

School of Economics and Finance

## **ECON 309 INTERNATIONAL ECONOMICS**

Trimester Two 2008

### **COURSE OUTLINE**

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#### **Contact Details**

Paul Tompkinson (Coordinator/Lecturer), Room RH 403, Extension 5737, Email [Paul.Tompkinson@vuw.ac.nz](mailto:Paul.Tompkinson@vuw.ac.nz)  
Yuliya Moore (Lecturer), Room RH 404, Extension 6436, Email [Yuliya.Moore@vuw.ac.nz](mailto:Yuliya.Moore@vuw.ac.nz)

#### **Class Times and Room Numbers**

The lecture times are M, W, F 11-30 TO 12-20 in GBLT3  
The tutorial times are M, W, F, 10-30 to 11-20 in RWW221

The final examination will be held in the period October 13 to November 8

#### **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 study a week.

#### **Readings**

P. R. Krugman and M. Obstfeld *International Economics*, SEVENTH Edition, Harper Collins, 2005.  
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.

"Exchange rates and interest rate differentials: recent developments since the introduction of the euro," Deutsche Bundesbank Monthly Report July 2005.

### **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.

Michael R. Pakko and Patricia S. Pollard, "Burgernomics: A Big Mac™ Guide to Purchasing Power Parity", Federal Reserve Bank of St. Louis *Review*, November/December 2003, 85(6), pp. 9-28.

### **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**

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

Raghuram G. Rajan, Luigi Zingales, "The great reversals: the politics of financial development in the twentieth century," *Journal of Financial Economics*, 69 (2003) 5-50.

Rafael La Porta, Florencio Lopez-De-Silanes, Andrei Shleifer, Robert W. Vishny, "Legal Determinants of External Finance", *The Journal of Finance*, Vol. 52, No. 3, Papers and Proceedings Fifty-Seventh Annual Meeting, American Finance Association, New Orleans, Louisiana, January 4-6, 1997. (Jul., 1997), pp. 1131-1150.

## **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, Ch. 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 14 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 21 July**

##### **Chapter Title**

Price Levels and the Exchange Rate in the Long Run

##### **Questions**

3, 10 11

#### **Week beginning 28 July**

##### **Chapter Title**

Output and the Exchange Rate in the Short Run

##### **Questions**

3, 7, 12

#### **Week beginning 4 August**

##### **Chapter Title**

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

##### **Questions**

4, 5  
5, 6

#### **Week beginning 11 August**

##### **Chapter Title**

Macroeconomic Policy and Coordination

##### **Questions**

1, 5, 7

### Week beginning 1 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 8 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 15 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 22 September

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 29 September

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 6 October

Revision

### 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 15, 2008

Assignment 2 October 10, 2008

## **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 10.

## **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.

### **Notice of Turnitin Use**

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <<http://www.turnitin.com>>. Turnitin is an on-line plagiarism prevention tool which identifies material that may have been copied from other sources including the Internet, books, journals, periodicals or the work of other students. Turnitin is used to assist academic staff in detecting misreferencing, misquotation, and the inclusion of unattributed material, which may be forms of cheating or plagiarism. At the discretion of the Head of School, handwritten work may be copy typed by the School and subject to checking by Turnitin. You are strongly advised to check with your tutor or the course coordinator if you are uncertain about how to use and cite material from other sources. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

### **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 or go to [www.vuw.ac.nz/policy](http://www.vuw.ac.nz/policy).

For information on the following topics, go to the Faculty's website [www.vuw.ac.nz/fca](http://www.vuw.ac.nz/fca) under Important Information for Students:

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

### **Manaaki Pihipihinga Programme**

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email [manaaki-pihipihinga-programme@vuw.ac.nz](mailto:manaaki-pihipihinga-programme@vuw.ac.nz) or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email [pacific-support-coord@vuw.ac.nz](mailto:pacific-support-coord@vuw.ac.nz) or phone (04) 463 5842.