

INTERNATIONAL ECONOMICS ECONOMICS V31.0238 004

Spring 2007

Instructor: Vivian Zhanwei Yue

Lectures: Mondays and Wednesdays 9:30-10:45am in Meyer Hall 122

Recitations: Tuesdays 3:30-4:55pm in Waverly Building 569

Tuesdays 4:55-6:10pm in 19 West 4th St. Rom 102

Office Hours: Mondays 12:00-1:00pm and Mondays 4-5pm in my office Room 727, 19 West 4th St. You can contact me to arrange an alternative time if that does not suit you.

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Teaching Assistant: Kechen Chen, email address: kc708@nyu.edu, Office: room 718, 19 West 4th St., extension 29779, Office Hours: TBA

Attendance: Students are expected and strongly advised to attend every lecture, since some of the material is not covered thoroughly by the textbook and because each topic builds on the previous ones. Each student is also required to attend one recitation class each week to review material and problem sets.

Course Description:

V31.0238 is an elective course in International Economics. The course covers both international trade and international finance. It introduces students to important theories in the analysis of international trade and international macroeconomics. The theoretical background is used as a basis to solve problems, understand events in world economy, and discuss policy issues. The main issues we study include: Patterns of international trade and production; gains from trade; tariffs, and other impediments to trade; foreign exchange markets, balance of payments, capital flows, financial crises, coordination of monetary and fiscal policy in a global economy.

Course Prerequisites:

V31.0001 (Economic Principals I) and V31.0002 (Economic Principals II).

Grading Policy:

- **Examinations:** There will be two midterms, the first on **February 21st** and the second on **April 2nd**, each counting for 25% of the final grade. The final exam on **May 2rd** is *cumulative* and counts for the remaining 50%. There is no make-up examination for the midterm exams: in case of absence, the final exam will count for a larger fraction of the final grade (75% if one midterm is missed, 100% if both are missed). I will reserve the right to arrange a make-up examination for the final exam only in extreme cases (personal or medical emergencies, in which case the student must provide a written excuse signed by a doctor, parent, or university official).
- **Grading:** Any grade between 0 and 100 can be award in the examination. The final grade for the course is obtained through a weighted average of the three grades. There is no curve in giving letter grades for this course in the sense that there is no predetermined percentage of final letter grades. It is Departmental

- policy that any student who requests an “**incomplete**” for the course must obtain a written excuse from the Director of Undergraduate Studies.
- **Homework:** There will be problem sets handed out during the course, every week. These problem sets are meant to be learning tools, so they will not count for the final grade, but students are strongly advised to work on them, since the exams’ structure follows closely that of the problem sets. The TA will correct and mark only the homeworks handed in by the deadline, and explain the solution during the recitations.
 - **Re-Grading:** Students may request a midterm examination to be re-graded up to 2 weeks after the exams are handed back in lecture. Students have up to 2 weeks after final grades are posted to request a re-grade of the Final Exam.

Required Textbook:

International Economics: Theory and Policy (Seventh edition) by Krugman, P.R. and Obstfeld M., published by Addison Wesley, Inc, ISBN 0-321-27884-4.

There are two websites associated to the textbook.

http://www.awlonline.com/krugman_obstfeld

http://wps.aw.com/aw_krgmnobstf_interecon_7

The first one is MyEconLab. You need to have an access kit to use MyEconLab. The other one is a free students’ recourses website. Both contains plenty of resources like practice exercises and web applications.

Note: You can use the sixth edition of the book; however you will need to refer to the seventh edition for any missing information. You are responsible for finding the related materials in the sixth edition. I would only refer to the seventh edition in the class.

Additional Reading: Part of course materials is based on lecture notes, which will be posted on the blackboard. I may also announce additional readings during the course.

Course website: The webpage of the course, where announcements, homeworks, lecture notes and additional readings will be posted is on the blackboard website.

Course Outline

I outline the topics that I plan to cover in the course below. This initial summary is *subject to change*, as time goes by and as we find together the right pace for the course. The updated versions of the syllabus will be posted on the course website.

Jan 17: Introduction (ch 1)

What is international economics about? Economics as a social science. The interdependence among countries. Growth in trade and increasing importance of international economics.

Jan 22: Overview of World Trade (ch 2 and ch3)

The pattern of world trade: who trades with whom? What are the impediments to trade. The way world trade has evolved over time.

Jan 24: Labor Productivity and Comparative Advantage (ch 3)

The concept of comparative advantage. Most basic model of trade: Ricardian model. Gains from trade.

Jan 29: Extension and Empirical Evidence on the Ricardian Model (ch 3)

Productivity and competitiveness, Comparative advantage with many goods, Adding transport costs and nontraded goods.

Jan 31: Recourses and Comparative advantage (ch 4)

Trade between countries with different endowments of factors of production. A model of two-factor economy: Heckscher-Ohlin model. Effects of trade on prices, wages, and output.

Feb 5: Trade and Income Distribution (ch 4)

The gains from trade revisited. Income distribution and trade politics. Political economy of trade.

Feb 7: The Standard Trade Model (ch 5)

The workhorse of international trade theory. Welfare and distributional effects of economic growth, transfers between nations. Tariffs and export subsidies

Feb 12: Economics of Scale and Imperfect Competition (ch 6)

Interindustry trade and intraindustry trade. Economics of scale and market structure. Imperfect competition. Monopolistic competition and trade.

Feb 14: International Factor Movements (ch 7)

International labor mobility. International borrowing and lending. Foreign direct investment. Multinational firms

Feb 19: No class (Presidents' Day)

Feb 21: First Midterm

Feb 26: International Trade Policy (ch 8)

Basic tariff analysis: effects of a tariff, measures of protection, costs and benefits of a tariff.

Feb 28: Other instruments of trade policy (ch 8)

Export subsidies. Import quotas. Voluntary export restraints.

Mar 5: The Political Economy of Trade Policy (ch 9)

Free trade and efficiency. Income distribution and trade policy. International negotiations.

Mar 7: Specific Issues in Trade Policy Consideration (ch 10, ch 11)

Trade policy in developing countries. Controversies that challenge free trade. Globalization and low-wage labor.

Mar 12-17 No class (Spring Break)

Mar 19: Overview of International Macroeconomics. (ch 12)

Focus of International Macroeconomics. National income accounting. Balance of payments accounting.

Mar 21: Perspective of Current Account Deficits (ch 12 and lecture notes)

Net foreign asset position. Expected future trade. Current account balance. Can a country run a perpetual current account deficit?

Mar 26: Current Account Determination (lecture notes)

Determinants of trade balance and current Account. Responses of consumption, trade balance, and current account to a variety of economics shocks.

Mar 28: Current Account in Small and Large Economies (lecture notes)

External current account adjustments in small and large economies

Apr 2: Second Midterm

Apr 4: Fiscal Policy and the Current Account (lecture notes)

The twin deficits. The government budget deficit and national saving. Ricardian equivalence.

Apr 9: Exchange Rates (ch 13)

Importance of exchange rates. The operation of foreign exchange market. A supply-and-demand analysis of exchange rate determination. Covered interest rate parity.

Apr 11: Price Levels and Real Exchange Rates (lecture notes and ch 15)

Purchasing power parity. Real interest rate parity. Determinants of the real exchange rate.

Apr 16: Money and Nominal Exchange Rates (lecture notes and ch 14)

Demand for money. The quantity theory of money. Uncovered interest rate parity.

Apr 18: Exchange Rate Regimes (lecture notes, ch 17, and ch 19)

Fixed exchange rate regime. Sustainability of currency pegs. Consequences of currency devaluation. Policies under fixed/floating exchange rates.

Apr 23: Developing Countries: Growth, Crisis, and Reform (lecture notes and ch 22)

Balance of payment crisis. Macroeconomics of external debt. Debt crisis. Reforming the world's financial architecture.

Apr 25: Global Capital Market: Performance and Policy Problems (ch 21)

The international capital market and the gains from trade. How well has the international capital market performed?

Apr 30: Review Class

May 2: Final Exam