

# EC314 International Economics

## (Spring 2024)

Seminar Leader: Thomas Eife  
Course Times: Tuesday, Wednesday 1730-1900  
Place: TBA  
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Office Hours: by appointment

This course explores the economic relationships between countries, covering trade and monetary issues. We will review key concepts and theories and apply them to relevant real-world examples. A wide range of global eventualities past and present, such as Brexit, the impact of Covid on international trade flows, German unification, the war in Ukraine, the global financial crisis 2007-2009, and the Napoleonic wars early in the 19th century will serve as a basis for critically evaluating countries' macroeconomic landscapes and for assessing policy options available to governments around the world.

### Part 1: International Trade Theory and Policy

In the first part of this course, we will look at why countries trade and how trade affects people's welfare. We cover topics such as the Dutch disease, the gravity equation, Ricardian trade, Heckscher-Ohlin trade and trade due to increasing returns. We then look at the instruments of trade policy such as tariffs, subsidies and voluntary export restraints, and discuss the pros and cons of trade regulations. Part 1 closes with a discussion of the arguments for and against free trade.

### Part 2: International Monetary Theory and Policy

In the second part, we learn the key concepts of the balance of payments and national accounting. We then ask "What is money?" and discuss interest rates, exchange rates and optimum currency areas. We cover in-depth the main theories before turning to monetary policy where we discuss how central banks fix exchange rates in practice, how currency attacks may be avoided, and why currency reserves are important. After a historical overview of the international monetary system, we study significant historical events such as the collapse of the Exchange Rate Mechanism in 1992, and the Great Depression in the 1930s.

### Learning Outcomes

- **Comprehensive Understanding:** Students will gain a thorough comprehension of the key principles and theories in international economics, including international trade and the study of international money.
- **Application of Theory:** Students will apply economic theories to real-world situations, enabling them to analyze and understand current international economic issues, such as trade disputes, financial crises, and globalization trends.

- **Analytical Skills:** Students will develop the ability to analyze and interpret economic data, trade patterns, and international financial markets to make informed economic decisions.
- **Policy Evaluation:** Students will be able to critically evaluate economic policies related to international trade, monetary policy, and currency exchange, considering their impact on a country's domestic economy and the country's international environment.
- **Global Perspectives:** Students will acquire a global perspective, understanding the challenges and opportunities of international economic relations, and recognizing the economic interdependence among countries and regions.

## Requirements

### Prerequisites

This is an advanced macroeconomics course. Students taking this course should have already successfully completed Macroeconomics and Mathematics for Economics.

### Textbooks

We will closely follow the following textbook:

- Krugman, Paul; Maurice Obstfeld; Mark Melitz (2022) "International Economics: Theory and Policy" 12th Edition

### Attendance

Attendance at ALL classes is expected. More than two absences (that is absences from two sessions of 90 minutes) in a semester will significantly affect the grade for the course.

### Use of cellphones

Cellphones are not allowed during the classes (not even as calculators). Please leave your cellphone in your bag during the classes.

## Assessment

Assessment will be based on attendance, preparation for classes, regular and active participation, handing in group problems sets, possibly quizzes, as well as a mid-term (60 minutes) and a final exam.

### Grade breakdown

- Seminar participation (class exercises), handing in problem sets (in pairs), and possible quizzes 40%
- Mid-term exam 30%: date and Time TBA (about the end of week 7).
- Final exam 30% date and Time TBA

### Problem sets

Mandatory problem sets (in pairs) are due one week after being given, i.e., if they are given on Wednesday they should be submitted before the Wednesday class one week afterward. Problem sets will be given throughout the course where appropriate and constitute an integral part of the final grade. Solutions to problem sets can only be submitted on an A4 paper. Make sure that your solutions are organized and clearly written.

### Policy on Late Submission of empirical work

Please note the policy from the Student Handbook on the submission of essays: essays that are up to 24 hours late will be downgraded one full grade (from B+ to C+, for example). Instructors are not obliged to accept essays that are more than 24 hours late. Where an instructor agrees to accept a late essay, it must be submitted within four weeks of the deadline and cannot receive a grade of higher than C. Thereafter, the student will receive a failing grade for the assignment.

## **Professionalism**

Being a student is your full-time job and with it come a set of responsibilities and expectations, as with any other job. Maintaining a professional attitude towards your course of study is something that also prepares you for later work life. A professional attitude towards your studies is shown by coming to class on time, being prepared, being courteous to your teachers and fellow students. It is exhibited by writing your essays with care, actively participating in class, not missing classes except for the most dire of circumstances and in general by adapting to the rules of the course without trying to bargain for personal exceptions.

## **Ethics/Academic honesty**

A core value of the academy is truth and the pursuit thereof. Nothing can shake the foundations of this pursuit as much as academic dishonesty as it undermines the trust that is indispensable to academic work. Plagiarism, cheating during exams, copying homework assignments (or doing individual assignments with a classmate) all constitute violations of academic honesty and of the clause on “academic integrity” that each student has signed in the student handbook. They can lead to failing the course and will be reflected in the student’s record (having a record of academic dishonesty can make obtaining scholarships, achieving a study abroad place or admission to another program difficult if not outright impossible).

## **Schedule and Course structure**

Our classes start on Tuesday Jan 30 and run until Wednesday May 8, with Spring break planned from Monday, March 25th, to Monday, April 1st, 2024. Completion week will take place from Mon, May 13 to Fri, May 17, 2024. Attendance is mandatory during completion week.

The following course structure is provisional in order to allow for flexibility. It is the students’ responsibility to keep themselves informed of any changes to the schedule provided here. An up-to-date schedule will be maintained by the course management in our Google classroom system. Lecture slides and problem sets will be posted in Google classroom.

### **Part I: Development of the analytical theory of international trade (Weeks 1-5)**

- World Trade: An Overview
- Labor Productivity and Comparative Advantage: The Ricardian Model
- Specific Factors and Income Distribution
- Resources and Trade: The Heckscher-Ohlin Model
- External Economies of Scale and the International Location of Production

### **Part II: Applying trade theory to the analysis of government policies toward trade (Weeks 6-7)**

- The Instruments of Trade Policy
- The Political Economy of Trade Policy
- Trade Policy in Developing Countries

- Controversies in Trade Policy

**Part III: International Monetary Theory (Week 8-12)**

- National Income Accounting and the Balance of Payments
- Exchange Rates and the Foreign Exchange Market
- Money, Interest Rates, and Exchange Rates
- Fixed Exchange Rates and Foreign Exchange Intervention

**Part IV: Applying international monetary theory to international monetary policy (Week 13-14)**

- International Monetary Systems: A Historical Overview
- Financial Globalization: Opportunity and Crisis
- Optimum Currency Areas and the Euro
- Developing Countries: Growth, Crisis, and Reform

*Classes missed due to federal holidays will not be rescheduled.*

(this version: Dec 22, 2023)