

School of Economics and Finance

ECON 309 INTERNATIONAL ECONOMICS

Trimester Two 2011

COURSE OUTLINE

Names and Contact Details

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Trimester Dates

Teaching Period: Monday 11 July – Friday 14 October

Study Period: Monday 17 October – Thursday 20 October

Examination Period: Friday 21 October – Saturday 12 November (inclusive)

Withdrawal from course

1. Your fees will be refunded if you withdraw from this course on or before 22 July 2011.
2. The standard last date for withdrawal from this course is Friday 23 September. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an '*Application for Associate Dean's Permission to Withdraw Late*' including supporting documentation.

The application form is available from either of the Faculty's Student Customer Service Desks.

Class Times and Room Numbers

Lecture times are Tuesday, Thursday, 12-40 to 13-30, RH LT2

Tutorial times are Tuesday, Thursday, 10-30 to 11-20 in RWW 221 and
Thursday, 11-30 to 12-20 in RWW128.

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 this course, students should be able to

1. use the standard models to explain international trade
2. use models of imperfect competition to explain trade
3. explain and apply models of factor migration
4. apply economic models to evaluate government trade policies
5. explain and use a short run model of exchange rate determination
6. use a short run model of the exchange rate incorporating money
7. use a long run model of the exchange rate.

Expected Workload

The minimum number of hours per week, in addition to time spent at lectures and tutorials, will depend upon the abilities of each student, but it is unlikely to be less than ten.

Readings

P. R. Krugman and M. Obstfeld *International Economics*, NINTH Edition, Pearson.

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.

Lecture Topics

PART 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 Ch. 4

3 SPEC FACT

4 The Heckscher-Ohlin Model

Krugman and Obstfeld, Ch. 5

4 HOM

5 The Standard Trade Model

Krugman and Obstfeld Ch. 6

5 STM

6 Economies of Scale, Imperfect Competition and International Trade

Krugman and Obstfeld, Ch. 7, 8

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, pages 99-103 and pages 157-160 and
7 FACTOR MOBILITY

8 The Instruments of Trade Policy

Krugman and Obstfeld, Ch. 9
8 GAINS FROM TRADE
9 POLICY

6) The Political Economy of Trade Policy

Krugman and Obstfeld, Ch. 10
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. 12
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.

PART B: MODELS OF EXCHANGE RATE DETERMINATION

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

Krugman and Obstfeld, Ch. 14 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. 15.
3 MR-ER

4 Price Levels and the Exchange Rate in the Long Run

Krugman and Obstfeld, Ch. 16
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.

Tutorial Topics

Week beginning 25 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 1 August

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 8 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 15 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 5 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 12 September

Review of Assignment 1

Week beginning 3 October

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 10 October

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

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	30%
Assignment 2	10%
Three hour Registry examination	60% (or 100% if this leads to a higher mark)

All pieces of assessment will contribute to and test the course objectives, with the balance varying.

The word limit for Assignment 1, is 1500 words and for assignment 2, around 750 words. Further details of the assignments are given in a separate document, to be displayed on Blackboard.

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 18, 2011

Assignment 2 October 13, 2011

Quality Assurance 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 from Friday 21 October – Saturday 12 November.

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 before the limit is reached will be marked.

Mandatory Course Requirements

There are no mandatory course requirements

Class Representative

A class representative will be elected in the first class and the person's name and contact details made available to VUWSA, the Course Coordinator and the class. The class representative provides a communication channel to liaise with the Course Coordinator on behalf of students

Communication of Additional Information

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

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

Find key dates, explanations of grades and other useful information at

www.victoria.ac.nz/home/study

Find out about academic progress and restricted enrolment at

<http://www.victoria.ac.nz/home/study/academic-progress.aspx>

The University's statutes and policies are available at www.victoria.ac.nz/home/about/policy, except qualification statutes, which are available via the Calendar webpage at

<http://www.victoria.ac.nz/home/study/calendar.aspx> (See Section C).

Further information about the University's academic processes can be found on the website of the Assistant Vice-Chancellor (Academic) at

www.victoria.ac.nz/home/about_victoria/avcacademic/default.aspx

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/>

Te Putahi Atawhai

Maori and Pacific Mentoring Programme

http://www.victoria.ac.nz/st_services/tpa/index.aspx
