

School of Economics and Finance

ECON 309 INTERNATIONAL ECONOMICS

Trimester Two 2010

COURSE OUTLINE

Contact Details

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

Trimester Dates

Teaching Period: Monday 12th July – Friday 15th October 2010

Study Period: Monday 18th October – Thursday 21st October 2010

Examination Period: Friday 22nd October – Saturday 13th November 2010 (inclusive)

Withdrawal from Courses:

Your fees will be refunded if you withdraw from this course on or before **23 July 2010**

The last date for withdrawal from this course (*assuming it has 12 weeks of lectures, otherwise modify accordingly*) is the three-quarter point of the teaching period, i.e. **Friday 24 September**. After that date, permission to withdraw requires the permission of the Associate Dean (Students) as set out in section 8 of the Personal Courses of Study Statute

<http://policy.vuw.ac.nz/Amphora!~~policy.vuw.ac.nz~POLICY~000000001743.pdf>

To apply for permission, fill in the Late Withdrawal form available from either of our Student Customer Service Desks.

Class Times and Room Numbers

The lecture times are M, T, R, 11-30 to 12-20, RH LT3

The tutorial times are M, R, 10-30 to 11-20 in RH G03, and

T, 10-30 to 11-20, RWW 312

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 Learning Objectives

By the end of the course students should be able to
use the standard models to explain international trade
use models of imperfect competition to explain trade
explain and apply models of factor migration
apply economic models to evaluate government trade policies
explain and use a short run model of exchange rate determination
use a short run model of the exchange rate incorporating money
use a long run model of the exchange rate
explain and apply a short run macroeconomic model
explain and apply a macro model in which the exchange rate is fixed, and use it to explain
problems with fixed exchange rate regimes
explain and analyse the theory of optimal currency areas.

Course Delivery

There will be three lectures per week and one tutorial. Tutorials will largely consist of discussion of material from the Handbook

Expected Workload

Students are expected to do 20 hours of study per week

Readings

P. R. Krugman and M. Obstfeld *International Economics*, Eighth Edition, Harper Collins, 2009.
The second reference given for each topic are my lecture notes on Blackboard.
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.

Materials and Equipment

No other material or equipment is required or permitted for use in tests and examinations

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 a hard copy no later than the beginning of the relevant lecture. Assignments sent by email will not be marked.]

Assignment 1 August 19, 2010
Assignment 2 October 14, 2010

Answers for each assignment will be approximately 1500 words

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 those words up to the word limit will be marked.

PLEASE NOTE

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period.

The final examination for this course will be scheduled at some time during the period **Friday 22nd October – Saturday 13th November 2010 (inclusive)**

Mandatory Course Requirements

Both assignments to be completed before October 15

Class Representative

A class representative will be appointed in the first lecture, and that person's name and contact details will be available to VUWSA, the Course Coordinator and the Class

LECTURE TOPICS

A REAL TRADE THEORY AND POLICY

1 Introduction

Krugman and Obstfeld, Chs. 1 and 2
1PE MODELS

2 The Ricardian Model

Krugman and Obstfeld, Ch. 3
2 RICARDIAN MODEL

3 The Specific Factors or Three Factor model

Krugman and Obstfeld do not cover this topic
3 SPEC FACT

4 The Heckscher-Ohlin Model

Krugman and Obstfeld, Ch. 4
4 HOM

5 The Standard Trade Model

Krugman and Obstfeld Ch. 5
5 STM

6 Economies of Scale, Imperfect Competition and International Trade

Krugman and Obstfeld, Ch. 6
6 INC RETURNS & IMP COMP

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.

7 International Factor Movements

Krugman and Obstfeld, Ch. 7

7 FACTOR MOBILITY

8 The Instruments of Trade Policy

Krugman and Obstfeld, Ch. 8

8 GAINS FROM TRADE

9 POLICY

6) The Political Economy of Trade Policy

Krugman and Obstfeld, Ch. 9

No Blackboard notes

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

7 Controversies in Trade Policy.

Krugman and Obstfeld, Ch. 11

No blackboard notes

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

No Blackboard notes

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

Krugman and Obstfeld, Ch. 13 and appendix

2 FEM

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.

3 MR-ER

4 Price Levels and the Exchange Rate in the Long Run

Krugman and Obstfeld, Ch. 15

4 RER

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

5 AADD

6 Fixed Exchange Rates and Foreign Exchange Intervention

Krugman and Obstfeld, Ch. 17

6 FER

7 The International Monetary System 1870-1973

Krugman and Obstfeld, Ch. 18

7 IMS

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

8 Macroeconomic Policy and Coordination under Floating Exchange Rates

Krugman and Obstfeld, Ch. 19

8TWO COUNTRY AADD MODEL

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 19 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 26 July

Read the textbook from page 273, 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 2 August

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 9 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 16 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 6 September

Review of Assignment 1

Week beginning 13 September

Chapter Title	Questions
Exchange Rates and the Foreign Exchange Market: An Asset Approach	9, 12
Money, Interest Rates and Exchange Rates	1, 10

Week beginning 20 September

Chapter Title	Questions
Price Levels and the Exchange Rate in the Long Run	3, 5, 11

Week beginning 27 Spetember

Chapter Title	Questions
Output and the Exchange Rate in the Short Run	3, 7, 12

Week beginning 4 October

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

Week beginning 11 October

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**

Communication of Additional Information

Additional information will be provided via Blackboard

Use of Turnitin (if applicable)

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 compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin. 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.

For the following important information follow the links provided:

Academic Integrity and Plagiarism

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

General University Policies and Statutes

<http://www.victoria.ac.nz/home/about/policy>

AVC (Academic) Website: information including: Conduct, Academic Grievances, Students with Impairments, Student Support

http://www.victoria.ac.nz/home/about_victoria/avcacademic/Publications.aspx

Faculty of Commerce and Administration Offices

<http://www.victoria.ac.nz/fca/studenthelp/>

Manaaki Pihipihinga Programme

http://www.victoria.ac.nz/st_services/mentoring/