

# ECON 50 - International Economics (LPS) Spring 2018

## GENERAL INFORMATION

**Instructor:** Paul Sangrey

**Schedule:** January 10 – May 8, 2018, W 6:00-9:00 p.m.

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**Office Hours:** Mondays & Tuesdays, 9:00–10:00 a.m. McNeil 526

## COURSE DESCRIPTION AND PREREQUISITES

This course introduces the theory of international trade, international macroeconomics, and international finance. We will study various theoretical models to explain patterns of trade, distribution of gains from trade, and trade barriers. We will then discuss contemporary policy issues in this area. We will then turn to international finance, examining money and foreign exchange markets, exchange rates in the short and long run, income accounting, the history of international monetary systems, financial crises and growth. Throughout, we will thoughtfully consider the various implications of the models we consider and their relevant scope of applicability. One of the main goals of an applied economics class such as this one is to develop, practice, and use your ability to critically evaluate the paradigms before you.

**Note:** Economics 50 is a one-semester course in International Economics. Students wishing to study the subject in greater depth should take instead the two-semester sequence Economics 251-252.

**Prerequisites:** Economics 1 & 2 or Economics 10.

## TEXTBOOK

The required text for this course is the 11th edition of *International Economics: Theory & Policy* by Paul R. Krugman, Maurice Obstfeld, and Marc Melitz (Pearson). The 10th edition will probably also work; I used that version when I taught this class before. You may need to coordinate with your classmates to ensure that you are doing the correct problem sets / reading the right material.

## GRADING

- **Problem Sets (3)** – 15 %  
Problem sets must be submitted on the specified due dates (see below for further details). No late problem sets are accepted. You may turn the problem set in early if necessary
- **Paper** – 20 %  
There will be a 5-6 page paper to cover some topic in international economics.
- **Class Participation** – 15 %  
This is not just free points. It is expected that you will intelligently contribute to class discussions. The required presentation will also enter in this part of the grade.

- **Midterm** – 22.5 %

There will not be make-up midterm. If a student cannot take the exam at the specified time and has a VALID EXCUSE, the remaining weight will be put on the final.

- **Final** – 27.5 %

## PAPER

You should find an article from a reputable news source and run the article by me. It can be related to international trade, international macroeconomics, or international finance. You should identify the event or policy in question and present arguments for two different viewpoints. You explain the author's argument and take your own stance on the matter in question. In making your arguments, you should relate what your argument to what you have learned in class and bring in external resources. This is not a research paper, though, and so your references do not have to be exhaustive.

You will be graded on your understanding of the article's argument, the strength of your argument, and the quality of your writing. The quality of your communication is as important as the quality of your argument. To be honest, until you can explain something reasonably clearly, you do not understand it. You will not be judged on the particular views you have, just whether you can defend them well.

As far formatting issues and so on, you should use a standard 12pt font, 1 inch margins, double spacing. It should be a solid five to six pages of text. Title pages, bibliographies and so on do not count. Also if you have a large table or multiple figures, you should make the paper longer to account for them. As far as citations go, if you have used a standard style such as Chicago, MLA, and so on before and you want to keep using it that is fine. If you are not familiar with any particular citation style, the parenthetical Chicago style is what is used in economics, and so I would recommend that. You should have both inline citations or footnotes and a bibliography.

## PRESENTATION

You should pick some article, either news or academic is fine. You will present it in class; the presentation should take about 5 minutes. As with the paper, you should check with me to see if the article is appropriate. The idea is to improve your skills at synthesizing information and presenting it in an comprehensive and cohesive fashion. It should be pretty low key and does not form an independent portion of the grade. Rather, It will affect your participation grade, but only through a satisfactory / unsatisfactory metric.

## COURSE POLICIES

Courses taught in the Department of Economics are covered by a common set of course management policies. Registering for this course means that you will follow these policies. See [Departmental Policies for Undergraduate Economics Courses](#), in particular valid reasons for requesting make-up exams or if special accommodations are needed because of a disability.

With respect to regrades, there is a specific procedure that you must follow. Any request must be made in writing, and it must be made within one week of when the assignment is returned. The request must detail why there is a clear mistake in the original grade. For example, points were taken off for not doing something that was actually done. Points will not be given back for disagreement about what the grade should be. It is worth noting

that points may be taken off for writing that is illegible. More leniency in this area will be given on timed assignments. In addition, if a regrade is given, the entire assignment will be regraded. Hence, your grade for the assignment may go down even if you get the points back regarding the specific issue in question; it has in the past.

#### TENTATIVE SCHEDULE

Date	Topic	Assignment	Reading
Jan 17	Introduction and Gravity Model		1–2
Jan 24	Ricardo and Specific Factors Models		3–4
Jan 31	Heckscher-Ohlin and Standard Trade Models	PS I	5–6
Feb 7	Firm Effects, Economies of Scale, and Trade Policy		7–9
Feb 14	Trade Policy, Continued, and Immigration	PS II	10–12
Feb 21		Midterm	
Feb 28	National Income Accounting and Foreign Exchange		13–14
March 7	Spring Break		
March 14	Nominal Determinants of Exchange Rates		15–16
March 28	Real Determinants of Exchange Rates		17–18
April 4	Foreign Exchange Policy I	Paper	
April 11	Foreign Exchange Policy II		19–20
April 18	Globalization, The Euro, & Developing Country Growth	PS III	21–22
April 25	Flex Day		
May 2		Final	

#### TOPIC DESCRIPTION

- The Gravity Model: Predicts the amount of trade flows between two countries based on their GDP's and distance. How has the influence of distance changed over time? Discuss the influence of trade barriers, political factors and trade agreements. How has the composition of trade flows between developed and developing countries changed over time?
- The Ricardian Model: Trade flows and terms of trade depend on comparative advantage in production between trading partners. Discuss empirical evidence supporting the Ricardian model.
- The Specific Factors Model: The specific factors model allows trade to affect income distribution. Since factors of productions cannot move costlessly and quickly from one industry to another, so changes in the economy's output mix have welfare consequences. Factors specific to export sectors in each country gain from trade, while factors specific to import-competing sectors lose.

- The Heckscher-Ohlin Model: An economy exports goods that are relatively intensive in its relatively abundant factors of production and imports goods that are relatively intensive in its relatively scarce factors of production. Owners of abundant factors gain, while owners of scarce factors lose with trade. A country as a whole is predicted to be better off with trade, so winners could in theory compensate the losers within each country.
- The Standard Trade Model: Export-biased growth reduces a country's terms of trade, reducing its welfare and increasing the welfare of foreign countries. Import-biased growth increases a country's terms of trade, increasing its welfare and decreasing the welfare of foreign countries. When a country imposes an import tariff, its terms of trade increase and its welfare may increase, the opposite happens with an export subsidy.
- External Economies of Scale and the International Location of Production: Trade need not be the result of comparative advantage. Instead, it can result from increasing returns or economies of scale, that is, from a tendency of unit costs to be lower with larger output.
- National Income Accounting and the Balance of Payments: How to compute the balance of payments: Current account, capital account and financial account. The U.S. is the largest debtor nation, and its foreign debt continues to grow because its current account continues to be negative.
- Exchange Rates and the Foreign Exchange Market: Commercial and investment banks that invest in deposits of different currencies dominate the foreign exchange market. Rates of return on currency deposits in the foreign exchange market are influenced by interest rates and expected exchange rates. Equilibrium in forex markets : interest rate parity, covered interest parity.
- Money, Interest Rates, and Exchange Rates: Effect of changes in the money supply on domestic interest rates, as well as the exchange rate in the short as well as long run.
- Price Levels and the Exchange Rate in the Long Run: Purchasing power parity, monetary approach to exchange rates using PPP and the supply and demand of real monetary assets, real exchange rate approach, Real interest parity.
- Output and the Exchange Rate in the Short Run: Aggregate demand, a short-run model for both output markets and asset markets, effects of temporary and permanent changes in monetary and fiscal policies and adjustment of the current account over time.
- Fixed Exchange Rates and Foreign Exchange Intervention: Balance sheets of central banks, intervention in the foreign exchange markets and the money supply, how the central bank fixes the exchange rate, monetary and fiscal policies under fixed exchange rates, types of fixed exchange rates: reserve currency and gold standard systems.