

## E303 INTERNATIONAL ECONOMICS

**Instructor:** Professor Peter Rangazas  
**Office Hours:** T 4:00-5:00 PM and R 10:30-11:30 AM or by appointment Cavanaugh Hall 518  
**e-mail:** prangaza@iupui.edu  
**Texts:** **Required:** Van den Berg, *International Economics*, McGraw Hill,  
**Recommended:** Irwin, *Free Trade under Fire*, Princeton university Press, 2002

**Grading:** Based on best 18 quizzes (20 %) and 4 in-class exams (20% each)

A (90-100%)	C+ (65-69%)
A- (85-89%)	C (60-64%)
B+ (80-84%)	C- (55-59%)
B (75-79%)	D (50-54%)
B- (70-74%)	F (0-49%)

(Four of the 22 quizzes may be dropped; NO MAKEUPS FOR MISSED QUIZZES)

### COURSE OUTLINE

#### I. Trade Theory and Facts

##### MEETING #1

###### A. Trade Facts #1

*Reading:* Van den Berg Chapter 1 (Irwin Ch.1)

###### B. Trade Facts #2

*Reading:* Van den Berg Chapter 2, pp.39-56

*Bonus Reading:* "Do Current Account Deficits Matter"

##### MEETING #2

###### Discussion/Quiz #1 and Quiz #2

###### C. Introduction to Exchange Rates

*Reading:* Van den Berg Chapter 2, pp.56-61

###### D. Trade Theory #1—"Small Open" Economy Model

*Reading:* Van den Berg Chapter 3, pp.68-78

*Bonus Reading:* "Economic Models"

##### MEETING #3

###### Discussion/ Quiz #3 and Quiz #4

###### E. Trade Theory #2—Two-Country Model

*Reading:* Van den Berg Chapter 3, pp.78-91

###### F. Trade Theory #3—Imperfect Competition

*Reading:* Van den Berg Chapter 3, pp.91-98

*Bonus Reading:* "Economist as Crusader"

MEETING #4

Discussion/**Quiz #5 and Quiz #6**

*G. Trade Theory #4—Partial Equilibrium Model*

*Reading:* Van den Berg Chapter 4, pp.104-112, 123-128 (Irwin Ch.2 pp.21-48)

Take-home **Quiz #7**

MEETING #5

**EXAM #1**

## **II. Trade Policy**

MEETING #6

*A. Protectionism*

*Reading:* Van den Berg Chapter 6, pp.186-195 (Irwin Ch.2 pp.55-69)

*B. Explaining Protectionism #1—Winner and Losers*

*Reading:* Van den Berg Chapter 7, pp.225-236

Bonus Reading: "In the Shadow of Prosperity"

MEETING #7

Discussion/**Quiz #8 and Quiz #9**

*C. Explaining Protectionism #2—Strategic Trade Policies*

*Reading:* Van den Berg Chapter 7, pp. 236-246

*D. Explaining Protectionism #3—Jobs, Jobs, Jobs,....*

*Reading:* (Irwin Chapter 3)

Bonus Reading: "Demystifying Outsourcing"

MEETING #8

Discussion/**Quiz #10 and Quiz #11**

*E. A Brief History of Trade Policy*

*Reading:* Van den Berg Chapter 8

Take-home **Quiz #12**

MEETING #9

**EXAM #2**

### **III. Growth and Investment in an Open Economy**

#### MEETING #10

##### *A. Trade and Growth #1*

Reading: Van den Berg Chapter 5, pp.143-153, 161-165

##### *B. Trade and Growth #2*

Reading: Van den Berg Chapter 5, pp.153-161

#### MEETING #11

#### Discussion/Quiz #13 and Quiz #14

##### *C. Theory of International Investment I*

Reading: Van den Berg Chapter 10 pp.331-334, 342-345

Bonus Reading: "Getting the Diagnosis Right"

##### *D. Theory of International Investment II*

Reading: Van den Berg Chapter 10 pp.346-361

#### MEETING #12

#### Discussion/Quiz #15 and Quiz #16

##### *E. Foreign Direct Investment*

Reading: Van den Berg Chapter 11, pp.367-385

Bonus Reading: "Will Super-High Chinese Growth Continue"

##### *F. Foreign Portfolio Investment*

Reading: Van den Berg Chapter 11, pp.385-399

Bonus Reading: "No Evidence that Aid Stimulates Growth"

#### Take-home Quiz #17 and Quiz #18

#### MEETING #13

### **EXAM #3**

### **IV. Global Financial Markets**

#### MEETING #14

##### *A. The Foreign Exchange Market*

Reading: Van den Berg Chapter 12, pp.404-406, 423-425, 429-434

##### *B. Exchange Rate Policy—Theory*

Reading: Van den Berg Chapter 13, pp.447-458

#### MEETING #15

#### Discussion/Quiz #1 and Quiz #20

### C. Exchange Rate Policy--Practice

Reading: Van den Berg Chapter 13, pp.466-479

Bonus Reading: "Flexible Exchange Rates Reduce Economic Volatility"

### D. A Brief History of the International Financial System

Reading: Van den Berg Chapter 14

Bonus Reading: "Globalization and New Comparative Economic History"

Take-home **Quiz #21 and Quiz #22**

MEETING 16

**EXAM #4**

## STUDY QUESTIONS

### I. Trade Theory and Facts

#### A. Trade Facts #1

1. Questions 1,2,5,7, from Van den Berg, Ch.1, p.26; Study Guide Multiple Choice #1-4, 6, 11 (pp.14-16).
2. Describe the international trade of *assets* over the past century.
3. US saving can be used to buy US assets, foreign assets from rich countries, or foreign assets from poor countries. How is US saving actually used? Why is this somewhat puzzling?
4. Explain why interest rates all over the world tend to have similar values.

#### B. Trade Facts #2

1. Questions 4-6,10-12, from Van den Berg, Ch.2, p.64; Study Guide Multiple Choice #6-11, 14-15, 17 (pp.23-25).
2. Define and give an example of the three different components of Net Foreign Saving.
3. The following items are from a country's balance of payments (\$billions): imports of services = \$91.6, borrowing from private foreigners = \$85.9, exports of goods = \$213.2, net transfers = -\$8.9, exports of services = \$119.2, private lending to foreigners = \$48.2, imports of goods = \$273.5, borrowing from foreign central banks = \$5.1, increase in official reserve assets = \$1.2. Assume that these payments include all of country's international payments. Place each item where it belongs in the current account or in the financial account. What are the current-account and financial-account balances? Do the balance of payments sum to zero?

#### C. Introduction to Exchange Rates

1. Question 13 from Van den Berg Ch.2, p.64; Study Guide Multiple Choice #18-21 (p.26).
2. What are the balance-of-payment "inflows"? "Outflows"? If inflows are high relative to outflows, does this create an excess demand or an excess supply for the country's currency? Does the currency appreciate or depreciate?
3. Many countries find themselves with high levels of foreign debt from past international borrowing. How does the payment of interest on this debt affect a country's balance of payments inflows? How will this affect the value of the country's currency?
4. Suppose we know that the level of US exports has fallen. Can we predict what has happened to the value of the dollar? Explain.

*D. Small Open Economy Model*

1. Questions 1,3,4,11 from Van den Berg Ch.3, pp.101-102; Study Guide Multiple Choice #3-12 (pp.37-39).

*E. Two Country Model*

1. Study Guide Multiple Choice #13-16 (p.39).
2. Explain the purpose of moving from a small open economy model to a two country model.
3. Discuss what might cause the PPFs of two countries to differ. Why do differences in PPFs generate the potential for trade?
4. Why will the world price of a traded good fall between the domestic prices of the good when the countries were closed?
5. What is comparative advantage and why is it related to trade?
6. Why might taste differ between countries? Are taste differences sufficient to generate trade?
7. Do two countries involved in trade always *both* benefit? Explain.

*F. Imperfect Competition*

1. Questions 5,9 from Van den Berg, Ch.3, pp. 101-102; Study Guide Multiple Choice #18-20 (p.40).
2. Contrast the models with decreasing returns (last section) and increasing returns (this section). How does trade cause welfare gains in each?

*G. Partial Equilibrium Model*

1. Questions 1,2 from Van den Berg, Ch.4, p.140; Study Guide Multiple Choice #1-10, 13-15 (pp.50-52).
2. What are the advantages of using a partial equilibrium model over the general equilibrium models from Chapter 3?
3. Explain in intuitive terms what consumer and producer surplus mean. How are they related to the gains from trade?
4. Use a partial equilibrium model to identify the winners and losers from trade. Show that there is a net gain from trade consistent with the results from Chapter 3.
5. List and explain the potential benefits from international trade.
6. Summary the research that attempts to quantify the gains from trade.

## **II. Trade Policy**

*A. Protectionism*

1. Questions 1,2 from Van den Berg Ch.6, p.220; Study Guide Multiple Choice #6-9, 14-15 (p.76).
2. Use a general equilibrium model to explain the Lerner Symmetry Theorem

*B. Explaining protectionism #1*

1. Questions 1,3,7,8 from Van den Berg Ch.7, p.258; Study Guide Multiple Choice #1-8 (pp.89-90).

*C. Explaining Protectionism #2*

1. Questions 2,4,5,6,8,9,14 from Van den Berg Ch.7, p.258; Study Guide Multiple Choice #9-11, 13, 18 (pp.90-91).

*D. Explaining Protectionism #3*

1. Imports do destroy jobs in competing domestic industry. Why don't imports destroy jobs in the economy as a whole?
2. Give two pieces of empirical evidence suggesting that trade does not affect US total employment.
3. Does trade affect the level or distribution of wages across skill groups in the US?

*E. A Brief History of Trade Policy*

1. Questions 2,3,5,6,7,8,9 from Van den Berg Ch.8, pp.293-294; Study Guide Multiple Choice #5, 9-14, 16-19 (pp.100-103).

### III. Growth and Investment in an Open Economy

#### A. Trade and Growth #1

1. Van den Berg Chapter 5; 1,5; Study Guide Multiple Choice #2, 4-9, 13 (pp.64-66).
2. What is the difference between “learning by doing” and “increasing returns”?
3. How might exports lead to growth via increased technological change? How might imports do the same?
4. Summarize the evidence linking trade and economic growth. Why can't this evidence settle the issue whether trade causes growth?

#### B. Trade and Growth #2

1. Van den Berg, Chapter 5; 3, 4; Study Guide Multiple Choice #10-11 (pp.64-66).
2. Explain how trade increases economic growth in the Solow Model.
3. What does this chapter suggest about the attempts to estimate the net gains from trade in Chapter 3?

#### C. International Investment I

1. Van den Berg Chapter 10, Question 10, Study Guide Multiple Choice #8 (p.125)

#### D. Theory of International Investment II

1. Van den Berg, Chapter 10, Question 2,5,7,11 (first part only); Study Guide Multiple Choice #13, 15 (pp.125-126).
2. Use the Solow model to explain why the trade of assets and the trade of goods affects growth in different ways.
3. Summarize the empirical evidence for the idea that international investment increases growth.
4. What is the “home-bias puzzle”? The “international diversification puzzle”? How might they be explained?

#### E. Foreign Direct Investment

1. Van den Berg, Chapter 11; 2-6; Study Guide Multiple Choice #2-7, 9 (pp.136-137).

#### F. Foreign Portfolio Investment

1. Van den Berg, Chapter 11; 1, 7-10; Study Guide Multiple Choice #10, 12-20 (pp.137-138).

### IV. Global Financial Markets

#### A. The Foreign Exchange Market

Van den Berg, Chapter 12, Questions 2,5,7,8,9,11, pp.444-445; Study Guide Multiple Choice #1-2, 5-6, 15-16 (pp.148-150).

#### B. Exchange Rate Policy—Theory

Van den Berg, Chapter 13, Questions 1,2,4,5,6,7, pp.482-483; Study Guide Multiple Choice #3-7, 11 (pp.161-162).

#### C. Exchange Rate Policy—Practice

Van den Berg, Chapter 13, Questions 10-12. p. 483; Study Guide Multiple Choice #13, 15-17 (pp.162-163).

#### D. A Brief History of the International Financial System

Van den Berg, Chapter 14, Questions 1,2,5,6,9, pp.522-523; Study Guide Multiple Choice #5-6, 10, 13-15, 17-20, 22 (pp.175-177).