

Econ 280 Sample Syllabus

Professor Michael Moore
Department of Economics/Elliott School
Suite 501, 1957 E St. NW
email: mom@gwu.edu
phone: 202.994.6157

Office hours:

Tuesday 2-4 and Thursday 11-12 and by appointment

Text: International Economics by Steven Husted and Michael Melvin (HM), 7th edition, Pearson (but 6th edition will do fine)

Grading:

Midterm: 40%

Final: 60%

Economics 280 is a one-semester international economics course that covers the basic concepts of international trade and international finance. Students are presumed to have *current* knowledge of microeconomics and macroeconomics at a principles level. T

This course satisfies the requirements the minimum international economics requirement for the Elliott School MA in International Affairs. Students taking this course should not plan on taking any further economics classes. Students who wish to do further work in economics in the Elliott School should seriously consider taking the Econ 283 and Econ 284 sequence.

The course is divided into two sections. The first half (lasting roughly seven weeks) will focus on international trade topics. These include the effects of trade on an economy, the economic consequences of protectionism and the institutional and legal structures of international trade in goods and services. The second half of the course (lasting for the balance of the semester) will involve international financial issues. These include the determination of exchange rates, international capital flows, balance of payments accounts and fixed versus flexible exchange rate regimes.

Outline:

1. Introduction/Ricardian model: (Reading: HM Ch. 1 and 2)

This lecture introduces international trade and Ricardian model. The Ricardian model focuses on differences in technology across countries (and the resulting differences in labor productivity) as a source of mutually beneficial trade across countries.

Items to review before class:

- 1) production possibilities frontier
- 2) opportunity cost
- 3) supply and demand curves

2. Neoclassical model HM Ch 4

These lecture introduces a more "realistic" model. The neoclassical model has more than one inputs; in the version that we will use, labor and capital are used.

- * Determination of world prices
- * Small country

* Large country

Items for review before class:

- 1) marginal productivity of labor (MPL) and marginal productivity of capital (MPK)
- 2) diminishing marginal productivity
- 3) PPF concave to the origin (see pages 34-37 of HM)

3 Income effects of trade HM Ch 4 (pp. 103-107)

This lecture focuses on the effect of trade on the distribution of income. We will see that trade generally will cause the income of some to rise and the income of others to fall. However, overall national income will be higher with trade. You should also print out and read BEFORE coming to class the two articles hyperlinked above.

For article 1 about Chinese workers: Are all lower-income Chinese workers likely to be hurt by trade? Which ones are likely to benefit? Which are likely to be hurt? Are the results consistent with the long run or short run analysis of trade effects on income?

For article 2 about Chinese workers: What does the article suggest has happened to wages in the sector under analysis? Is this consistent with the expectations of economic theory?

4. Basic analysis of tariffs: HM Ch 6

We will analyze the impact of tariffs on a domestic economy. This will include the analysis of a small country (i.e., one that cannot affect the world price of its imported good) imposing a tariff and a similar analysis for a large country (i.e., one that can affect the world price)

IMPORTANT ITEMS FOR REVIEW:

- 1) supply curves
- 2) marginal cost
- 3) producer surplus
- 4) demand curve
- 5) marginal benefit of consumption
- 6) consumer surplus

5. Non-tariff barriers and export policies HM Ch 7 (pp. 181-195)

Sugar data (66.714 Kb)

Washington Post cashews article.rtf (12.322 Kb)

In this lecture, we will look at the effect of quotas (i.e., restricting the quantity of imports) on the domestic economy as well as export taxes and export subsidies. For that we will use the information about sugar quotas.

We will also look at the effects of export taxes. For this discussion, read the article on Mozambique export taxes on cashes

- 1) What was the original goal of the Mozambique government when it imposed the export taxes?

2) What did the World Bank expect to happen to Mozambique peasants, cashew processors, and the price of raw cashews? How well did the actual events reflect these expectations?

3) Do you see this experience as an example of the World Bank's policies harming the poor?

6. Arguments for trade intervention HM Ch 7 (pp. 195-199)

This lecture outlines various arguments for government intervention in trade outcomes, with special focus on market failures/

7. WTO system HM Ch 8

US trade policy history, institutions, and policy are discussed. We will also look at the WTO as an institution.

1) World Trade Organization website

<http://www.wto.org>

For the WTO's own description of its role, click on the following link

http://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm

2) Public Citizen's World Trade Watch is a leading critic of the WTO and the current trading system:

<http://www.citizen.org/trade/>

Their view of the WTO can be found at:

<http://www.citizen.org/trade/wto/>

3) The Cato Institute's Center for Trade Policy Studies is on the opposite side of the trade debate from Public Citizen:

<http://freetrade.org>

8. Free Trade Agreements: Supporters and critics

- * WTO treatment
- * US approaches in new agreements
 - o Labor standards
 - o Environmental standards
 - o "Race to the bottom"

MIDTERM

9. Balance of payments accounting HM Ch 11 and 12

This lecture outlines the basic structure of balance of payments accounts and how one may (and may not) use them to understand the economic conditions of a country .

10. Foreign exchange market HM Ch 13

Determinants of supply and demand for foreign exchange.

Factors shifting supply and demand curves for foreign exchange

Depreciation and appreciation.

NY Times article (20.26 Kb)
Washington Post article (43.076 Kb)

Fixed exchange rates

- * What actions are needed by governments to do this?
- * What happens to official reserves with fixed exchange rates?

Please read the two articles on the Chinese exchange rate policy above.

For the July 19th Washington Post article, think about the following questions:

1. Why would some US government officials want the yuan to rise in value?
2. What does the article suggest about how a revaluation would affect US jobs?
3. How would affect Chinese competitiveness against other foreign countries?

For the July 22nd NY Times article, think about the following questions:

1. What specific policy change did the Chinese government take?
2. What does the change imply about US prices to consumers?

11. Exchange rates and bond markets HM Ch 15

This lecture focuses on how the integration of international capital markets affects domestic interest rates. Focus is on covered and uncovered interest arbitrage and how monetary policies are linked across countries.

12. Fiscal and Monetary policy: Keynesian models under fixed and flexible exchange rates (HM Ch 21)

We examine which policies (among fiscal, monetary and exchange rate policies) are effective in influencing economic activity under the assumptions of a simple Keynesian model.

Skim HM Ch 21---focus on the results and not on the modeling details.

For discussion, read the Economist article on German macroeconomic policy. What type of Keynesian approaches would be possible for the German government if it decided to pursue Keynesian policies? Be sure to link this with the discussion in class--do not just list, think about what economic theory would say is possible/effective.

13. Fiscal and monetary policy: Neoclassical models under fixed and floating exchange rates

We examine which policies (among fiscal, monetary and exchange rate policies) are effective in influencing economic activity under the assumptions of a simple Neoclassical model. Focus is on purchasing power parity and the role of inflation in effecting exchange rates.

Read the article on Greenspan's view of the economy. How does this compare to the Keynesian view? What would be the implication about the need for fiscal and monetary stimulus to get out of a recession?

14. International monetary system HM Ch 19

Be sure to read the discussion carefully on optimum currency areas and the European Monetary System.