

# 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

**Professor:** Yanos Zylberberg – [yanos.zylberberg@upf.edu](mailto:yanos.zylberberg@upf.edu), CREI (Mercè Rodoreda), 23.407 (4<sup>th</sup> floor), office hours: Monday 17.00-18.30

## 1. Presentation of the subject

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

We will see essentially two motives behind trade. The first is quite intuitive: countries differ in their production capacities, resources or factor productivity.

Let me start with the simple absolute advantage: Spain may be more efficient at producing cars and Portugal at producing bacalao. Those two countries then specialize and exchange those goods. They have an absolute advantage on their specialty. However, Spain may be more efficient at producing cars AND bacalao than Portugal, and still we may observe trade: 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. Assume that Portugal is much more efficient at fishing bacalaos than producing cars. In this situation, it will end up specializing in fishes. 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 even "more efficient".

The second type of motives behind trade is less obvious. Even when countries are exactly the same, trade may occur. This is due to economies of scale deriving from imperfect competition or production externalities.

*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 and we will see why.

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.

Finally, we will take an empirical stance and discuss the benefits/losses due to trade liberalization.

## 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:**

General: G1, G4, G7, G9, G20, G11, G13, G14, G18, G19.

Specific: E1, E2, E4

## 3. Contents

### Part I: Basic theories – comparative advantage

1 - An introduction to trade (30/09-1/10)

2 - The Ricardian model: countries have comparative advantage, chapter 3 -- Krugman (1/10-7/10)

3 - The Specific Factor model: comparative advantage and income distribution, chapter 4 (8/10-14/10)

4 - The Heckscher-Ohlin model: comparative advantage coming from resources, chapter 5 (15/10-21/10)

5 - A Standard Framework, basic analysis of policies, chapter 6 (22/10-28/10)

### Part II: Basic theories – economies of scale

6 - Beyond the comparative advantage: external economies of scale, chapter 7 (29/10-5/11)

7- Beyond the comparative advantage: monopolistic competition, chapter 8 (11/11-12/11)

### Part III: Political economy

8 - Instruments of trade policy, chapter 9 (18/11-19/11)

9 - The political economy of trade policy: are tariffs the results of a welfare analysis?, chapter 10 (25/11-26/11)

10 – Trade liberalization in practice, chapters 11-12 (25/11-26/11)

## 4. Assessment

This course is really ``intensive''. Accordingly, keep up to date and do not wait for the mid-term 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 (**20%**: 3 homeworks and participation in class).
- 1 mid-term (**30%**)
- 1 final exam (**50%**)

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. The mid-term will last between 1 hr and 1 hr 30.

**Attendance at practice sessions is mandatory:** an unjustified absence would lead to a 0 in the practice sessions evaluation, students with more than 1 unjustified absence cannot take part in the final exam. 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. Only students having attended the mid-term and the final exam can take part in the retake exam. Similarly, students with more than 2 unjustified absences from class cannot attend the retake 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 add the material related to a specific class approximately a week before the class (Campus Global).

## 6. Methodology

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” for a more detailed agenda.

Week 1	Introduction to trade	
Week 2	Ricardian model	
Week 3	Specific factors	
Week 4	Heckscher-Ohlin	Practice 1
Week 5	Policies	Practice 2
Week 6	MT1, Economies of scale	Practice 3
Week 7	Monopolistic competition	Practice 4
Week 8	Instruments of trade	Practice 5

Week 9	Political Economy	Practice 6
Week 10	Trade policy in practice	