This 4 credit course provides a rigorous treatment of topics in international economics. The study of international economics is divided into two parts - one that focuses on microeconomic issues, including the causes and consequences of international trade and the role for government policy; and a second part that focuses on macroeconomic issues, including theories of the determinants of exchange rates between currencies and the study of macroeconomic issues in open economies.

INSTRUCTOR
Harvey Lapan  (my home page: http://www.econ.iastate.edu/faculty/lapan/)
283 Heady Hall
294-5917

Class Hours: TTh 10:00-11:50, 119 East Hall.

Office Hours: Tuesday and Thursday 3:30 pm-5:00 pm and by appointment.

TEACHING ASSISTANT
Masakazu Onda 79 Heady Hall 294-8897 onda@iastate.edu
Office Hours MW 11-12

(Masa will grade the problem sets. Please come see me if you have questions about the course material or the problem sets).

PREREQUISITES
Econ 301 is required; Econ 302 is desirable (Econ 102 is required). Note that a student may not receive credit for both Econ 355 and Econ 455.

COURSE MATERIALS

TEXT

OTHER READING MATERIAL

There are additional readings for most sections; these readings are available online (as indicated). The books noted above are on reserve in the main library reserve area. Also, the Economist magazine (http://www.economist.com/), the New York Times (http://www.nytimes.com/), and the Wall Street Journal (www.wsj.com - subscription needed) always have some stories on current issues in international economics.
COURSE GRADING
Grades will be assigned on a plus-minus basis. Grades will be based on exams, problem sets, a course paper, and class participation.

- **Exams** will count for a total of 50% of your grade. There will be two midterm exams and a final exam; I will base your grade on the *best two of the three exams*, so *each* exam is worth 25%. No make-up exams will be offered except in extraordinary circumstances. Even if you do not take the final you are expected to attend classes. Exam dates will be announced in class, with at least two weeks warning. The final exam date is set by the University.

- **Problem sets** are worth 25% of your grade; they must be handed in on time to count. *You may work together on the problem sets, but you must write up your own answers in your own words.*

- **Paper:** there is a required course paper that is worth 20% of your grade. You are expected to do independent research for the paper, and to discuss the paper topic with me. There is no specific length for the paper, but I would expect you will need at least 10 pages (normal margins and font, double spacing) to do an adequate job. *You must cite any work you quote, including material taken off the web. Do not simply cut and paste material from the web. Also, you are expected to use some sites other than websites – for example, books, newsmagazines, journals, etc.*

  The paper is due the last day of class (Dec. 9). A 1-2 page proposal for the paper is due mid-way in the semester (October 13). *The proposal and paper must be handed in on time.*

- Class participation counts for 5% of the grade.

NOTE
The following course outline lists topics covered in International Economics. *However, since the text is designed for a two semester course, not all of these topics will be covered in detail.* Specific coverage will depend upon time available.
Readings and Outline

Introduction to Issues in International Economics

- Text, Ch. 1

I. International Trade Theory

A. Ricardian Theory of Comparative Advantage

- Text, Ch. 2

B. Specific Factor and Income Distribution

- Text, Chs. 3
- Griswold, “Trade, Jobs and Manufacturing: Why (Almost All) U.S. Workers Should Welcome Imports,” CATO Institute, Sept. 30, 1999 (online)

C. Resources and Trade: The Heckscher-Ohlin Model

- Text, Ch. 4
- Cline, William R: Trade and Income Distribution: The Debate and New Evidence, September 1999 (online)
- Symposia: Income Inequality and Trade Journal of Economic Perspectives, Summer 1995. (the material below is somewhat more difficult than the online paper above):
  1. Freeman, Richard, “Are Your Wages Set in Beijing?” pp15-32 (online)
  2. Richardson, J. David, “Income Inequality and Trade: How to Think, What to Conclude,” pp33-56 (harder) (online)

D. The Standard Trade Model

- Text, Ch. 5

E. Alternative Theories of Trade

- Text, Ch. 6
- Krugman, Paul R., “Is Free Trade Passé?”, Journal of Economic Perspectives, Vol. 1, Fall 1987, pages 131-144. (online); also Ch. 2 in King.

F. International Factor Movements

- Text, Ch. 7
- Stelzer, Irwin M., “Immigration: Hard Facts,” American Enterprise Institute, August 1997 (online)

Other Articles:
- Griswold, Daniel T., “Lift the Congressional Quota on High-Skilled Workers,” Journal of Commerce, March 27, 1998 (online)
- CATO Institute Immigration Handbook to Congress (online)

The following are more comprehensive, and more difficult, papers:
• Borjas, George, “The Economic Benefits from Immigration”, *Journal of Economic Perspectives*, Spring 1995, Vol 9, #2, pages 3-22 (on labor migration) (online)

II. International Trade Policy

A1. The Instruments of Trade Policy: Tariffs
  • Text, Ch. 8 (pp. 187-96 plus appendices)

A2. Other Instruments of Trade Policy:
  • Text, Ch. 8 (pp. 197-206)
  • Feenstra, Robert C., “How Costly is Protectionism,” *Journal of Economic Perspectives*, Summer 1992, 159-178. (online); also, Ch. 1 in King.
  • Verrill, Charles Owen, Jr., "An Introduction To Trade Remedies Available Under U.S. Law," unpublished "Memorandum to Clients and Friends," April 1, 1999. online

B. The Political Economy of Trade Policy
  • Text, Ch. 9
  • Krugman, Paul, “Enemies of the WTO,” Slate, Nov. 23, 1999. (online)
  • Griswold, Daniel, “Trade, Labor and the Environment,” CATO Institute, August 2001, online
  • Lustig, Nora: “NAFTA, Setting the Record Straight”, *Brookings Institution*, June 1997 (online)
  • Public Citizen, “NAFTA”: "Fast Track to Lost Jobs: Trade Deficits and Manufacturing Decline Are the Legacies of NAFTA and the WTO" (online)
C. Trade Policy in Developed Countries

- Text, Ch. 11
- Tyson, Laura, “Managed Trade: Making the Best of the Second Best,” Ch. 7 in King.

D. Trade Policies in Developing Countries (if time permits)

- Text, Ch. 10

These articles are somewhat difficult, but interesting:
- Rodrik, Dani, ”The Limits of Trade Policy Reform in Developing Countries,” Journal of Economic Perspectives, Winter 1992, pp.87-105. (online); also Ch. 12 in King.
- Dornbusch, Rudi, “The Case for Trade Liberalization in Developing Countries,” Journal of Economic Perspectives, Winter 1992, pp. 69-85. (online); also Ch. 11 in King.

III. Exchange Rates and Open-Economy Macroeconomics

A. Balance of Payments Accounts

- Text, Ch. 12.
- Link to Department of Commerce, Bureau of Economic Analysis site which links to Survey of Current Business, and balance of payments data. (online)
- Griswold, Daniel, “America’s Misaligned and Misunderstood Trade Deficit,” CATO Institute, April 20, 1998 (online); {in particular, see section entitled: Myth: “Trade Deficits Mean Lost Jobs”}
- Congressional Budget Office, “Causes and Consequences of the Trade Deficit: An Overview”, March 2000 (online)

B. Theories of Exchange Rate Determination

- Text, Chs. 13-14.
- “Big MacCurrencies,” Economist, April 25, 2002. (online)

The following two articles are interesting, but quite difficult:
C. **Price and Output Determination in Open Economies**
   - Text, Chs. 15-16.
   - King, Chs. 17-18.

D. **Fixed Exchange Rates and Foreign Exchange Intervention**
   - Text, Ch. 17
   - King, Ch. 19

IV. **International Macroeconomic Policy**

A. **The International Monetary System: 1870-1893**
   - Text, Ch. 18.
   - McKinnon, Ronald, “International Money in Historical Perspective,” *Journal of Economic Literature*, March 1993, pp1-44. ([online](#)) {long, but readable and interesting).

B. **Macroeconomic Policy under Floating Exchange Rates**
   - Text, Ch. 19

C. **Optimum Currency Areas and the European Experience**
   - Text., Ch. 20
   - Krugman, Paul, “The Euro: Beware of What You Wish For,” ([online](#)) ; {a light, but interesting, discussion}
   - European Central Bank website for Euro ([online](#)).

There is an overwhelming amount of material, both printed, and on the web, on the Euro. I list below two reference sites, plus a symposium in a journal:

- From the: *Journal of Economic Perspectives*, Symposia on EMU (European Monetary Union), Fall 1997:
  - Martin Feldstein, “The Political Economy of the European Economic and Monetary Union: Political Sources of an Economic Liability,” pp. 23-42 ([online](#)).
- The European Union in the U.S. - official web site of EU includes links to information on euro ([online](#)).
- Home Page on European Monetary Union and the U.S. (by Prof. Roubini, at NYU) - many great links ([online](#)).

- Text, Ch. 21.
- Obstfeld, “The Global Capital Market: Benefactor or Menace,” Journal of Economic Perspectives, Fall 1998, pp.9-31. (online) {this is part of a whole symposium on globalization, for those interested in the topic).
- Krugman, Paul, “Capital Control Freaks: How Malaysia got away with economic heresy,” Slate, Sept. 27, 1999 (online) {another light piece}

E. Developing Countries: Growth, Crisis and Reform

- Text, Ch. 22.
- For more depth see: “Symposia: New Institutions for Developing Country Debt,” Journal of Economic Perspectives, Winter 1990 (online)
- There are a large number of online sites for those interested in the Asian crisis; here is one site, that then can direct you to others. (online)
Online Web Sites of Interest:

There are countless web sites that deal with policy issues in international economics. These sites also include links to other sites. You will find data sources, papers on current public policy issues, and lots of other current material on these sites. This is far from an exhaustive list!

- Krugman-Obstfeld textbook site – 5th edition
- Krugman-Obstfeld textbook site – 6th edition
- Paul Krugman’s old homepage (at MIT) with links to his articles
- Paul Krugman’s new homepage (at Princeton) with links to his articles

Web sites for the International Organizations:

- International Monetary Fund
- World Bank International Trade Group
- Organization for Economic Co-operation and Development (OECD)
- World Trade Organization

Web Sites for selected U.S. Government Agencies:

- Council of Economic Advisers
- The White House
- United States Trade Representative
- U. S. Department of Commerce
- New York Federal Reserve Bank (click here) with link to all other Federal Reserve Banks
- U.S. International Trade Commission

Web Sites for Domestic Think Thanks concerned with International Economic Issues:

- CATO Center for Trade Policy Studies
- CATO Trade Policy Handbook for Congress
- CATO Trade Links Site
- The Brookings Institution
- Brookings Institute Economic Site
- Institute for International Economics
- Economic Strategy Institute
- Global Trade Negotiation site

Additional Web Sites that have lots of information and links to other sites:

- Internet Resources for International Economics and Business
- The Dismal Scientist
- Web Economics Resources in International Trade
- Homepage on European Monetary Union and the Euro
- The European Union in the U.S.