

School of Economics and Finance

ECON 309 INTERNATIONAL ECONOMICS

Trimester Two 2006

COURSE OUTLINE

Contact Details

Paul Tompkinson (Coordinator/Lecturer), Room RH 403, Extension 5737, Email Paul.Tompkinson@vuw.ac.nz
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Class Times and Room Numbers

The lecture times are W, R F, 8-30 to 9-20 in GBLT3

Tutorial times will be given in the first lecture.

The final examination will be held in the period October 16 to November `11

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.

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.

Expected Workload

Students are expected to do 20 hours of independent study a week.

Readings

P. R. Krugman and M. Obstfeld *International Economics*, SEVENTH 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.

Lecture Topics

A 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

B 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.

Tutorial Topics

Week beginning 17 July

Chapter Title

Exchange Rates and the Foreign Exchange Market: An Asset Approach
Money, Interest Rates and Exchange Rates

Questions

9, 12
1, 10

Week beginning 24 July

Chapter Title

Price Levels and the Exchange Rate in the Long Run

Questions

3, 10 11

Week beginning 31 July

Chapter Title

Output and the Exchange Rate in the Short Run

Questions

3, 7, 12

Week beginning 7 August

Chapter Title

Fixed Exchange Rates and Foreign Exchange Intervention
The International Monetary System 1870-1973

Questions

4, 5
5, 6

Week beginning 14 August

Chapter Title

Macroeconomic Policy and Coordination

Questions

1, 5, 7

Week Beginning 4 September

Review of Assignment 1

Week beginning 11 September

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 September

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 September

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 2 October

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 9 October

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.

PAPERS REPRINTED IN THE ECON 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**

Materials and Equipment

No other material is required or permitted for use in tests and the examination

Assessment Requirements

Assignment 1	20%
Assignment 2	20%
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 18, 2006
Assignment 2	October 12, 2006

Penalties

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. If assignments exceed the word limit only the first X words will be marked.

Mandatory Course Requirements

Both assignments to be completed before October 12 2006.

Communication of Additional Information

Additional information or information on changes will be conveyed by announcements on Blackboard

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar available in hard copy or under 'About Victoria' on the VUW home page at www.vuw.ac.nz.

Student 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 are to be taken if there is a complaint. For information about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor or refer to the statute on the VUW policy 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; class representatives may be able to help you in this. If you are not satisfied with the result of that meeting, see the Head of School or the relevant Associate Dean; VUWSA Education Coordinators are available to assist in 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 at 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. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other student or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

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

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 Impairments

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities the same opportunity as 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, 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 (DSS) to discuss your individual needs and the available options and support on a confidential basis. DSS are located on Level 1, Robert Stout Building, telephone (04) 463 6070, email disability@vuw.ac.nz. The name of your School's Disability Liaison Person is in the relevant prospectus or can be obtained from the School Office or DSS.

Student Support

Staff at Victoria want students to have positive learning experiences at the University. Each Faculty has a designated staff member who can either help you directly if your academic progress is causing you concern, or quickly put you in contact with someone who can. Assistance for specific groups is also available from the Kaiwawao Māori, Manaaki Pihipihinga or Victoria International.

In addition, the Student Services Group (email student-services@vuw.ac.nz) is available to provide a variety of support and services. Find out more at www.vuw.ac.nz/st_services/.

VUWSA employs 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 (tel. (04) 463 6983 or (04) 463 6984, email education@vuwsa.org.nz) is located on the ground floor, Student Union Building.

Manaaki Pihipihinga - Māori and Pacific Mentoring Programme (Faculty of Commerce and Administration)

This is a mentoring service for Māori and Pacific students studying at all levels. Weekly one hour sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade, and Room 210 and 211, Level 2, Railway West Wing. Sessions cover drafting and discussing assignments, essay writing, and any questions that may arise from tutorials and/or lectures. A computer suite networked to Cyber Commons is available for student use.

To register with Manaaki Pihipihinga, please contact one of the following:

Puawai Wereta
Room 210, Level 2
Railway West Wing
Tel. (04) 463 8997
Email: Puawai.Wereta@vuw.ac.nz

Fa'afai Seiuli
Room 109 B
14 Kelburn Parade
Tel. (04) 463 5842
Email: Faafai.Seiuli@vuw.ac.nz