International Economics

Introduction

In this course we examine the workings of the international economy, with an emphasis on current policy issues. We begin with a focus on the "real" side of international economics, studying why nations find it advantageous to trade with each other and what factors influence the patterns of trade among nations. This leads into a discussion of trade restrictions such as tariffs or quotas, and other dimensions of trade policies pursued by governments. We will grapple with controversies regarding the World Trade Organization (WTO), examine regional integration efforts among countries, such as the EU and NAFTA, and consider special international economic challenges that face developing countries today, including the agenda of the current Doha Round of trade negotiations. Finally, we will explore controversies surrounding the movements of capital, labor and technology across national boundaries, particularly those involving the activities of multinational corporations.

Then we will shift our focus to the "monetary" side of international economics, examining the balance of international payments and discussing what it means for a nation to have a balance of payments surplus or deficit. We will look at the relationships between the domestic economy and the balance of payments, and at how nations can attempt to achieve balance of payments equilibrium under systems of either fixed or flexible foreign exchange rates. Following this, we will examine how the international monetary system which was designed to facilitate international trade and payments has developed and changed over time, how this system was shaken by the various destabilizing events of the recent decades and what the prospects are for reform of the international monetary system today. Discussion of the debt crisis which many developing nations and the financial institutions in advanced nations have experienced will provide an excellent opportunity for examining how the real and monetary sides of international economics are tied together, and how economic interdependence among nations has increased in recent years. We also will analyze within this context the emergence of the U.S. as a major "debtor nation," intensified by the very large current and projected future U.S. trade deficits. Finally, exploring the origins of the “Asian economic crisis,” more recent Latin American financial instability, and the implications of the euro as currency in Europe will challenge us to integrate and apply the real and monetary dimensions of international economics.

Although much economic theory emphasizes the potential for mutual national benefits from engaging in international trade, conflict rather than cooperation tends to characterize international economic relations today. In dealing with the issues of free trade vs. protectionism, interdependence vs. national self-sufficiency, the impact of trade and foreign investment on developing nations, and reform of the international monetary system, we shall discuss these conflicts as well as the potential benefits from international trade and investment. This is a course in economics, and thus we will focus primarily on economic aspects of international relations. However, meaningful policy recommendations in this area require consideration also of historical, social, and political dimensions, so we will be dealing with questions of "political economy" much of the time.
Course Format and Grading

The class format for this course will be varied, with a mixture of lecture, discussion, oral reports, and question-and-answer sessions. Students should complete readings prior to the class session for which they are assigned, and will be encouraged to participate actively in class discussion. Students will work in small groups of three or four to prepare and deliver oral presentations on international economic policy issues. Each student also will write a term paper involving library research toward the end of the semester, and will complete a preliminary prospectus for this paper earlier in the term. There will be four equally-weighted hour examinations, including the final.

Grades for the course will be based on the following point distribution:

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<th>Grade</th>
<th>Points</th>
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<tbody>
<tr>
<td>First Exam</td>
<td>100</td>
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<td>Second Exam</td>
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<td>Third Exam</td>
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<td>Final Exam</td>
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<tr>
<td>Oral Presentation</td>
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<td>Term Paper Prospectus</td>
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<td>Participation</td>
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<td><strong>Total Possible Points</strong></td>
<td><strong>650</strong></td>
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Office Hours

- **Mon., Wed.** 10:15 – 11:15  
  Office: Smullin 308
- **Wed.** 3:00 – 4:00  
  Phone: 370-6316
- **Tue., Thu.** 2:00 – 3:00  
  Email jhanson
  and by appointment.

Required Texts:


Course Topics & Reading Assignments:

I. Introduction & Overview  (Sep. 3, 5)
   Carbaugh, Ch. 1

II. Comparative Advantage and the Gains from Trade  (Sep. 8, 10)
    Carbaugh, Ch. 2

III. Modern Trade Theory and Sources of Comparative Advantage  (Sep. 12, 15)
    Carbaugh, Ch. 3

IV. Trade Restrictions: Tariffs  (Sep. 17, 19)
    Carbaugh, Ch. 4

FIRST EXAM  (Sep. 22)

V. Trade Restrictions: Nontariff Barriers  (Sep. 24, 26)
    Carbaugh, Ch. 5

VI. United States Trade Policy Issues  (Sep. 29, Oct. 1)
    Carbaugh, Ch. 6

VII. Trade Policy and Developing Countries  (Oct. 3, 6, 8)
    Carbaugh, Ch. 7

VIII. Regional Economic Integration  (Oct. 10, 13)
    Carbaugh, Ch. 8

IX. International Resource Movements and Multinational Firms  (Oct. 15, 17)
    Carbaugh, Ch. 9

SECOND EXAM  (Oct. 20)
X. The Balance of International Payments (Oct. 22, 27)  
   Carbaugh, Ch. 10

XI. Foreign Exchange Markets and Rates (Oct. 29, 31)  
   Carbaugh, Ch. 11

XII. Exchange Rate Determination (Nov. 3, 5, 7)  
   Carbaugh, Ch. 12

XIII. Macroeconomic Policy Under Fixed Exchange Rates (Nov. 10, 12, 14)  
   Carbaugh, Ch. 13

THIRD EXAM (Nov. 17)

XIV. Exchange-Rate Adjustments and the Trade Balance (Nov. 19, 21)  
   Carbaugh, Ch. 14

XV. Exchange-Rate Systems and Currency Crises (Nov. 24, 26)  
   Carbaugh, Ch. 15

XVI. Macroeconomic Policy in an Open Economy (Dec. 1, 3, 5)  
   Carbaugh, Ch. 16

XVII. International Finance and Global Debt Problems (Dec. 8, 10, 12)  
   Carbaugh, Ch. 17

FINAL EXAM Monday, December 15, 8:00 – 11:00 a.m.