

ECON-370

International Economics

American University
Department of Economics
Fall 2012
T F 4:00-5:15 pm
Room: EQB 15

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Office Hours: M 2-4 pm,
T and F 2-3 pm

Syllabus

This course will cover the basic principles of international trade theory, trade policy analysis, international capital mobility, globalized production, the balance of payments, exchange rate determination, open economy macroeconomics, and international financial economics. As you will discover, international economics is a challenging subject. Although our primary interest is in policy implications, you will be required to apply models that you learned in your macro and micro courses and to use simple mathematical tools (up to high school-level algebra and geometry). You must attend regularly, keep up with the readings, ask questions during class, do the problem sets for practice, and get to work early on your policy essays (and presentations) in order to do well in the course.

Prerequisites and Majors:

The prerequisites for this course are two semesters of introductory economics, macro and micro (ECON-100 and 200). Please note that *ECON-370 does not count toward the "International Track" in the B.A. in Economics or toward a B.S. in Economics or Mathematics and Economics*. If you want to do these degrees, you *must* take the more advanced courses ECON-371 (trade) and 372 (finance), which have prerequisites of ECON-300 and 301 (intermediate micro and macro), respectively. This course (370) may be counted toward the General Track in the B.A. in Economics, but *no more than two* of the three international economics courses (370, 371, and 372) may be counted toward that major. This course may also be counted for the Minor in Economics and various majors in SIS and other schools, depending on their requirements. Please see your advisor or talk to the professor about which course sequence is right for you.

Class Website

The class website is on Blackboard (<https://blackboard.american.edu>). It will contain this syllabus (and any updates) plus announcements, assignments, readings, useful external links, and copies of class presentations (PowerPoint or other). The website will also be used for sending e-mail messages to class participants. By default, Blackboard sends e-mail to your @student.american.edu address; you can change your e-mail address under your personal settings in Blackboard, or use myau.american.edu to have your AU e-mail forwarded to another address. It is *your* responsibility to configure and check your e-mail so that you receive messages about this course in a timely fashion.

Books and Readings

The required text is:

Kenneth A. Reinert, *An Introduction to International Economics: New Perspectives on the World Economy*, Cambridge University Press, 2012, paperback edition, ISBN: 978-0-521-17710-8.

Note: The ISBN is provided to make sure you get the right book, if you order elsewhere. Additional readings will be made available on Blackboard.

Learning Objectives

After taking this course, you should be able to:

- Identify the causes of patterns in international trade, i.e., what determines why countries export and import particular types of goods and services.
- Identify the likely “winners” and “losers” from trade liberalization and explain how these relate to the politics of trade policy.
- Analyze the impact of trade policies, such as tariffs, on various interest groups, such as consumers and producers of the goods or owners of different factors of production.
- Explain how global production is organized by multinational enterprises, and what are the roles of “vertical integration” and “supply chains.”
- Calculate a nation’s balance of payments and show how the balance of payments accounts relate to a nation’s macroeconomic indicators and performance.
- Distinguish between nominal and real exchange rates, and explain how exchange rates affect economic activity.
- Explain how exchange rates are determined when they are flexible and how governments control them when they are managed or fixed.
- Discuss the pros and cons of monetary unions, such as the euro zone, and the consequences of alternative exchange rate systems.
- Analyze the causes and consequences of global trade imbalances and financial crises and policies for addressing them.

Work Requirements and Grading

Exams: There will be **two midterm exams** (tentatively scheduled for October 5 and 26) and a **final exam** at the regularly scheduled time (**Friday, Dec. 14, from 2:35–5:05 pm**). You **must** take these exams at the scheduled times.

Problem sets: Will be provided to help you to review for the exams. Problem sets will not be given letter grades, but will be checked for completeness and effort and will count for 10% of the grade.

Policy Essays: **All students will write one policy essay** on a choice of topics related to the euro zone financial crisis. Detailed instructions and topics will be provided.

Grading: Problem sets 10%, midterms 20% *each*, policy essay and presentation 20%, final exam 30%.

Class Schedule and Reading List

Notes:

- All dates are *approximate*; readings are *subject to change*. Changes will be announced via email and/or in class. Newer policy readings may be substituted for older ones.
- Specific required pages within chapters may be announced as we go along.
- You will *also* be responsible for various class handouts and PowerPoint presentations, which are not listed here. Copies will be posted on Blackboard *after* they are presented.
- Note that **(B)** indicates Blackboard/Content; **(R)** indicates Blackboard/Course Reserves.

<u>Dates</u>	<u>Topic</u>	<u>Readings</u>
Part I. INTERNATIONAL TRADE AND PRODUCTION		
Aug. 28-31	Introduction to International Economics; Supply-and-Demand Models of Trade	Reinert, chs. 1-2
Sep. 4-7	Absolute vs. Comparative Advantages; Classical Trade Theory	Reinert, ch. 3 *Cohen et al., ch. 3 (B)
Sep. 11-14	Intra-Industry Trade; Neoclassical Trade Theory	Reinert, ch. 4
Sep. 18-21	Distributional Effects of Trade (Winners & Losers)	Reinert, ch. 5
Sep. 25-28	Trade Policies	Reinert, ch. 6 Case studies (B)
Oct. 2	Administered/Contingent Protection	Blecker, “U.S. Steel Import Tariffs” (B)
Fri. Oct. 5	<u>FIRST MIDTERM</u>	
Oct. 9	Trade Agreements: Multilateral and Preferential	Reinert, chs. 7-8
Oct. 12	<i>Fall Break—No Class</i>	
Oct. 16	The North American Free Trade Agreement	Blecker & Esquivel, “NAFTA, Trade, and Development” (B)
Oct. 19-23	Multinational Enterprises and International Production	Reinert, chs. 9-11, 22
Fri. Oct. 26	<u>SECOND MIDTERM</u>	

* This chapter covers material that will be taught over a three-week period, corresponding to chapters 3-5 in Reinert.

Part II. INTERNATIONAL FINANCE

Oct. 30-Nov. 2	Balance of Payments, Open Economy Macro	Reinert, ch. 13
Nov. 6-9	Exchange Rates and Foreign Exchange Markets; Flexible Exchange Rates	Pugel, chs. 17-18, 19 (pp. 443-459 only) (B) [Reinert 14-15 <i>optional</i>]
Nov. 13-20	Fixed Exchange Rates, Financial Crises, Exchange Rate Regimes, Monetary Unions	Reinert, chs. 16, 18-19 Subramanian, "Renminbi Undervaluation" (B) Lane, "European Debt Crisis" (R) Other reading on euro zone crisis (B)
Nov. 27-30	The U.S. Trade Deficit and Global Imbalances; Catch-up and review	Blecker, "Global Imbal- ances and the U.S. Trade Deficit" (B) Preeg, "The U.S. Trade Deficit..." (B)
Tues. Dec. 4	<u>POLICY ESSAYS ON EURO ZONE CRISIS DUE</u>	
Dec. 4-7	Debate on the Euro-Zone Crisis <u>STUDENT PRESENTATIONS</u>	Students will make presentations
Fri. Dec. 14	<u>FINAL EXAM (2:35–5:05 pm)</u>	