

Rutgers University (Spring 2012)

Department of Economics

International Economics (01:220:300:07) – Lower Level Elective Course

Lectures: **Mon and Wed (5:35pm – 6:55pm), Hickman 138, D/C**

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Office Hours: Mon 10:30 – 11:30am,
Wed 10 – 11am, Th 11-12noon

IMPORTANT: Read this syllabus very carefully. You are responsible for all information and materials in it. Information on the Web: The Department of Economics maintains a comprehensive web site at <http://economics.rutgers.edu>. This should be your first stop for virtually all of your economics inquiries. On the web site you will find information about the major, job opportunities, career choices, the faculty, library resources, and internet resources. My web page is <http://econweb.rutgers.edu/chaudhur>.

Course Description

This course will introduce both the micro-economic and macro-economic issues relevant to the economic relations among countries via international trade. The first half of the course deals with the microeconomic issues of international trade, and covers such issues as (i) why do countries trade?, (ii) what do they trade?, (iii) how are the gains from trade distributed?, and (iv) protectionism vs. free trade and regional economic integration. The second half of the course deals with issues in international finance and macroeconomics, and covers such issues as (i) the markets for currencies and exchange rates (fixed vs. flexible), (ii) balance of payments, (iii) adjustment processes, and (iv) open economy macroeconomics (role of monetary and fiscal policies) in a general equilibrium framework.

(Note: Major credit may be earned for only two of the three courses 220:300, 220:335, 220:336.)

Course Prerequisites

Prerequisites are designed to protect you from taking courses that you are unprepared to successfully complete. You should follow the recommended prerequisites closely. The following courses are prerequisites for this course. You are expected to have mastered the material covered in these courses before taking this course.

220:102, Intro to Microeconomics and 220:103, Intro to Macroeconomics
or 220:200 Economic Principles and Problems (Micro and Macro)

Learning Goals:

Students who complete this course will have a thorough understanding of the core micro-

and macro-economic principles that underlie international economic relations; will comprehend the basic economic theories of trade, trade barriers, and the impact of trade policy on firms and consumers; will know the basics of exchange rates and how they affect economic agents and government policy; will learn the fundamentals of foreign exchange markets, balance of payments, and international monetary systems; will be able to read and understand general interest articles on international trade, finance and policy.

Required Text

The following text (**required**) and the study guide (optional) will help you complete this course successfully. The lectures will roughly follow the format of the textbook.

- o **Yarbrough, Beth V. and Robert M. Yarbrough, The World Economy**: Trade and Finance, **7th edition or older**, 2006 Thompson/South-Western. (Y&Y)
- o **Yarbrough, Beth V. and Robert M. Yarbrough, The World Economy**: Trade and Finance, **Study Guide**, 7th edition, 2006 South-Western
(**Note: 2 copies will be available on reserve in Alexander Library, College Ave**)
The text is out of print, plenty of on-line versions and used books are available in e-Bay.

I strongly recommend that you attend lectures. Attending lectures is not a substitute for reading the book, nor is attending the lectures sufficient to fully understand the material. To get the most from this course you should both attend lecture and read the designated chapters. Unless you attend lectures regularly you will miss relevant discussions and materials covered in class and periodical announcements related to this course. You cannot just send an e-mail to find out what is going on in the classroom.

Reading List (to be adjusted according to exam dates)

A. Introduction (Y&Y, Chapter 1)

B. International Trade Theory and Policy

Topic: Comparative Advantage and the Causes and Gains from Trade

i) The Ricardian Model (Comparative Advantage I (Labor Productivity)

Y&Y, Chapter 2 (including Appendix)

ii) The Neoclassical/Heckscher-Ohlin Model (Comparative Advantage II)

Y&Y, Chapter 3 (Factor Endowments and Trade) (including Appendix A, B)

iii) The Distribution of the Gains from Trade (Trade, Distribution, and Welfare)

Y&Y, Chapter 4 (and Leontief Paradox: ch.5, pp. 112-113)

iv) Trade and Growth (Rybczynski Theorem and Immiserizing Growth)

Y&Y, chapter 10, sections 10.2.2 and 10.2.4

Topic: Trade Policy and Protectionism (Tariffs vs. Non-tariff Barriers to Trade)

Y&Y, Chapter 6, sections 6.1-6.9

Economic Integration, Regional Trade Agreements and the WTO

Y&Y, Chapter 9, sections 9.1, 9.2, 9.3 (summary), 9.4.1 - 9.4.3

C. International Macroeconomics (Finance and Payments)

1. The Foreign Exchange Market: Microeconomics
Interest Parity (Uncovered and Covered Interest Parity)
Y&Y, Chapter 12
2. The Balance of Payments
 - i) Concepts
Y&Y, Chapter 13
 - ii) Adjustment under Fixed and Flexible Exchange Rates
3. Open Economy Macroeconomics
 - i) The Market for Goods and Services in an Open Economy
Y&Y, Chapter 14
 - ii) Money and Foreign Exchange in an Open Economy
Y&Y, Chapter 15
 - iii) Fiscal and Monetary Policy in an Open Economy-Fixed Exchange Rates
Y&Y, Chapter 16
 - iv) Fiscal and Monetary Policy in an Open Economy-Flexible Exchange Rates
Y&Y, Chapter 17

4. The Exchange Rate in Long-Run Equilibrium (Purchasing Power Parity) Chap. 18

Course Requirements and Grades

Your grade in the course will be based on three exams (each weighing between 30-40%). [A > or = 88%, B+ (85-87%), B (78-84%), C+ (72-77%), C (60-71%), D (50-59%), and F < 50%]

The dates for the exams are as follows (with weights in the parentheses):

First Midterm Exam	(Wed, 22 nd February)	(30%)
Second Midterm Exam	(Wed, 28 th March)	(30%)
Final Exam	(Fri, May 4th, 4-6pm)	(40%)

Each exam will consist of multiple-choice questions. **Exams are not cumulative** but you must comprehend relevant previous materials as emphasized during lectures. All exams are closed-book and closed-notes. You may be allowed to use a simple calculator if needed (no cell phones will be allowed). You must have a #2 pencil to darken ('bubble') the SCANTRON and a good eraser.

Note that there are no extra credit assignments. There will be no opportunity to make up an exam. However, **for emergency and special circumstances**, alternative arrangements may be made based on notes from the Dean, doctor, police or other valid/relevant documents. Contact me immediately if such emergency occurs. **Note also that grades are not available via the phone or e-mail. Grade-related questions cannot be answered via internet (e-mail) or phone.**

Self-Reporting Absences:

Rutgers has implemented (beginning Fall 2011) a Self-Reporting Absence Website (<http://sims.rutgers.edu/ssra>). Students are expected to attend all classes. If you expect to miss one or two classes because of illness or a family emergency, please use the University Absence Reporting Website (<http://sims.rutgers.edu/ssra>) to indicate the date and reason for your absence. An email is automatically sent to me.

Problem Sets

Problems (labeled as “Quick Quiz/Multiple Choice”, “True or False” and “Fill in the blanks” in the Y&Y Study Guide) are recommended for you to practice. Answers to these questions can be found in the Y&Y Study Guide. But my strong advice is that you do not look at the answers until you put enough efforts to solve each problem. The assigned problems are suggestive of the type of questions you can expect on the exams.

Sample Questions in the Web

Many students find it useful to review questions available in other web sites. I may refer to those web sites where several sample questions are available for your review.

Academic Honesty

Cheating is totally unacceptable and highly risky for your academic life/career. The University has established rather severe penalties for cheating. You are strongly advised to review Rutgers' policies on cheating (**consult the Undergraduate Catalog**).

Turn off all electronic devices (cell phones, beepers, i-pods, i-phones etc.).

IMPORTANT DATES TO REMEMBER

Spring semester starts: Jan 17 (Tues)

SPRING RECESS (Sat, March 10 – Sun, March 18)

Last Day of semester (classes): April 30 (Mon)

Reading Days (Tues, May 1 – Wed, May 2);

1st Midterm (Feb 22nd), **2nd Midterm** (March 28th) and

Final Exam (**Fri, May 4th, 4-6pm; Note: It's 2-hour Final Exam.**)