



**School of Economic and Financial Studies**

**UNIT OUTLINE**

**ECON303: INTERNATIONAL ECONOMICS**

**S2 2004**

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- II. Course requirements**
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Professor Jocelyn Horne (Rm. 371 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 such as globalisation 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: the pure (non-monetary) theory of international trade and international monetary theory. The following topics are discussed: in the first section. What causes international trade? How is the pattern of trade determined? What are the economic welfare gains from free trade in goods and factors (globalization)? 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, especially 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 currency unions and 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 Unit Outline. There is a three-hour final examination. The essay is due on **Monday, 11 October, 2004, 8pm. NO EXTENSIONS WITHOUT A MEDICAL CERTIFICATE. Email or other requests** for an extension without a medical certificate will be refused without explanation: hence, do not waste your time requesting such! All requests with medical certification will only be considered before the due date.

**Late essays WITHOUT A MEDICAL CERTIFICATE will be penalised: one mark deducted for each day late, beginning one second (just checking to see if you are reading this!) after collection by the lecturer at or around 8pm, 11 October, 2004.**

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 on or after the date of the final exam.

## III. ASSESSMENT

Final examination	80%
Essay	20%

**Note: it is an Economics Department rule that students are required to pass the exam to pass the course.**

**Note also that in this course, tutorial topics and readings are examinable.**

#### **IV. LECTURE TOPICS:**

1. Ricardian theory of comparative advantage
2. Heckscher-Ohlin model of comparative advantage
3. Production, demand and trade: theory of competitive advantage
4. Tariffs and 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 and 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](http://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 (2003), *International Economics, Theory and Policy*, 6<sup>th</sup> ed., N.Y.: Addison-Wesley, Longman..**

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

**\*\*King, P. and S. King (2004) *International Economics and International Economics Policy. A Reader*, fourth edition, Boston, Irwin McGraw-Hill..**

## **LECTURES**

### **1. Theories of Comparative Advantage (WEEKS 1-2)**

The Ricardian model  
Pattern of trade  
Gains from trade  
Empirical evidence  
Myths of trade

Krugman and Obstfeld, Ch. 2.

### **2. Heckscher- Ohlin Theory (WEEKS 2-3)**

Heckscher-Ohlin model  
Factor price equalisation  
Stolper-Samuelson theorem  
Empirical evidence and Leontief paradox

Krugman and Obstfeld, Ch. 4.

### **3. Imperfect Competition and Trade (WEEK 4)**

Increasing returns to scale  
Imperfect competition  
Intra-industry trade

Krugman and Obstfeld, Chs. 6.

### **4. Trade Policy and review (WEEKS 5-6)**

Tariffs – effects, costs and benefits  
Optimum tariff  
Quotas and subsidies  
Customs union and free trade areas  
WTO  
Anti-globalisation and low-wage labour

Krugman and Obstfeld, Chs. 8, 9, 11 (pp.283-288).

**5. International Monetary System and IMF (WEEK 7)**

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

Krugman and Obstfeld, Chs. 17, 18, 19.

**6. Exchange rate determination (WEEKS 8-9)**

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..

**7. Macro policy and current account (WEEK 10)**

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 review (WEEKS 11-12)**

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 the following Mondays at dates and times below beginning in week 3: 11-12, 12-1; 4-5. Rooms are given in university timetable. See ECON 303 website for tutorial lists.

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

### TUTORIALS

1. (AUGUST 16)                      **Ch.18 (King and King): World Bank “The New Wave of Globalisation and its Economic Effects”**  
  
Discussion questions (p. 230 ), Q. 5, 6,7.
  
2. (SEPTEMBER 13)                **Ch.1: (King and King): Feenstra, “How Costly is Protectionism?”**  
  
Discussion questions (p. 65), Q. 1, 2.
  
3. (OCTOBER 18)                  **Ch. 23: (King and King): Kenen, “Fixed versus Floating Exchange Rates”**  
  
Discussion questions (p. 303) Q 7.  
  
**Ch. 24: (King and King): Cooper, “Exchange Rate Choices”**  
  
Discussion questions (p. 303), Q 5, 6.
  
4. (NOVEMBER 1)                 **Ch. 22: (King and King): Hopper, “What Determines the Exchange Rate...”.**  
  
Discussion questions (p. 303), Q 4.

**Ch. 29: (King and King ): Pollard, The Creation of the Euro and Role of the Dollar..."**

**Discussion questions (p. 350), Q 4, 5.**

## **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.**

**Please do not email or request essay extensions without a medical certificate as they will be refused without explanation. 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 POSTED ON THE UNIT WEBSITE SHORTLY AFTER DATE OF SUBMISSION. IT IS YOUR RESPONSIBILITY TO CHECK YOUR NUMBER AND NOTIFY IMMEDIATELY THE LECTURER.**

**DUE: Monday 11 October 2004, 8pm. Hand in to ERIC box with attached title page and signed plagiarism sheet. NO ESSAYS WILL BE ACCEPTED BY EMAIL.**

**Hints for essays**

**ANSWER THE QUESTION ASKED! Failure to do so is the single most cause of low grades for essays and exam.**

**You have a choice of one question from four topics but the basic structure is common to each. You are required to read a specific paper that analyses an issue and applies the analysis to a selected country or countries. You are asked to demonstrate an understanding of the analysis and issues, including critical discussion and in the process apply the analysis to a DIFFERENT set of data or case study. You are also asked to draw relevant policy implications from your analysis.**

**To do well (credit or above) on the essay, you will need to demonstrate good generic skills. These skills include: a focused discussion that centres upon the specific essay question, that is what is actually asked and not what you think should be asked; an ability to present a coherent, critical and concise argument using economic analysis with policy inferences where relevant rather than description without economic theory, integration and critical discussion of any additional references and data for your chosen countries, including presentation in tables/diagrams with sources and discussion in text; well-structured analysis, including abstract, introduction that identifies purpose and 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 and/ or weeks in the library because examiner cannot identify above generic skills. YOU ARE WARNED!**

**References are minimal. You are expected to develop your own as well as collect and interpret data. TO RE-EMPHASISE: grade is based on demonstration of generic skills not the number of references, tables and/or time spent in library. Plagiarism , including payment of an individual to write the essay 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 global economic integration lead to greater or less economic inequality within and between countries? Use Dollar and Kraay's analysis to examine and assess critically the above question for a selected country and group of countries that are not used in their paper. What trade policy prescription might be drawn from your analysis?**

**Note: you cannot apply the analysis to the following countries: China, Vietnam, Uganda, India.**

**Information and data on individual countries can be downloaded from IMF website: [www.imf.org](http://www.imf.org)**

Dollar, D. and A. Kraay (2004) "Spreading the Wealth" in King and King, op. cit, ch. 17, pp. 199-207.

## **2. Trade blocs**

**Does a country benefit from joining a free trade arrangement? Use Moss's analysis to critically evaluate the welfare impact of a free trade arrangement other than NAFTA from the perspective of a member country. What trade policy prescription might be drawn from your analysis?**

**Note: the free trade arrangement signed on May 18, 2004 between the U.S and Australia (at time of writing, yet to be passed by the Senate) would be interesting to use: see the Senate website: [www.aph.gov.au/house/committee/jsct/usafta/tor.htm](http://www.aph.gov.au/house/committee/jsct/usafta/tor.htm); and [www.dfat.gov.au/trade/negotiations/us\\_fta/economic\\_analysis\\_report/chapter\\_3.htm](http://www.dfat.gov.au/trade/negotiations/us_fta/economic_analysis_report/chapter_3.htm)**

**Information and data on individual countries can be downloaded from IMF website: [www.imf.org](http://www.imf.org)**

Moss, J. (2004) "Economic Developments during NAFTA's First Decade" in King and King, ch.14, pp. 155-181.

## **3. Exchange rate crises**

**What factors determine a currency crisis? Use the analysis in Chiodo and Owyang to answer and discuss critically the above question for a country other than Russia (1998). 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](http://www.imf.org)**

Chiodo, A. and M. Owyang (2004) "A Case Study of Currency Crisis: the Russian Default of 1988" in King and King, ch.31, pp. 353-364.

#### **4. Dollarisation**

**What are the benefits and costs of adopting dollarisation in a developing country? Use the analysis in Antinolfi and Keister to answer and discuss critically the above question for a country not used in their paper. What exchange rate and macro policy prescriptions might be drawn from your analysis?**

**Note: you cannot use Argentina in your answer.**

**Information and data for countries can be downloaded from the IMF website:  
[www.imf.org](http://www.imf.org)**

Antinolfi, G. and T. Keister (2004) "Dollarisation as a Monetary Arrangement for Emerging Market Economies", in King and King, op.cit, ch.27, pp.290-302.

**Macquarie University**

**School of Economic and Financial Studies**

**UNIT:** ECON 303 International Economics

**ASSIGNMENT:** Essay

**DUE DATE :** Monday 11 October 2004, 8pm

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

**CONTRIBUTION TO FINAL  
ASSESSMENT:** 20%

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

**STUDENT NAME:**

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(Surname)

(Other Names)

**STUDENT NUMBER:**

**ESSAY TOPIC NUMBER:**

**TITLE OF ESSAY (give full title):**

**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, including paying an individual to write all or part of an essay.
- (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**