



School of Economic and Financial Studies

UNIT OUTLINE

ECON303: INTERNATIONAL ECONOMICS

S2 2003

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Dr P C Ip (Rm. 393 C5C)

I. COURSE DESCRIPTION

This course is **analytically or theoretically-based with a strong linkage to current policy issues in international economics. IT IS NOT A DESCRIPTIVE COURSE.** The course provides a theoretical framework within which a number of topical issues in international economics may be addressed in a systematic and critical way. The overall objective is to **strengthen your skills as well-trained (Macquarie-trained!) economists, especially in regard to international economic issues.**

The course is divided into two main sections pure theory of international trade and international monetary theory. Within the first section, the following topics are discussed: What causes international trade? How is the pattern of trade determined? What are the welfare gains from trade? What are the welfare effects of tariffs and other non-tariff barriers? Is there a valid economic case for interventionist trade policy such as protection? Within the second section, we analyse the working of the international monetary system, including the role of the International Monetary Fund. What determines the exchange rate? What is the impact of macro policy on the current account? What is the economic argument behind the newly created European Monetary Union and what is the future role of the euro vis-à-vis the U.S. dollar?

II. COURSE REQUIREMENTS

Students should attend **all lectures and tutorials** and are required to submit an essay of no more than 2,000 words on one of the topics listed at the end of this Study Guide. There is a three-hour final examination. The essay is due on **Monday, 13 October, 2003, 4pm.. Late essays WITHOUT A MEDICAL CERTIFICATE will be penalised: one mark deducted for each day late, beginning after 4pm, 13 October, 2003.** Hand in the essay with the attached cover page and sign the statement that you have read and understood the meaning and consequences of plagiarism. **[NOTE: ESSAY IS PART OF COURSEWORK. FAILURE TO SUBMIT AN ESSAY WILL RESULT IN AN F GRADE FOR THE COURSE BEING GIVEN]. (After 20 days late, you will be given a grade of 0: no essay will be accepted after the final exam.)**

III. ASSESSMENT

Final examination	80%
Essay	20%

NOTE: TUTORIAL TOPICS AND TUTORIAL READINGS (SEE BELOW) ARE EXAMINABLE.

IV. LECTURE TOPICS:

1. Theory of Comparative Advantage
2. Heckscher-Ohlin Model
3. Production, Demand and International Trade
4. Trade Policy
5. International Monetary System and IMF
6. Exchange rate determination
7. Macro policy and current account
8. European Monetary Union and Optimum Currency Areas

V. LECTURE GUIDE AND REFERENCES

Reading material marked with two asterisks is in the Reserve Section of the University library; one asterisk is on three-day loan. Journal articles but **not books** (eg, textbook, King) can be downloaded from E-Readings linked to the library web page under Reserve (see University library web-site: www.lib.mq.edu.au). This website can also be used to download lecture notes and past exam papers but you will need to use your usernumber and password for the latter.

Textbook (recommended to buy)

******Krugman, P. and M. Obstfeld, *International Economics, Theory and Policy*, 6th ed., N.Y.: Addison-Wesley, Longman, 2002.

Study Guide (not necessary to buy)

******Goldberg, L. S. and M. W. Klein, *Study Guide to Accompany Krugman/Obstfeld International Economics Theory and Policy*, 6th ed., N.Y.: Addison-Wesley, 2000.

Tutorial Topics (useful to buy, if cashed-up)

******King, P. *International Economics and International Economics Policy. A Reader*, Boston, Irwin McGraw-Hill, 2000.

Reference books (for the keen)

- *Appleyard, D. R. and A. J. Field, Jr., *International Economics*, 4th ed., N.Y.: Irwin McGraw-Hill, 2001.
- *Grossman, G.M. and K. Rogoff (eds.), *Handbook of International Economics*, Volume III, Amsterdam: North Holland, 1995.
- *Isard, P. *Exchange Rate Economics*, Cambridge: Cambridge U. P., 1995.
- *Jones, R.W. and P. Kenen (eds.) *The Handbook of International Economics*, Amsterdam: North Holland, 1984, 2 volumes, 1984.
- *Lindert, P. H. and T. A. Pugel, *International Economics*, 11th ed., Chicago: Irwin,
- *Van der Ploeg, F. (ed) *The Handbook of International Macroeconomics*, Oxford: Basil Blackwell, 1994.

LECTURES

1. Theory of Comparative Advantage (WEEK 1)

The Ricardian model
Specific factors model
Pattern of trade
Gains from trade
Empirical evidence

Krugman and Obstfeld, Chs. 2, 3.

Appleyard and Field, Chs. 3, 4.

Lindert and Pugel, Chs. 2, 3.

2. Heckscher- Ohlin Theory (WEEK 2)

Heckscher-Ohlin model
Factor price equalisation
The offer curve
Stolper-Samuelson theorem
Leontief paradox
Empirical evidence

Krugman and Obstfeld, Ch. 4

Appleyard and Field, Chs. 5, 6, 7, 8, 9.

Lindert and Pugel, Chs. 4, 5.

Leamer, E. E. and J. Levinsohn, "International Trade Theory: The Evidence," in Grossman and Rogoff (1995), Ch. 26.

3. **Production, Demand and International Trade (WEEK 3)**

Increasing returns to scale

Imperfect competition

Intra-industry trade

Dumping

Product life cycle theory

Linder's hypothesis

Economic growth and trade

Immiserising growth

Factor mobility

Foreign direct investment

Krugman and Obstfeld, Chs. 5, 6, 7.

Appleyard and Field, Chs. 10, 11, 12.

Lindert and Pugel, Ch. 6.

**Aislabje, C.J., P.C. Ip and P.J.C. Stanton, *A Statistical Study of the Comparative Advantage of Australian industry*, Canberra: Dept. of Manufacturing Industry, May, 1975.

4. **Trade Policy (WEEKS 4-7)**

Tariffs – effects, costs and benefits

Effective rate of protection

Quotas and subsidies

Optimum tariff

Free vs fair trade

Customs union

Theory of second best

GATT, WTO

Infant industry argument

Australian trade policy

East-Asia miracle

Krugman and Obstfeld, Chs. 8, 9, 10, 11.

Appleyard and Field, Chs. 13, 14, 15, 16, 17, 18.

Lindert and Pugel, Chs. 7, 8, 9, 10, 11, 12.

5. **International Monetary System and IMF (WEEK 8)**

International monetary system
Exchange rate regimes
IMF role and functions
Reform issues and policy coordination

Krugman and Obstfeld, Chs. 17, 18, 19.
Isard, Ch. 3.

6. **Exchange rate determination (WEEKS 9-10)**

Asset market model
Short-run exchange rate determination and uncovered interest parity
Long-run exchange rate determination and purchasing power parity
Short and long run models combined

Krugman and Obstfeld, Chs. 13, 14, 15..
Isard, Chs. 1, 2, 4 5.

7. **Macro policy and current account (WEEK 11)**

Current account; definitions
Savings-investment identities
Approaches to open-economy macroeconomics
Short-run macro model of open economy; impact of monetary and fiscal policy

Krugman and Obstfeld, Ch. 12 (pp.300-305); Ch. 16.

8. **European Monetary Union and Catch-UP (WEEKS 12-13)**

European Monetary System
European Monetary Union
Optimum currency areas
Euro

Krugman and Obstfeld, Ch. 20.

VI. TUTORIAL PROGRAM

NOTE: YOU ARE REQUIRED TO READ THE RECOMMENDED TUTORIAL READING BEFORE THE TUTORIAL IN ORDER TO BE ABLE TO PARTICIPATE IN THE DISCUSSION. THE TUTORIAL IS NOT A LECTURE. NO FREE RIDERS!

Tutorials are held on Mondays at dates below beginning in week 3: 11-12, 12-1; 4-5. Lists with rooms will be placed on the ERIC noticeboard at end of week 2.

Tutorial sessions will be held at the dates given below. Tutorial topics are taken from chapters in King (see below). **The final examination will cover tutorial material either directly or indirectly (for example, in the case of the latter, you can use the readings to strengthen your understanding of the text/lecture material).**

TUTORIAL

- 1. (AUGUST 11)**
Ch. 2 (King): Krugman, “Is Free Trade Passe?”
Discussion questions (p. 54, King), Q. 4, 5.
Ch. 16: (King): Chalabi, “OPEC: An Obituary”
Discussion questions (p. 234, King), Q. 7, 8.
- 2. (SEPTEMBER 1)**
Ch. 6: (King): Klitgaard and Schiele, “The Growing U.S. Trade Imbalance with China”
Discussion questions (p. 130) Q. 3, 4.
Ch.1: (King): Feenstra, “How Costly is Protectionism?”
Discussion questions (p. 54) Q. 1,3.
- 3. (OCTOBER 13)**
Ch. 19: (King): Caramazza and Aziz, “Fixed or Flexible?”
Discussion questions (p. 301) Q 3, 4.
Ch. 27: (King): Meltzer “Asian Problems and the IMF”
Discussion questions (p. 426) Q 2, 6.

4. (OCTOBER 27)
...”.

Ch. 20: (King): Hopper, “What Determines the Exchange

Discussion questions (p. 301) Q 5.

Ch. 25: (King): Tavlas “International Use of currencies...”

Discussion questions (p. 331) Q 5, 6.

VII. ESSAY TOPICS

NOTE: ESSAY IS AN INTEGRAL COMPONENT OF COURSEWORK. FAILURE TO SUBMIT AN ESSAY WILL RESULT IN AN F GRADE BEING AWARDED FOR THE COURSE. A PENALTY IS IMPOSED FOR LATE ESSAYS WITHOUT MEDICAL CERTIFICATE. ONE MARK DEDUCTED FOR EACH DAY LATE. A LIST OF STUDENT ID NUMBERS OF SUBMITTED ESSAYS WILL BE PLACED ON ERIC NOTICEBOARD AFTER DATE OF SUBMISSION. IT IS YOUR RESPONSIBILITY TO CHECK YOUR NUMBER.

DUE: Monday 13 October 2003, 4pm. Hand in with attached title page and signed plagiarism sheet.

Essays will be graded on generic skills. These skills include: an ability to present a coherent, critical and concise argument using economic analysis; integration of data presented in tables/diagrams with discussion in text; well-structured analysis, including abstract, introduction that identifies focus of essay and issues discussed, conclusion that draws argument together and correct referencing. **NOTE: information that is strung together from multiple sources with numerous quotes generally receives a low grade even if it demonstrates wide reading because examiner cannot identify above generic skills. YOU ARE WARNED!**

References are minimal. You are expected to develop your own but to re-emphasise: grade is based on demonstration of generic skills. Plagiarism will result in severe penalties (see attached sheet for definition).

The essay should be typed on one side of the paper and **double spaced with attached title sheet and signed statement relating to absence of plagiarism** . You need to keep a spare copy of the essay handed in.

1. Globalisation

Does trade with low-wage countries hurt workers in high-wage countries? Use Golub's analysis to examine and assess critically the impact of international trade on wages and productivity in a selected non-U.S. country vis-à-vis low wage countries. What trade policy prescription might be drawn from your analysis?

Reference

**Golub, S (2000) "Does Trade with Low-Wage Countries Hurt American Workers?" in P. King (ed.) *International Economics and International Economic Policy – a Reader*, 3rd ed., Irwin McGraw-Hill, 133-143.

2. Trade blocs

Does a country benefit from joining a preferential trade arrangement? Use Rosson and others' analysis to critically evaluate the welfare impact of a preferential trade arrangement from the perspective of a non U.S. country. What trade policy prescription might be drawn from your analysis?

Reference

**Rosson and others (2000) "Preferential Trading Arrangements Gainers and Losers from Regional Trading Blocs" in King, *ibid*, 167-171.

3. Exchange rate regime

Does the exchange rate regime matter? Use Ghosh and others' analysis to examine and discuss critically the linkage between the exchange rate regime and macro performance for a selected country. What exchange rate and macro policy prescriptions might be drawn from your analysis?

Information and data on individual countries can be downloaded from the IMF web site: www.imf.org

References

**Ghosh and others (2000) "Does the Exchange Rate Regime Matter for Inflation and Growth?" in King, *ibid*, 278-285..

4. Currency Boards

What are the benefits and costs of adopting a Currency Board? Use King's analysis to examine and discuss the arguments for adopting a Currency Board in a country other than Bulgaria. What exchange rate and macro policy prescriptions might be drawn from your analysis?

**Information and data for countries can be downloaded from the IMF website:
www.imf.org**

References

****King, P (2000) "Currency Boards" in King, *ibid*, 434-439.**

Macquarie University

School of Economic and Financial Studies

UNIT: **ECON 303 International Economics**

ASSIGNMENT: **Essay**

DUE DATE : **Monday 13 October 2003, 4pm**

LENGTH: **Word limit \leq 2,000 words**

**CONTRIBUTION TO FINAL
ASSESSMENT:** **20%**

INSTRUCTION: **Submit to labeled box in ERIC**

STUDENT NAME:

_____ (Surname)

(Other Names)

STUDENT NUMBER:

ESSAY TOPIC NUMBER:

TITLE OF ESSAY:

ESSAY GRADE:

MARKER'S COMMENTS:

DEFINITION OF PLAGIARISM

Plagiarism involves using the work of another person and presenting it as one's own. Any of the following acts constitutes plagiarism unless the source of each quotation or piece of borrowed material is clearly acknowledged:

- (a) copying out part(s) of any document of audio-visual material (including computer-based material);
- (b) using or extracting another person's concepts, experimental results, or conclusions;
- (c) summarising another person's work;
- (d) in an assignment where there was collaborative preparatory work, submitting substantially the same final version of any material as another student.

Encouraging or assisting another person to commit plagiarism is a form of improper collusion and may attract the same penalties.

STATEMENT TO BE SIGNED BY STUDENT:

1. I have read the definition of plagiarism that appears above.
2. In my essay I have carefully acknowledged the source of any material which is not my own work.
3. I am aware that the penalties for plagiarism can be very severe.

Name: _____

Signature: _____

Student Number: _____

THIS PAGE MUST BE COMPLETED AND ATTACHED TO THE ESSAY