



School of Economic and Financial Studies

UNIT OUTLINE

ECON303: INTERNATIONAL ECONOMICS

S2 2005

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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. Within the first section, the following topics are discussed: 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, including the role of the International Monetary Fund. What determines the exchange rate? What is the impact of macro policy on the current account and output? 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 Unit Outline. There is a three-hour final examination. The essay is due on **Monday, 10 October, 2005, 4pm. NO EXTENSIONS WITHOUT A MEDICAL CERTIFICATE. Email or other requests** for an extension without a medical certificate will be refused: hence, no point in requesting such!

Late essays WITHOUT A MEDICAL CERTIFICATE will be penalised: one mark deducted for each day late, beginning after 4pm, 10 October, 2005. 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. “New” theories of trade
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). There is a separate unit website that can be used to download lecture notes and unit outline.

Textbook (recommended to buy)

****Krugman, P. and M. Obstfeld (2003), *International Economics, Theory and Policy*, 6th ed., N.Y.: Addison-Wesley, Longman..**

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

****King, P. and S. King (2005) *International Economics and International Economics Policy. A Reader*, fourth edition, Boston, Irwin McGraw-Hill..**

LECTURES

1. **Ricardian model of Comparative Advantage (WEEK 1)**

The Ricardian model
Pattern of trade
Gains from trade
Empirical evidence

Krugman and Obstfeld, 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

3. **New theories of trade (WEEK 3)**

Increasing returns to scale
Imperfect competition
Intra-industry trade

Krugman and Obstfeld, Ch. 5

4. **Tariffs/Trade Policy/Trade blocs (WEEKS 4-5)**

Tariffs – effects, costs and benefits
Optimum tariff
Tariff policy
Preferential trade agreements
WTO
Globalisation debate

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

5. **Review (week 6)**

6. International Monetary System and IMF (WEEK 7)

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

Krugman and Obstfeld, Chs.18, 19.

7 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..

8 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.

9. 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 Mondays at dates and times below beginning in week 3: 11-12, 12-1; 4-5. Rooms are given in university timetable.

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).**

TUTORIAL

- 1. (AUGUST 15) Ch.18 (King and King): World Bank “The New Wave of Globalisation and its Economic Effects”**

Discussion questions (p. 230), Q. 5, 7.

- 2. (SEPTEMBER 12) Ch.1: (King and King): Feenstra, “How Costly is Protectionism?”**

Discussion questions (p. 65), Q. 1, 2.

- 3. (OCTOBER 17) Ch. 23: (King and King): Kenen, “Fixed versus Floating Exchange Rates”**

Discussion questions (p. 303) Q 7.

- 4. (OCTOBER 31) Ch. 22: (King and King): Hopper, “What Determines the Exchange Rate...”.**

Discussion questions (p. 303), Q 4.

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. 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 10 October 2005, 4pm. Hand in with attached title page and signed plagiarism sheet.

Hints for essays

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

Essay question (choice of ONE of three topics) is based upon one of the above tutorial readings from King and King and requires you to present a critical analysis of the specific paper centred around a key issue, including the application of that analysis to the data set used in that paper. 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; an ability to present a coherent, critical and concise economic argument using economic analysis with policy inferences where relevant rather than description. Aim for a well-structured analysis, including abstract and introduction that identifies the purpose and focus of essay and issues discussed together with a conclusion that draws the 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!

Multiple references are not required. TO RE-EMPHASISE: grade is based on demonstration of generic skills not the number of references, tables and/or time spent in library. 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 global economic integration lead to greater or less economic inequality within and between countries? Use The World Bank (2005) to examine and assess critically the above question. What trade policy prescriptions might be drawn from your analysis?

The World Bank (2005) “The New wave of Globalization and its Economic effects” in King and King, op. cit, ch. 18, pp. 208-229..

2. Protectionism

Does discriminatory trade protection impose large domestic and global costs? Use Feenstra (2005) to examine and assess critically the above question. What trade policy prescriptions might be drawn from your analysis?

Feenstra, R . (2005) “How Costly is Protectionism?” in King and King, op. cit,1, pp. 3-18.

3. Exchange rates

How useful is the monetary model in explaining the level and volatility of the exchange rate? Use Hopper (2005) to examine and assess critically the above question. What exchange rate and macro policy prescriptions might be drawn from your analysis?

Hopper, G (2005) “What determines the Exchange Rate: Market Factors or Market Sentiment?”in King and King, op. cit, ch. 22, pp. 250-260.

Macquarie University

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UNIT: **ECON 303 International Economics**

ASSIGNMENT: **Essay**

DUE DATE : **Monday 10 October 2005, 4pm**

LENGTH: **Word limit £ 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, 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