MACQUARIE
UNIVERSITY ~ SYDNEY

DIVISION OF ECONOMIC AND FINANCIAL STUDIES

DEPARTMENT OF ECONOMICS

ECON303 INTERNATIONAL ECONOMICS
UNIT OUTLINE
2008

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ECON303 INTERNATIONAL ECONOMICS

Students should read this unit outline at the start of the semester as it contains important information about the unit. If anything is unclear, please consult the lecturer in charge.

ECON303 International Economics is an upper-level elective course with a credit point value of three. It extends the lessons learnt in 100 and 200-level economics units to the specialised area of international economics, as well as providing additional analytic tools and insights appropriate to this area of study. The unit places **strong emphasis on developing analytical and theoretical skills** as a means of encouraging rigorous and logical thinking about real-world economic questions. As a result, it is hoped that students will finish the course with a framework for thinking about the international economy and an appreciation of the issues that are current in international economics.

I. COURSE DESCRIPTION

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 (globalisation)? 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 workings 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?

A summary of the course content is as follows:

1. The gravity model
2. Ricardian theory of comparative advantage
3. Heckscher-Ohlin model of comparative advantage
4. “New” theories of trade
5. Tariffs and trade policy
6. National income accounting and the balance of payment
7. Exchange rate determination
8. Macroeconomic policy in an open economy
9. International monetary system and the IMF
10. Optimum currency areas and the European experience

II. ENQUIRIES

Lecturer-in-charge:

Natalia Ponomareva: E4A Rm. 428, ph. 9850 6194,
email: nponomar@efs.mq.edu.au

All enquiries related to the lecture material and course administration should be directed to Natalia Ponomareva. You will be notified about consultation times in week 2.

III. WEB PAGE

The ECON303 International Economics web page address can be found by going to:

http://learn.mq.edu.au

Then click on login and enter your username and password. Students can use this site as a major means of obtaining updated information regarding the unit e.g. timetable adjustments, consultation times, lecture summaries, tutorial questions, online quizzes, unit outline, etc. The site also contains a discussion board that allows students to make comments and ask questions regarding the unit. Later in the course, students will be asked to submit an electronic version of their essay on this web page using the private mail function.

IV. 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. Students will also need to complete **four on-line quizzes**. There is also a three-hour final examination made up of a multiple-choice section and a long-answer section. **Students must pass the final exam in order to pass the course.**

During this course there are six tutorials. Students that do not attend five of the six tutorials and do not have a medical certificate will not be eligible for a supplementary exam, should they require one.

V. ASSESSMENT

Final examination	70%
On-line quizzes	10%
Essay	20%

The quizzes will be available online in weeks 3, 6, 9, and 13.

VI. TEXT BOOKS

Textbook (recommended to buy)
Krugman, P. and M. Obstfeld (2008), *International Economics, Theory and Policy*, 8th ed., Addison-Wesley, Pearson, Boston.

Tutorial Topics (useful to buy, if cashed-up)
King, P. and S. King (2005) *International Economics and International Economics Policy: A Reader*, 4th ed., Boston, Irwin McGraw-Hill.

These books are held in the reserve section of the University library. Tutorial articles from King and King (2005) will be available for downloading from E-Readings linked to the library web page under Reserve (see University library web-site: www.lib.mq.edu.au). Note that this is separate to the unit website.

VII. LECTURE AND TUTORIAL TIMES

Lectures
There is one two hour lecture each week (except Week 8). The details are as follows:

Monday	14.00 - 16.00	E6A 133

Tutorials
Tutorials will be held on Week 3 (18/8/08), Week 5 (1/9/08), Week 6 (8/9/08), Week 10 (20/10/08), Week 12 (3/11/08) and Week 13 (10/11/08). The tutorial times and locations are as follows:

Monday	12.00 -13.00	C5C 236
Monday	16.00 -17.00	C5A 307

VIII. LECTURE OUTLINE AND READING GUIDE

1. Patterns of trade and the gravity model (WEEK 1)

Patterns of trade
Gravity model

Krugman and Obstfeld, Chs. 1, 2.

2. Ricardian model of comparative advantage (WEEK 2)

Assumptions
A one factor, two good economy
Relative prices before and after trade
World supply and demand
Gains from trade
Comparative advantage with many goods

Krugman and Obstfeld, Ch. 3.

3. Heckscher- Ohlin model (WEEK 3)

Equilibrium before and after trade
Factor prices and factor intensities
Stolper-Samuelson theorem
Rybczynski Theorem
Heckscher- Ohlin Theorem
Leontief paradox
World supply and demand

Krugman and Obstfeld, Chs. 4, 5.

4. New theories of trade (WEEK 4)

Imperfect competition
Economies of scale and trade
Intra-industry trade

Krugman and Obstfeld, Ch. 6

5. Tariffs/trade policy/trade blocs (WEEKS 5-6)

Tariffs and other instruments of trade policy
Arguments for and against free trade
Preferential trade agreements
WTO
Globalisation debate

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

6. National income accounting and the balance of payment (WEEK 7)

Krugman and Obstfeld, Chs.12

MID-SEMESTER BREAK and WEEK 8 CANCELLED DUE TO PUBLIC HOLIDAY

7. 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.

8. Macroeconomic policy in an open economy (WEEK 11)

Approaches to open-economy macroeconomics
Short-run macro model of open economy; impact of monetary and fiscal policy

Krugman and Obstfeld, Ch. 16, 17, 19.

9. International monetary system and the IMF (WEEK 12)

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

Krugman and Obstfeld, Chs.18, 19.

10. Optimum currency areas and the European experience (WEEK 13)

European Monetary System
European Monetary Union
Optimum currency areas
Euro

Krugman and Obstfeld, Ch. 20.

IX. TUTORIAL PROGRAM

YOU ARE REQUIRED TO READ THE RECOMMENDED TUTORIAL READING BEFORE THE TUTORIAL IN ORDER TO BE ABLE TO PARTICIPATE IN THE DISCUSSION. NOTE THAT THIS MATERIAL IS EXAMINABLE.

Tutorial

1. (18/8/08)	Ch.18 (King and King): World Bank, "The New Wave of Globalisation and its Economic Effects" Discussion questions (p.230), Q 5, 7
2. (1/9/08),	Ch.1 (King and King): Feenstra, "How Costly is Protectionism?" Discussion questions (p.65), Q 1, 2
3. (8/9/08)	Answer questions 1 - 10 from the 2006 multiple choice exam
4. (20/10/08)	Ch. 22 (King and King): Hopper, "What Determines the Exchange Rate…" Discussion questions (p. 303), Q 4
5. (3/11/08)	Ch. 23 (King and King): Kenen, "Fixed versus Floating Exchange Rates" Discussion questions (p.303), Q 7
6. (10/11/08)	Answer questions 11 - 20 from the 2006 multiple choice exam

X. ESSAY TOPICS

You are required to compose an essay that is no more than 2000 words long on one of the topics given below. Along with each topic, a list of articles from King and King (2005) and other reference sources are given. **In order to pass this section of the course, you must reference each of these articles in your essay.** Any other reference material sourced must be from scholarly journals (for example, articles that can be accessed via Econlit or Science Direct).

To do well (credit or above) on the essay, you will need to demonstrate good generic skills. This will involve: a discussion focused on the specific essay question; coherent, critical and concise argument that employs economic thinking and analysis; an ability to understand the lecture and textbook material and weave this into your argument. **You do not need many additional references to do well on the essay i.e. evidence of clever thinking is what we are looking for.** Aim for a well-structured presentation that

includes an abstract, an introduction that identifies the purpose and focus of the essay, a conclusion that draws the arguments together and correct referencing. The essay should be double spaced and typed on one side of the paper.

Students have the choice of either writing an essay on Topic 1 or Topic 2. **Note that these essays are due in different weeks.** Students should hand their essay in at ERIC and submit an electronic version online to the ECON303 website. Late essays will be penalized a one mark deduction for each day late and there will be no extension without a medical certificate. Failure to hand in an essay before the final exam will result in a fail mark for the course. When you hand in your essay, you must include a cover page and a signed statement indicating that you understand the meaning and consequences of plagiarism. The relevant forms are at the back of this unit outline.

TOPICS

1. Mike Moore (2000) from the WTO says "the surest way to do more to help the poor is to continue to open markets". Discuss this statement, with reference to developing and developed countries.

Feenstra, R . (1992), "How Costly is Protectionism?" in King and King, eds, (2005), *International Economics and International Economics Policy: A Reader,* 4th ed., Boston, Irwin McGraw-Hill, ch.1, pp.3-18.

Rodrik, D. (2001), "The Global Governance of Trade as if Development Really Mattered" in King and King, eds, (2005), *International Economics and International Economics Policy: A Reader,* 4th ed., Boston, Irwin McGraw-Hill, ch.12, pp.127-150.

World Bank (2002), "The New Wave of Globalization and its Economic Effects" in King and King, eds, (2005), *International Economics and International Economics Policy: A Reader,* 4th ed., Boston, Irwin McGraw-Hill, ch.18, pp.208-229.

DUE: Tuesday, 7nd October, 2008 at 4pm

2. On what basis may countries decide which type of exchange rate system to adopt? Use the references below to examine and assess critically the above question, and place your discussion in the context of the arguments for and against fixed and flexible exchange rates.

Chang, R. and Velasco, A. (2000),"Exchange rate policy for developing countries," *American Economic Review*, vol. 90, no2, pp. 71-75.

Cooper, R. (2005), "Exchange rate choices," in King and King, eds, (2005), *International Economics and International Economics Policy: A Reader,* 4th ed., Boston, Irwin McGraw-Hill, ch. 24, pp. 265-275.

Mishkin, F. (1999), "International experiences with different monetary policy regimes," *Journal of Monetary Economics*, vol. 43, no. 3, pp. 579-605.
(only read the part about exchange rate targeting)

Obstfeld, M. and Rogoff, K. (1995), "The mirage of fixed exchange rates," *Journal of Economic Perspectives*, vol. 9, no. 4, pp. 73-96.

DUE: Tuesday, 10th November, 2008 at 4pm

Macquarie University

School of Economic and Financial Studies

UNIT:	**ECON 303 International Economics**
ASSIGNMENT:	**Essay**
DUE DATE :	
LENGTH:	**Word limit ≤ 2,000 words**
CONTRIBUTION TO FINAL ASSESSMENT:	**20%**
INSTRUCTION:	**Submit to labeled box in ERIC**

STUDENT NAME:

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