 2	25%
Exam 3	25%
Problems	10%
Article Analyses	15%

Grades will be assigned according to the following scale,

93-100% = A	80-82% = B-	67-69% = D+
90-92% = A-	77-79% = C+	63-66% = D
87-89% = B+	73-76% = C	60-62% = D-
83-86% = B	70-72% = C-	59 or below = F

Attendance Policy: The regular problems will make regular attendance necessary, but there will be no direct penalty for missing class. The indirect penalty is that you would receive a 0 on the homework problem. If you miss class due to illness, sports, family emergency, etc. then you need to inform me **by email**. Coming to the next class and explaining your absence in the previous class, while acceptable, is not a substitute for an email. You are responsible for all missed material and handouts.

Academic Dishonesty: Any evidence of academic dishonesty may result in your failure of this course. Academic dishonesty includes **(1)** using exams from previous semesters, **(2)** using problems from previous semesters, **(3)** working together on exams, **(4)** completing the problems as we are going over them in class, or **(5)** copying (or allowing someone else to copy) any work that is turned in for a grade. You *may* discuss approaches to solving the daily problems, but when it comes time to put pen to paper, the work must be entirely your own.

Office Hours: My office is 215 Buckman. I have scheduled office hours for MWF 11:50-12:20 and T TH 9-10. I strongly encourage you to make an appointment if you have conflicts with these times. The best way to schedule an appointment with me (or contact me for any reason) is by email: grammt@rhodes.edu.

Email: I assume you check your email at least once a day. I will use it to convey required reading in The Economist and The Wall Street Journal which we will be going over during the next class period. I will not send you "junk" or "FYI" or "Here's a nifty International article in case you have a free hour"…it will always be pertinent to material you need for class.

Course Outline:

Note that this course is not a pre-requisite for any other course. This fact gives me a bit of leeway about what material we will cover. Invariably, something of economic significance occurs during the semester and we will want to spend time discussing/analyzing it. The only way we'll stick to this schedule is if absolutely nothing of interest occurs over the next 3 months. I will give you periodic updates on how this schedule has changed and you will receive a daily outline corresponds to the attached outline. Given that you've all made it this far in the major, I assume that you can look at the daily outline and look at the syllabus to determine where we are in the material and where we are in the reading.

OUTLINE OF LECTURES
INTERNATIONAL ECONOMICS

--INTERNATIONAL TRADE---

I. Introduction (*Chapter 1)*
- A) Difference Between Trade & Finance
- B) Goal
- C) Trade Composition
- D) Costs/Benefits of Trade/Globalization

II. Early Trade Theories
- A) Mercantilists
- B) Adam Smith and Abs Adv
- C) Ricardo and Comp Adv *(Chapter3 pp 10-40)*
  - 1) Assumptions
  - 2) Basis For Trade
  - 3) Graphically: Straight-line (Constant Cost) PPF
  - 4) Consumption Possibilities Frontier
  - 5) Gains from Trade
- D) Extensions of the Ricardian Model
  - 1) Incomplete Specialization
  - 2) Changes in Comp Adv over time
  - 3) Money & Comp Adv
- E) Many Goods *(Chapter 3 pp. 41-45)*
- F) Tests of the Early Trade Models *(Chapter 3 pp. 45-47)*
  - 1) MacDougal
  - 2) Golub

III. Micro Review *(Handouts in class)*
- A) Indifference Curves--Preferences
- B) Production Possibilities
- C) General Equilibrium
- D) Trade

IV. Specific Factors Model *(Class handouts)*

A) Assumptions

B) Production and Labor

1) PPF's

2) Labor & wages

C) Trade

D) Income distribution and Political Economy

V. Factor Proportions Model *(Chapter 4)*

A) Introduction

1) Assumptions

2) Definitions

a) Factor abundance

b) Factor intensity

B) Heckscher-Ohlin Model

1) Pattern of Trade

2) Graphical representation

3) Factor price equalization

VI. International Equilibrium and Gains From Trade *(Chapter5)*

A) Intro—The Standard Trade Model

B) Changes in t.o.t.

C) Gains from Trade

1) Gains from Exchange

2) Gains from Specialization

D) Immiserizing Growth

VII. Extensions of the Trade Model *(Chapter 6)*

A) Intra-industry Trade

1) Econs of scale

2) overlapping demand

3) differentiated products

B) Product Cycle

--TRADE POLICY---

VIII. Tariffs *(Chapter8 pp176-186)*

A. Instruments of policy

B. Welfare impact of tariff

-small country PE

-small country GE

-large country PE

-ex) steel tariffs article

IX. Nontariff Barriers *(Chapter 8 pp186-206)*

A. Subsidy of import competing sector

-Costs (PE)

-compared to tariff in GE analysis

B. Export subsidy

-ex) article

C. Import Quota

-costs (PE)

-why worse than a tariff

-ex) sugar quotas

D. VER

-costs (PE)

-ex) Japan auto exports in 1980's

E. Dumping

-types

-price discrimination

-difficulties with identifying
-ex) article

X. Trade Reg & Industrial Policies
A) US history & current use of trade reg's *(In class handouts)*
B) Developed Country Industrial Policy *(Chapter 9, Chapter 11 pp 259-266)*
-general vs specific policy
-market failure (ex Japan)
-strategic trade (Boeing v Airbus)
C) LDC Industrial & Trade policies *(Chapter 10)*
-ISI
-Dual Economy ex) India
-HPAE's and export-led growth
D) Political Economy of trade barriers
XI. MNE's and FDI *(Chapter 7 pp 157-164)*
A) Intro (definitions)
B) Reasons for forming
C) Why unpopular
Topic: Fair trade, child labor and sweatshops *(Selected articles)*

--INTERNATIONAL FINANCE-----------------------------------
XII. Balance of payments (BOP) *(Chapter 12)*
A) Terms
B) BOP Accounts
1) Current Acct (CA)
2) Capital Acct (KA)
C) Implications of the CA deficit

XIII. Exchange Rates
A) Foreign Exchange Markets *(Chapter 13)*
1) Spot
2) Forward
3) Covered and Uncovered interest arbitrage
B) Long-Run and Short-Run exchange rate determination *(Chapter15)*
1) PPP
2) Real interest rate
C) Short-run exchange rate determination *(Chapter 16)*
1) GDP & GDP growth
2) CA & KA deficit & surplus
3) Expectations
XIV. BOP Adjustment Under Fixed Exchange Rates *(Chapter 17)*
A) Intro
B) Mechanics of Fixed Ex Rts
C) BOP adjustment due to ΔP
D) BOP adjustment due to Δr
E) Devaluation/revaluation

XV. BOP Adjustment w/ Flexible Ex Rts *(In-class Handouts)*
A) Intro
B) Long-run Impact of ΔE on BOP
C) "Short- run" impact of ΔE
-The J curve
-The Marshall-Lerner condition

XVI. Exchange Rate Systems *(Selected articles)*
A) Intro
B) Pegged/Fixed
1) Why peg
2) How peg

3) Dangers

C) Floating

1) Why float
2) Arguments against
3) Managed float