Syllabus for INTERNATIONAL ECONOMICS

Lecturer: Natalya A. Volchkova

Course objectives:

The course aims to provide a framework for consistent reasoning about international flows of goods, factors of production, and financial assets, trade policy and monetary policy in open economy.

Course description:

This course will introduce both the microeconomic and macroeconomic issues relevant to the economic relations among countries. The first part of the course deals with the microeconomic issues of international trade, and covers such issues as (i) why countries trade, (ii) how the gains from trade are distributed, and (iii) the theory and practice of protectionism. The second part of the course deals with issues in international finance and macroeconomics, and covers such issues as (i) the markets for currencies, (ii) balance of payments definitions, (iii) adjustment processes, and (iv) monetary unions.

Prerequisites for the course are Microeconomics 1-2, Macroeconomics 1-2, and Applied Econometrics.

The methods:

The teaching is based on the principle that mathematical models and graphical analysis have value insofar as they allow given economic problems to be analyzed in a coherent and rigorous manner. Thus formal mechanics and geometrical methods are complements to verbal exposition, which is most useful for conveying key insights and discussing empirical evidence. The approach encourages the development of economic intuition as well as formal skills.

The following methods and forms of study are used in the course:
- lectures
- written home assignments
- oral presentation
- self-study

Reading:

Main textbook:

More books:

Students are required to read regularly international newspapers and magazines such as The Financial Times, The Economist, or The Wall Street Journal and Russian Vedomosti.

Internet resources:

- Economist [www.economist.com]
- World Bank [www.worldbank.org]
- International Monetary Fund [www.imf.org]
- WTO [www.wto.org]
- WTO –Russia [www.wto.ru]

Grade determination:

Students sit two midterms and the final. The final grade for the course consists of 10% of the oral presentation grade, 25% of each of midterm grades, 25% of the grade for the final and 15% of the home assignment and class activity grade. Home assignment grade may include occasional test grades.

Instructions for the oral presentation will be provided later.

If a student receives a failing grade in the course, he/she may write a comprehensive test during the designated make-up period and will be assessed by a three-member panel, including the course instructor.

Course outline (provisional):

PART 1. Theory of International Trade and Protection

1. Introduction
   - Important issues in international trade.
   - History and present state of world trade flows
   - Russian trade balance
   - History of the development of trade theory

2. Essentials: Ricardo and Comparative Advantage
   - The Ricardian model of trade
   - Empirical evidence and policy results

3. Factor Price Equalization and Trade
   - Heckscher-Ohlin model of trade
   - Stolper-Samuelson effects
   - Rybczynski effects
4. Who Wins and Who Loses from Trade?
- The “Specific Factors” model of trade
- Redistribution aspect of trade policy
- International experience

- Welfare comparisons across countries
- Welfare comparisons within countries

6. An Empirical Evaluation of Trade Patterns
- Problems with the Heckscher - Ohlin model
- Empirical evidence of trade theory

7. Market Imperfections and Trade
- Imperfect Competition and trade
- Monopolistic competition and gains from trade

8. Firms and International trade
- Empirical evidence for firms’ heterogeneity
- Theoretical framework of modern trade theory

9. International Factor Movements
- International Labor Mobility
- International Capital Flows
- Multinational Firms and Foreign Direct Investment

(MIDTERM)

10. Tariffs and Non-Tariff Barriers to Trade
- Economics of Tariffs
- Economics of Quotas
- Protection and Imperfect Competition

11. Government Intervention in Trade
- Welfare arguments
- Income Distribution
- Optimum Tariff

12. Strategic Trade Policies
- Technology and Externalities
- Imperfect Competition and Protection

13. Development through Trade Policies
- Import Substitution and Infant Industry argument
- Export-oriented development strategies
14. Political Economy of Trade
- Endogenous trade policy
- Protection for sale

15. World Trade Organization, Preferential Trading Arrangements, Custom Unions and Economic Integration
- Preferential Trade Areas
- International Institutions
- WTO and GATT: History and present state
- Traditional Customs Union Theory
- Trade Creation and Trade Diversion
- Russia and WTO
- Russia and Eurasian Customs Union

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PART 2. International Macroeconomics

1. Introduction
   Distinction between International Trade and International Macroeconomics

   - The National Income Accounts
   - National Income Accounting for Open Economy

3. Asset Approach to Exchange Rate Determination
   - The Demand for Foreign Currency Assets
   - Equilibrium in the Foreign Exchange Market
   - Interest Rates, Expectations, and Equilibrium

4. Money, Interest Rates, and Exchange Rates
   - Aggregate Money Demand
   - The Equilibrium Interest Rate
   - The Money Supply and the Exchange Rate in the Short Run
   - Money, the Price Level, and the Exchange Rate in the Long Run

5. Price Levels and the Exchange Rate in the Long Run
   - Empirical Evidence on PPP and the Law of One Price
   - Explaining the Problems with PPP
   - A General Model of Long-Run Exchange Rates
   - Real Exchange Rate and Real Interest Parity

6. Output and the Exchange Rate in the Short Run
   - Output Market Equilibrium in the Short Run: The DD Schedule
   - Asset Market Equilibrium in the Short Run: The AA Schedule
   - Short-Run Equilibrium for an Open Economy
- Temporary vs. Permanent Changes in Monetary and Fiscal Policies
- Macroeconomic Policies and the Current Account
- The Mundell-Fleming model

7. Fixed exchange rate regime
   - Central Bank Intervention in Foreign Exchange Market
   - Stabilization Policies
   - Comparing exchange rate regimes

8. The international monetary system
   - The Gold Standard and the Bretton Woods agreement. The IMF.
   - Policy coordination with floating exchange rates.
   - Optimum currency area theory. The single currency and economic integration. The EMU.

9. International capital markets and emerging markets
   - The efficiency of international capital markets: theory and evidence.
   - Problems of international finance for developing countries

(FINAL)