

Office: Carnegie 204, x73342

Office Hours: M 2-5 or by appointment

This course introduces the basic theories and policy problems of international economics. The course is divided into two halves. In the first we examine international trade; in the second we consider international finance. In each half, we first develop some basic economic principles and theories, and then apply them to a variety of problems and policy issues.

All of the readings listed in the course outline are required. The textbook is

Beth V. Yarbrough and Robert M. Yarbrough, *The World Economy: Trade and Finance*, seventh edition (Thomson Southwestern, 2006).

Like most textbooks in International Economics, this one is designed to be usable for a year-long course as well as for a single semester. Since we only have a semester, we will limit our coverage. Also, we will read some parts of the text for their substance but not for the techniques presented (such as some of the graphical analyses in chapters 2, 14, 15, 16, and 17). The Web site for the course (http://www.economics.pomona.edu/Marks/Econ_123) will be used to post exercises and answer sheets, and to provide access to some additional readings.

The course grade will be based on a midterm exam (30%), a final exam (30%), six short papers (30%), and analytical exercises and class participation (10%). The examinations will be focused on topics and approaches covered in lectures. Review questions will be distributed prior to each exam. All assigned work must be completed at the scheduled time, unless prior permission is given by the instructor. Any late work will be treated at the discretion of the instructor.

The six short (1-2 pages double spaced) papers will be graded based on your six best scores out of eight opportunities (see the list of articles and dates at the end of the course outline). They will cover timely topics in international economics. I will be especially interested in your critical assessment of the perspectives offered in these papers: what is interesting, important, or even flawed in the analysis? You are also invited to bring in independent or alternative perspectives that shed light on the issues at hand. The ultimate purpose of these assignments is to help prepare you for class discussions that we will hold on the dates the papers are due. I will expect that all class members will be prepared to discuss the article for a given day, even if they have not written a paper.

Course Outline and Readings

1. Introduction; Mercantilism in Theory and History: 9/2

Y & Y: chapter 1 and sections 2.1-2.3

Jacob Viner (1991). "Mercantilist Thought," from his *Essays on the Intellectual History of Economics*, ed. Douglas A. Irwin. Princeton, NJ: Princeton University Press.

2. Theories of International Trade: 9/4, 9/9, 9/11, 9/16, 9/18

A. The Ricardian Theory of Comparative Advantage

Y & Y: sections 2.4-2.8

B. The General Neoclassical Framework for Trade Analysis

Y & Y: sections 3.1-3.3

C. The Factor-Endowments Theory of Comparative Advantage

Y & Y: section 3.4

D. International Trade and Income Distribution: Mobile Factors

Y & Y: sections 4.1-4.3

E. International Trade and Income Distribution: Specific Factors

Y & Y: section 4.4

F. The Gains from Trade: Winners, Losers, and Compensation Issues

Y & Y: section 4.5

3. Topics in International Trade: 9/23, 9/25

A. Trade with Economies of Scale and Imperfect Competition

Y & Y: sections 5.6

B. Growth in an Open Economy: Trade and the Terms of Trade

Y & Y: sections 10.1-10.3

C. Capital Mobility, Multinational Corporations, and Labor Immigration

Y & Y: section 10.4

4. Trade Policies: 9/30, 10/2, 10/7, 10/9, 10/14, 10/16

A. Tariffs: Supply and Demand Analysis

Y & Y: sections 6.1-6.7

B. Import Quotas Compared with Tariffs

Y & Y: sections 7.1-7.3

C. Export Restraints

Y & Y: sections 6.10, 7.4

- D. Economic Arguments for Restricting Trade
Y & Y: chapter 8 and sections 7.5-7.6
- E. Political Economy of Trade Policies: Theory and History
Y & Y: sections 9.1-9.3
- F. Economic Integration and Preferential Trade Arrangements
Y & Y: section 9.4
- G. Trade Policies and Economic Development
Y & Y: section 11.4

MIDTERM EXAMINATION: 10/23

5. Exchange Rates and the Balance of Payments: 10/28, 10/30, 11/4, 11/6

- A. Foreign Exchange Markets and Exchange Rates
Y & Y: sections 12.1-12.4
- B. Exchange Rate Determination: Fixed and Flexible Regimes, Terminology
Y & Y: sections 12.5-12.7
- C. The Balance of Payments Accounts: Details and Macroeconomic Roles
Y & Y: chapter 13

6. The Macroeconomics of the Open Economy: 11/11, 11/13, 11/18

- A. Open Economy Macroeconomics: Exchange Rates, National Income, and Trade
Y & Y: sections 14.1-14.7
- B. Open Economy Macroeconomics: Adding the Money Market
Y & Y: sections 15.1-15.2.4
- C. Monetary and Fiscal Policies under Fixed Exchange Rates
Y & Y: sections 16.1-16.2; 16.3-16.6 (graphical analyses optional)
- D. Monetary and Fiscal Policies under Flexible Exchange Rates
Y & Y: chapter 17 (graphical analyses optional)
- E. Deeper Perspectives on Exchange Rate Determination
Y & Y: chapter 18
- F. Developing Countries: Debt and Reform
Y & Y: sections 11.5.3
- G. Currency Crises, the IMF, Capital Controls, and All That
Y & Y: section 15.3

7. The International Monetary System: 11/20, 11/25, 12/2, 12/4, 12/9

- A. The Gold Standard (1880-1913) and the Interwar Years (1919-39)
Y & Y: sections 20.1-20.4
- B. The Rise and Fall of the Bretton Woods System, 1946-73
Y & Y: section 20.5
- C. Experience under Managed Floating, 1973 to the Present
Y & Y: section 20.6
- D. Exchange Arrangements, Optimum Currency Areas, and EMU
Y & Y: sections 20.7-20.8

FINAL EXAMINATION: Wednesday, 12/17, 2:00 PM

Candidate Articles for Assessment in Short Papers (Complete at Least Six Papers)

- 9/11: Paul Krugman (1997). "The Dismal Science—In Praise of Cheap Labor: Bad Jobs at Bad Wages are Better than no Jobs at All," *MSN, Slate*, March 21.
- 9/25: Alan S. Blinder (2006). "Offshoring: The Next Industrial Revolution?" *Foreign Affairs*, March/April.
- 10/9: Ray Marshall (2007). "Getting Immigration Reform Right." *Challenge* 50, July/August, 26–48.
- 10/16: Peter D. Sutherland (2008). "Transforming Nations: How the WTO Boosts Economies and Opens Societies." *Foreign Affairs*, March/April.
- 11/6: Barry Eichengreen (2006). "Global Imbalances: The New Economy, the Dark Matter, the Savvy Investor, and the Standard Analysis." *Journal of Policy Modeling* 28, 645–652.
- 11/13: David D. Hale and Lyric Hughes Hale (2008). "Reconsidering Revaluation: The Wrong Approach to the U.S.-Chinese Trade Imbalance." *Foreign Affairs*, January/February.
- 11/20: Catherine L. Mann (2005). "Breaking Up Is Hard To Do: Global Co-Dependency, Collective Action, And The Challenges Of Global Adjustment." *CESifo Forum* 1/2005.
- 12/4: Robert Wade (2008). "The First-World Debt Crisis of 2007–2010 in Global Perspective." *Challenge* 51, July/August, 23–54.