

ECON 309 INTERNATIONAL ECONOMICS 2005

COURSE OUTLINE

LECTURERS

Paul Tompkinson (Co-ordinator), Room RH 403, Extension 5737
John Singleton, Room RH 424, Extension 5131

TIMETABLE

LECTURES:	M, W, TH	11:30-12:20	GB LT3
TUTORIAL	M	9:30-10:20	RLWY 315
TUTORIAL	TH	10:30-11:20	RLWY 315

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COURSE CONTENT

This course will consider the answers that trade theorists have provided to questions concerning the role and nature of international trade. For example what determines trade flows? Is trade desirable for a country? For the World? What are the effects of protection? How are exchange rates determined? Are fixed exchange rates superior to floating rates? Use will be made of calculus and diagrammatic techniques.

COURSE OBJECTIVES

By the end of the course students should

1. Have an understanding of the central concepts of international trade theory, both pure and monetary
2. Be able to apply this understanding to current issues and debates in international economics.
3. Have demonstrated this understanding and its application with well-argued discussion and formal analysis, particularly in writing but also in tutorial discussion.

ASSESSMENT

Assignment 1	15%
Assignment 2	25%
Three hour Registry examination	60%

All pieces of assessment will contribute to and test the three objectives, with the balance varying. Details of the assignments are given in a separate document.

Due Dates for In Term Work [Hand in no later than the beginning of the lecture]

Assignment 1	August 11, 2005
Assignment 2	October 6, 2003

Late work will be accepted without penalty with good reason (e.g. a medical certificate) and prior permission. In other cases 5 marks will be deducted from the student's mark (out of 100) for each day, or part day, the assignment is late.

The exam will be held during the end of year exam period. Its date and time will be notified on official university exam timetables. No materials or calculators may be taken into the final exam.

TERMS: Satisfactory completion of the in-term work by 13 October

BLACKBOARD: Blackboard contains information about the course, lecture notes and other relevant material. Please check this source regularly for any announcements.

STUDY TIME: It is expected that students will devote about 8 hours a week of independent study to the course.

COURSE TEXT

P. R. Krugman and M. Obstfeld *International Economics*, Sixth Edition, Harper Collins, 2003.

References to other material that are underlined can be found in the ECON 309 Course Handbook. Students should purchase a copy of this Handbook from Student Notes.

TOPICS AND READINGS:

A REAL TRADE THEORY AND POLICY

1 The Ricardian Model

Krugman and Obstfeld, Ch. 2,

E. E. Leamer, 1994, "Testing Trade Theory", in D. Greenaway and L. A. Winters (eds) *Surveys in International Trade*, Oxford, Blackwell, pages, 66-72.

2. The Specific Factors or Three Factor model

Krugman and Obstfeld, Ch. 3

3. The Heckscher-Ohlin Model

Krugman and Obstfeld, Chs 4

E. E. Leamer, 1994, "Testing Trade Theory", in D. Greenaway and L. A. Winters (eds) *Surveys in International Trade*, Oxford, Blackwell, pages, 72-84

4. The Standard Trade Model

Krugman and Obstfeld Ch. 5

5. Economies of Scale, Imperfect Competition and International Trade

Krugman and Obstfeld, Ch. 6

H. Kierzkowski, 1985, "Models of International Trade in Differentiated Goods", Ch. 2 in D. Greenaway (ed.), 1985, *Current Issues in International Trade Theory*, MacMillan.

E. E. Leamer, 1994, "Testing Trade Theory", in D. Greenaway and L. A. Winters (eds) *Surveys in International Trade*, Oxford, Blackwell, pages 84-89.

J. R. Tybout, 1993, "Internal Returns to Scale as a Source of Comparative Advantage: The Evidence.", *American Economic Review, Papers and Proceedings*, 83, 440-444.

6. International Factor Movements

Krugman and Obstfeld, Ch. 7

G. J. Borjas, 1995, "The Economic Benefits from Immigration", *Journal of Economic Perspectives*, 9, 3-22.

7. The Instruments of Trade Policy

Krugman and Obstfeld, Ch. 8

8. The Political Economy of Trade Policy

Krugman and Obstfeld, Ch. 9

9. Controversies in Trade Policy.

Krugman and Obstfeld, Ch. 11

P. Brenton, H. Scott and P. Sinclair, 1997, *International Trade: A European Text*, Oxford, Oxford University Press, Ch. 16

Daly, H. E., 1993, "The Perils of Free Trade, *Scientific American*, November, 24-29.

P. R. Krugman, (2), 1987, "Is Free Trade Passe?", *Journal of Economic Perspectives*, 1, pp.131-144.

J. Komlos, 1988, "Comment on 'Is Free Trade Passé?'" , *Journal of Economic Perspectives*, 2, pp.207-209.

D. Rodrik, 1997, chapter 2, "Consequences of Trade for Labour Markets and the Employment Relationship.", from, *Has Globalisation Gone Too Far?* , Institute for International Economics, Washington

D. Rodrik, 1998, "Sense and Nonsense in the Globalisation Debate", in *Economics 99/99*, McGraw Hill.

B EXCHANGE RATES AND OPEN-ECONOMY MACROECONOMICS

1. National Income Accounting and the Balance of Payments

Krugman and Obstfeld, Ch. 12.

2. Exchange Rates and the Foreign Exchange Market: An Asset Approach

Krugman and Obstfeld, Ch. 13 and appendix.

K. Froot and R. Thaler, "Anomalies: Foreign Exchange," *Journal of Economic Perspectives*, Summer 1990, pp. 179-192.

3. Money, Interest Rates and the Exchange Rate

Krugman and Obstfeld, Ch. 14.

4. Price Levels and the Exchange Rate in the Long Run

Krugman and Obstfeld, Ch. 15.

R. Dornbusch, "Purchasing Power Parity" in *The New Palgrave Dictionary of Economics*, Vol. 3, New York, 1987, pp. 1075-1085.

K. Rogoff, "The Purchasing Power Parity Puzzle," *Journal of Economic Literature*, Vol. 34, June 1996, pp. 647-668.

5. Output and the Exchange Rate in the Short Run

Krugman and Obstfeld, Ch. 16 and appendices.

6. Fixed Exchange Rates and Foreign Exchange Intervention

Krugman and Obstfeld, Ch. 17.

M. Obstfeld, "International Finance" in *The New Palgrave Dictionary of Economics*, Vol. 2, 1987, pp. 898-906.

7. The International Monetary System 1870-1973 [John Singleton will present two lectures on the Gold Standard]]

Krugman and Obstfeld, Ch. 18.

B. Eichengreen, 1992, "The Origins and Nature of the Great Slump Revisited", *Economic History Review*, XLV, 213-239. P14

B. Eichengreen, 1996, *Globalising Capital*, Princeton, Princeton University Press.

B. Eichengreen and P. Temin, 1997, "The Gold Standard and the Great Depression, Working Paper 6060 National Bureau of Economic Research. P28

8. Macroeconomic Policy and Coordination under Floating Exchange Rates

Krugman and Obstfeld, Ch. 19.

9. Optimum Currency Areas and the European Experience

Krugman and Obstfeld, Ch. 20.

M. Feldstein, "The Case Against EMU," *The Economist*, June 13, 1992, pp. 19-22.

10. The Global Capital Market

Krugman and Obstfeld Ch. 21

TUTORIAL TOPICS

Week beginning 11 July

1. For LPE if H imposes an import tariff what are the effects on
 - i. the price of the good in H and F
 - ii. consumption of the good in H and F,
 - iii. production of the good in H and F
 - iv. consumption of the good in H and F,
 - v. imports of the good into H.

2. For SPE show that the effects of a tax on a good differ depending on whether the tax is imposed on producers or consumers.
3. For SPE show that a tax on a good can be a cause of trade.

Week beginning 18 July

Read the textbook from page 283, beginning after the section headed “Globalisation and Low-Wage Labour” to the end of the chapter and answer the following questions

1. What questions do Krugman and Obstfeld raise?
2. What answers do they provide?
3. Are their answers convincing?

Week beginning 25 July

Discussion of, D. Rodrik, 1997, chapter 2, "Consequences of Trade for Labour Markets and the Employment Relationship", from, *Has Globalisation Gone Too Far?* , Institute for International Economics, Washington.

Week beginning 1 August

Discussion of, J. R. Tybout, 1993, "Internal Returns to Scale as a Source of Comparative Advantage: The Evidence", *American Economic Review, Papers and Proceedings*, 83, 440-444.

Week beginning 8 August

Discussion of, P. R. Krugman, 1987, "Is Free Trade Passé?", *Journal of Economic Perspectives*, 1, pp.131-144, and J. Komlos, 1988, "Comment on 'Is Free Trade Passé?'", *Journal of Economic Perspectives*, 2, pp.207-209.

Week beginning 29 August

Review of Assignment 1

Week beginning 5 September

Chapter Title	Questions
Exchange Rates and the Foreign Exchange Market: An Asset Approach	11,
12	
Money, Interest Rates and Exchange Rates	1, 10

Week beginning 12 September

Chapter Title	Questions
Price Levels and the Exchange Rate in the Long Run	3, 6, 11

Week beginning 19 September

Chapter Title	Questions
Output and the Exchange Rate in the Short Run	2, 3, 7

Week beginning 26 September

Chapter Title	Questions
Fixed Exchange Rates and Foreign Exchange Intervention	4, 5
The International Monetary System 1870-1973	5, 6

Week beginning 3 October

Chapter Title	Questions
Macroeconomic Policy and Coordination	1, 5, 7

PAPERS REPRINTED IN THE ECONO 309 HANDBOOK

- K. Cowling and R. Sugden, 1998, "Strategic Trade Policy Reconsidered: National Rivalry vs Free Trade vs International Competition", *Kyklos*, 51, 339-357. **P1**
- Daly, H. E., 1993, "The Perils of Free Trade", *Scientific American*, November, 24-29. **P11**
- B. Eichengreen, 1992, "The Origins and Nature of the Great Slump Revisited", *Economic History Review*, XLV, 213-239. **P14**
- B. Eichengreen and P. Temin, 1997, "The Gold Standard and the Great Depression", Working Paper 6060 National Bureau of Economic Research. **P28**
- D. A. Irwin, 1991, "Challenges to Free Trade", *Journal of Economic Perspectives*, 5, 201-208. **P51**
- C. Kenny and D. Williams, 2000, "What Do We Know About Economic Growth? Or, Why Don't We Know Very Much?", *World Development*, 29, 1-22. **P56**
- J. Komlos, 1988, "Comment on 'Is Free Trade Passé?'" *Journal of Economic Perspectives*, 2, pp.207-209. **P67**
- P. R. Krugman, 1987, "Is Free Trade Passé?" *Journal of Economic Perspectives*, 1, pp.131-144. **P70**
- P. R. Krugman, 1995, "Technological Change in International Trade", from P. Stoneman (ed.) *Handbook of the Economics of Innovation and Technical Change*, Oxford, Blackwell. **P78**
- M. Obstfeld and K. Rogoff, 1995, "The Mirage of Fixed Exchange Rates", *Journal of Economic Perspectives*, 9, 73-96. **P90**
- D. Rodrik, 1992, "The Limits of Trade Reform in Developing Countries", *Journal of Economic Perspectives*, 6, 87-105. **P103**
- D. Rodrik, 1997, chapter 2, "Consequences of Trade for Labour Markets and the Employment Relationship", from, *Has Globalisation Gone Too Far?* Institute for International Economics, Washington. **P113**
- D. Rodrik, 1998, "Sense and Nonsense in the Globalisation Debate", in *Economics 99/99*, McGraw Hill. **P122**
- J. R. Tybout, 1993, "Internal Returns to Scale as a Source of Comparative Advantage: The Evidence." *American Economic Review, Papers and Proceedings*, 83, 440-444. **P132**

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly those regarding assessment and course of study requirements, and formal academic grievance procedures.

Student Conduct and Staff Conduct

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps can be taken if there is a complaint. For queries about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor. This Statute is available in the Faculty Student Administration Office or on the website at: www.vuw.ac.nz/policy/StudentConduct.

The policy on Staff Conduct can be found on the VUW website at: www.vuw.ac.nz/policy/StaffConduct.

Academic Grievances

If you have any academic problems with your course you should talk to the tutor or lecturer concerned or, if you are not satisfied with the result of that meeting, see the Head of School or the Associate Dean (Students) of your Faculty. Class representatives are available to assist you with this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website: www.vuw.ac.nz/policy/AcademicGrievances.

Academic Integrity and Plagiarism

Academic integrity is about honesty – put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. Plagiarism is **prohibited** at Victoria.

The University defines plagiarism as follows:

Plagiarism is presenting someone else's work as if it were your own, whether you mean to or not.

'Someone else's work' means anything that is not your own idea, even if it is presented in your own style. It includes material from books, journals or any other printed source, the work of other students or staff, information from the Internet, software programmes and other electronic material, designs and ideas. It also includes the organization or structuring of any such material.

Plagiarism is not worth the risk.

Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct (www.vuw.ac.nz/policy/studentconduct) and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- suspension from class or university
- cancellation of your mark for an assessment or a fail grade for the course.

Find out more about plagiarism and how to avoid it, on the University's website at: www.vuw.ac.nz/home/studying/plagiarism.html.

Students with Disabilities

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities an equal opportunity with all other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, then please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services to confidentially discuss your individual needs and the options and support that are available. Disability Support Services are located on Level 1, Robert Stout Building, or phoning 463-6070, email: disability@vuw.ac.nz. The name of your School's Disability Liaison Person can be obtained from the Administrative Assistant or the School Prospectus.

Student Support

Staff at Victoria want students' learning experiences at the University to be positive. If your academic progress is causing you concern, please contact the relevant Course Co-ordinator, or Associate Dean who will either help you directly or put you in contact with someone who can.

The Student Services Group is also available to provide a variety of support and services. Find out more at www.vuw.ac.nz/st_services/ or email student-services@vuw.ac.nz.

VUWSA employs two Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and faculty delegates. The Education Office is located on the ground floor, Student Union Building, phone 463 6983 or 463 6984, email education@vuwsa.org.nz.