

# **INTERNATIONAL ECONOMICS I**

## **(21213)**

**Degree/study:** International Business Economics

**Course:** third/fourth year

**Term:** first

**Number of ECTS credits:** 5 credits

**Hours of student's dedication:** 125 hours

**Language or languages of instruction:** English

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## **1. Presentation of the subject**

Introduction to trade. Basic models and some extensions: trade policies, strategic barriers.

Introduction to international macroeconomics, exchange rate, monetary systems.

## **2. Competences to be attained**

**Pre-requisites:** Microeconomic theory (theory of production, see Varian textbook), general equilibrium theory (Edgeworth box, Walras law, production frontier...).

**Competences** to be attained: G1, G4, G7, G9, G20, G11, G13, G14, G18, G19, E1.

## **3. Contents**

### **Part I: Basic theories**

Chapter 1 - An introduction to trade (1/10-5/10)

Chapter 2 - The Ricardian model: countries have comparative advantage, chapter 3 -- Krugman (1/10-5/10)

Chapter 3 - The Specific Factor model: comparative advantage and income distribution, chapter 4 (8/10-12/10)

Chapter 4 - The Heckscher-Ohlin model: comparative advantage coming from resources, chapter 5 (8/10-12/10)

Chapter 5 - A Standard Framework, basic analysis of policies, chapter 6 (15/10-19/10)

Chapter 6 - Beyond the comparative advantage: economies of scale, monopolistic competition, chapter 7, 8 (22/10-26/10)

### **Part II: Political economy**

Chapter 7 - Instruments of trade policy and welfare analysis, chapter 9 (29/10-2/11)

Chapter 8 - The political economy of trade policy: are tariffs the results of a welfare analysis?, chapter 10 (5/11-9/11)

### **Part III: Exchange Rates and International Macroeconomics**

Chapter 9 - Accounting and the balance of payment, chapter 13 (5/11-9/11)

Chapter 10 - An introduction to exchange rates, chapter 14 (12/11-16/11)

Chapter 11 - Basic theories on exchange rates, chapters 15, 16 (19/11-23/11)

Chapter 12 - Linking exchange rates to output, chapter 17 (19/11-23/11)

Chapter 13 - Introduction to monetary systems, chapter 19 (26/11-30/11)

Chapter 14 - Special focus on the Euro Zone, chapter 20 (26/11-30/11)

(\*) Financial Globalization, chapter 21 (3/12-5/12)

*Why do countries trade? What are the goods that a country exports or imports (what characterizes them)?*

In this class, countries will differ essentially by their production capacities, resources or factor productivity. The spatial dimension will be ignored. To give you a flavor of trade theory, David Ricardo (in the early 19th century!) developed the theory of comparative advantage, a theory in which it is the relative productivity of a good that matters. To be short, take Spain and Portugal. Spain may be more efficient at producing cars and bacalao than Portugal. But Portugal is much more efficient at fishing bacalaos than producing cars and it will end up specializing in fishes. The idea is the following: it is true that a Spanish fisherman would be more productive than the Portuguese one but putting this Spanish fisherman in the car industry would be ``more efficient".

*Who loses and who gains from trade? What are the implications of free trade on growth, income distribution...?*

The theory of trade tends to say that trade benefits to 1. The world, 2. All countries involved 3. Everyone in all countries involved. We will see that 1 and 2 are opinions widely shared among trade economists. 3 is less clear and we will analyze the consequences of this heterogeneity on the decision of politicians to engage in free trade or not.

*When you introduce money, how does it affect trade (countries typically do not have the same currency, except for the Euro zone at least for the next few months!)?*

In practice, trade necessitates the use of some money and does not consist in barter exchange. Monetary policy matters. Imagine that Europe decides to print a huge number of euros. Then, European people will not become infinitely richer in dollars and be able to buy half of the US. Instead, the value of the euro in dollar will depreciate. This value is the exchange rate and will be the focus of the second big part of the class. We will see that the introduction of monetary policy may generate some frictions in the basic international trade model (without invalidating it completely).

## 4. Assessment

This course is really “intensive”. Accordingly, keep up to date and do not wait for the mid-terms or the final exam. Attendance is mandatory (no slides) and reading the material covered after each class is strongly recommended. The evaluation will be divided into:

- Practice sessions (**15%**: 3 homeworks and participation in class).
- 2 mid-terms (**40%**: 20% each)
- 1 final exam (**45%**)

Students pass with a grade above 5 (**summing** the grades above). Homeworks are designed such as to broaden the scope of the class and relate theories seen in classes to “newspaper articles”. Practice sessions will focus on analytical tools. The exams (final + mid-term) presuppose the knowledge of the material covered in classes, as well as chapters or articles indicated as readings in those same classes. Mid-terms will last between 1 hr and 1 hr 30.

**Attendance at practice sessions is mandatory.** Retake for the final exam will take the form of a **new exam** and the new grade will only replace the grade of the final exam.

## 5. Bibliography and teaching resources

### 5.1. Basic bibliography

Krugman P., M. Obstfeld, and M.J. Melitz, *International Economics: Theory and Policy*. 9th Edition, 2012

### 5.2. Additional bibliography

- *Protection for Sale*, G. Grossman, E. Helpman, American Economic Review, 1994.
- *One Economics, Many Recipes*, D. Rodrik, Princeton University Press, 2007.
- *Good Prices and Exchange Rates: What Have We Learned?*, P. Goldberg, M. Knetter, Journal of Economic Literature, 2004.

### 5.3. Teaching resources

I may add some material on the class website, in which case it is going to be the week before the class.

## 6. Methodology

We will work on recent economic developments as a way to illustrate the theories seen in class. In practice sessions, the approach will be very “applied” with exercises. Students will be asked to prepare the practice session and read the reading materials. The final exam and the mid-terms will mix questions on the content of the class (theory-oriented) and exercises. No electronic devices will be allowed on the day of the exam (mobile phones, laptops...).

## 7. Activities Planning

See the part “Contents”.

Week 1 – 1/10-5/10	Chapters 1,2	
Week 2 – 8/10-12/10	Chapters 3,4	
Week 3 – 15/10-19/10	Chapter 5	
Week 4 – 22/10-26/10	Chapter 6	Practice 1
Week 5 – 29/10-3/11	Chapter 7	Practice 2
Week 6 – 5/11-9/11	Chapters 8,9 – MT1	Practice 3
Week 7 – 12/11-16/11	Chapter 10	Practice 4
Week 8 – 19/11-23/11	Chapters 11,12	Practice 5
Week 9 – 26/11-30/11	Chapters 13,14	Practice 6
Week 10 – 3/12-5/12	MT2	