

Princeton University  
WWS 542 — International Economics  
Spring 2009

DRAFT SYLLABUS (11/18/08)

Lectures: TBA, 0xx Robertson Hall

Professor: Silvia Weyerbrock, office: 322 Bendheim Hall, 8-0178  
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Office hours (spring term): Tuesdays, 1:00-2:30 p.m.

Preceptor: Nicola Zaniboni, office: B-10 Fisher Hall  
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Office hours: Wednesday, TBA

Course Prerequisites: WWS 511b and WWS 512b (concurrent)

Course Description:

WWS 542 is a one-semester course in international economics. It aims to teach students how to evaluate and conduct economic analysis of issues relating to international economics. The course introduces both the microeconomic and macroeconomic issues relevant to economic relations among countries. The first half of the course deals with the microeconomic issues of international trade, and covers such issues as (i) why countries trade, (ii) how the gains from trade are distributed, and (iii) the theory and practice of protectionism. The second half of the course deals with issues of international finance and macroeconomics. It covers such issues as (i) national income accounting and the balance of payments, (ii) exchange rates, and (iii) international macroeconomic policy including choice of exchange rate regime, European Monetary Union, international capital markets, and growth crises and reform in developing countries. Throughout the semester, the goal of the class is to stress concepts and their application rather than theoretical formalism.

Course Requirements:

The grade for this course will be based on (1) three problem sets, (2) a late-semester exam, (3) a presentation supported by a brief individual policy memo, and (4) class participation.

- (1) *Problem sets:* There will be three problem sets. Problem sets will be posted on the web site and collected *in class* on the due date. You may turn in *one* problem set *24 hours late*. Please leave late problem sets in Nicola Zaniboni's mailbox in 001 Fisher Hall (at your own risk). Ask the receptionist in 001 Fisher to sign and 'time/day-stamp' your work. Other late work cannot be accepted except under serious extenuating circumstances.

Group work on analytical/graph problems on problem sets is permitted, and even encouraged. Please work on essay-type questions individually. Each student needs to turn in separate answers. Please make sure that what you turn in reflects your genuine understanding and not merely what a fellow student told you.

Problem set #1	Posted on February 12 (2 <sup>nd</sup> week)	Due on February 19 (3 <sup>rd</sup> week)
Problem set #2	Posted on March 5 (5 <sup>th</sup> week)	Due on March 12 (6 <sup>th</sup> week)
Problem set #3	Posted on April 2 (8 <sup>th</sup> week)	Due on April 9 (9 <sup>th</sup> week)

There will be four precepts. Nicola will discuss problem set answers plus an additional practice problem during the first three precepts. The final precept during the last week of classes will cover the exam answers and economics questions I submitted for the 2008 Field 1 QE2. Precept times and locations will be announced on Blackboard.

- (2) *Examination:* The exam will be in-class and closed-book. It will cover material presented in lectures and covered in required readings. It will take place during class time on Thursday, April 23, during 11<sup>th</sup> week of classes.
- (3) *Presentation and individual policy memo:* Students are expected to make an individual or group presentation on a current issue in international economics. Presentations should last about 20 minutes. They will take place throughout the semester depending on the topic chosen; most trade presentations will occur in March and most finance presentations in April.

In addition to the syllabus I will hand out a note containing suggestions for topics and how to go about finding material. Please let me know about your choice of topic and partner (if applicable) by E-mail at latest by Thursday, February 12. Provide a list of references, at latest, by Tuesday, February 24 (ideally earlier, if you choose to work on a trade topic).

Each presentation should be supported by a six-page policy memo (excluding references, graphs, and tables). Please complete your memos independently. The final version of the policy memo is due on May 12, 2009.

Assignment	Date distributed	Date due	Percent of final grade
Problem set #1	February 12	February 19	7.5%
Problem set #2	March 5	March 12	7.5%
Problem set #3	April 2	April 9	7.5%
In-class exam	--	April 23	40%
Memo and presentation	--	Topic: February 12 (Th) References: February 24 (T) Memo: May 12 (T)	15% memo 15% presentation
Class participation			7.5%

The above table shows how final grades will be calculated. Only the final draft of the policy memo will be graded. Grades can be appealed in writing within 10 days of return. If a student submits a statement detailing how he/she has been mis-graded, the entire work in questions will be irreversibly re-graded by whoever (the professor or preceptor) did not grade it initially. There will be no extra-credit assignments.

Readings:

Required for purchase:

Krugman, Paul R., and Maurice Obstfeld (2009). *International Economics: Theory and Policy*, 8<sup>th</sup> Edition. Addison-Wesley [KO]. (Used versions of earlier editions are fine too).

Optional texts:

Some students will find it useful to consult further textbooks to reinforce the material or to get a different perspective on international economics. Supplementary references for students that would like to study international economics more in depth are:

Yarbrough, Beth V., and Robert M. Yarbrough (2005). *The World Economy: Trade and Finance*, 7<sup>th</sup> Edition. South Western College Publishers. (More basic introduction to international economics).

Feenstra, Robert C., and Alan M. Taylor (2008). *International Economics*. New York: Worth Publishers. (Alternative undergrad international economics textbook)

Feenstra, Robert (2004). *Advanced International Trade: Theory and Evidence*. Princeton University Press. (Graduate-level international trade textbook).

Obstfeld, Maurice, and Kenneth S. Rogoff (1996). *Foundations of International Macroeconomics*. The MIT Press. (More technical introduction to international finance).

Shambaugh, Jay C., Linda S. Goldberg and Michael W. Klein (2005). *Study Guide to Accompany International Economics: Theory and Policy*, Seventh Edition. Addison-Wesley. (This study guide includes chapter summaries and practice problems).

Bhagwati, Jagdish (2007). *In Defense of Globalization: With a New Afterword*. Oxford University Press. (Discussion of the arguments of the anti-globalization movement by a trade economicist).

Irwin, Douglas (2005). *Free Trade Under Fire*. Second Edition. Princeton University Press. (Up-to-date, easy-to-read assessment of current trade debate).

Stiglitz, Joseph E. (2003). *Globalization and Its Discontents*. W.W. Norton. (Critical assessment of globalization).

Stiglitz, Joseph E. (2007) *Making Globalization Work*. W.W. Norton. (How to make globalization worthwhile for all)?

Watkins, Kevin/Oxfam (2004) *Rigged Rules and Double Standards: Trade Globalization and the Fight Against Poverty* Oxford: Oxfam. [www.maketradefair.com/assets/english/report\\_english.pdf](http://www.maketradefair.com/assets/english/report_english.pdf) (Arguments of the antiglobalization movement).

Wolf, Martin (2005). *Why Globalization Works?* Yale University Press. (Arguments in favor of globalization).

Eichengreen, Barry (2008). *Globalizing Capital: A History of the International Monetary System*. 2<sup>nd</sup> Edition. Princeton University Press. (History of monetary system up to 2007. Last two chapters most relevant).

Additional readings:

The tentative course schedule includes specific information on additional readings. Required readings are marked with an asterisk. Journal articles are accessible through E-reserves. You may access E-reserves through Blackboard or through the library home page. The user-ID for the latter is wws542 and the password econ. I will assemble articles from the Economist in two course readers, the first available in week 1 and the second in week 7 of the spring semester (CR). The course reader will be on reserve in the WWS library.

Students should also keep up with international economic news. Excellent sources are the Economist and newspapers such as the Financial Times, the Wall Street Journal, or the New York Times.

### Information on the Web

The Blackboard course web page will include this syllabus, problem sets, some handouts, and links to interesting sites on the web. Grades will be entered in the online grade book.

### Tentative Course Outline

Economist readings to be updated.

\* indicates required reading

1. Introduction  
\*KO, chapter 1

### *International Trade Theory*

2. Labor Productivity and Comparative Advantage: The Ricardian Model  
\*KO, chapter 3: 27-43, 47-50.  
\*Economist. "Schools brief: the miracle of trade." January 27<sup>th</sup>, 1996 (CR).
3. Resources and Trade: The Heckscher-Ohlin Model  
\*KO, chapter 4: 54-58, 64-75; chapter 11: 274-276.  
\*Economist. "Trade and wages." December 6<sup>th</sup>, 1996 (CR).  
Irwin, chapter 3
4. The Standard Trade Model: Set-up and Terms of Trade  
\*KO, chapter 5: 88-94.
5. Economies of Scale, Imperfect Competition and International Trade: Internal and External  
\*KO, chapter 6, chapter 2, chapter 10: 251-259  
\*Economist. "Survey on world trade: Why trade is good for you." October 3<sup>rd</sup>, 1998 (CR).  
Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding and Peter K. Schott (2007)  
"Firms in international trade." *Journal of Economic Perspectives*, 21(3): 105-130.
6. Labor Migration, Foreign Direct Investment, and Outsourcing (depending on student interests)  
\*KO, chapter 7: 153-160, 163-170.  
Bhagwati, Jagdish, Arvind Panagariya, and T.N. Srinivasan (2004). "The Muddles Over Outsourcing." *Journal of Economic Perspectives*, 18(4): 93-104.

- Freedman, Richard (2006). "People Flows in Globalization." *Journal of Economic Perspectives*, 20(2): 145-170.
- Economist, "Migration: of bedsheets and bison grass vodka." January 5<sup>th</sup>, 2008 (CR).
- \*Economist, "Outsourcing: Getting the measure of it." July 2<sup>nd</sup>, 2005 (CR).
- \*Economist, "Rivulets and riptides." September 13<sup>th</sup>, 2007. (CR)

### *International Trade Policy*

6. Instruments of Trade Policy  
\*KO, chapter 8, chapter 11: 276-284
7. Political Economy of Trade Policy  
\*KO, chapter 9: 212-227.  
\*Krugman, Paul R. (1987) "Is Free Trade Passe?" *Journal of Economic Perspectives*, 1(2): 131-144.  
\*Economist. "Buying off the opposition." November 8<sup>th</sup>, 2007.  
\*Landsburg, Steven E. "What to expect when you're free trading." *New York Times*, January 16, 2008.  
Irwin, chapter 2
8. Trade Policy in Practice  
\*KO, chapter 9: 227-242, chapter 10: 259-264.  
\*Krueger, Anne O. (1999) "Are Preferential Trading Arrangements Trade-liberalizing or Protectionist?" *Journal of Economic Perspectives*, 13(4): 105-124.  
Economist, "The challengers." January 10<sup>th</sup>, 2008. (CR)  
\*Economist, "Economic focus: is there any point to the WTO?" August 6<sup>th</sup>, 2005 (CR).  
\*Economist, "Economic focus: punch-up over handouts." March 26<sup>th</sup>, 2005 (CR).  
\*Economist, "Mangling trade." June 30<sup>th</sup>, 2007.  
Economist, "Special report: ten years of NAFTA. Free Trade on Trial." January 3<sup>rd</sup>, 2004 (CR).  
Irwin, chapter 6

### *Exchange Rates and Open-Economy Macroeconomics*

- \*Economist, "Economic and Financial Indicators." March 2009 (CR)  
\*Economist, "Emerging Market Indicators." March 2009 (CR)
9. National Income Accounting and the Balance of Payments  
\*KO, chapter 12  
Mann, Catherine L. (2002). "Perspectives on the U.S. Current Account Deficit and Sustainability." *Journal of Economic Perspectives*, 16(3):131-152.  
Feldstein, Martin (2008). "Resolving the Global Imbalance: The Dollar and the U.S. Saving Rate." *Journal of Economic Perspectives*, 22(3):113-125.
10. Exchange Rates and the Foreign Exchange Market: An Asset Approach  
\*KO, chapter 13

Federal Reserve Bank of New York. The Basics of Foreign Trade and Exchange. At <http://www.ny.frb.org/education/fx/index.html>

11. Money, Interest Rates, and Exchange Rates

\*KO, chapter 14

Dornbusch, Rudiger (1976) "Expectations and Exchange Rate Dynamics." *Journal of Political Economy*, 84 (December 1976): 1161-1176.

12. Price Levels and Exchange Rate in the Long Run

\*KO, chapter 15

Taylor, Alan M. and Mark P. Taylor (2004) "The Purchasing Power Parity Debate." *Journal of Economic Perspectives*, 18(4): 135-158.

\*Economist, "Big Mac index." January 14<sup>th</sup>, 2006 (CR)

13. Fixed and Flexible Exchange Rates and Short-Run Macro Performance

\*KO, chapter 16&17

Obstfeld, Maurice, and Kenneth Rogoff (1995). "The mirage of fixed exchange rates." *Journal of Economic Perspectives*, 9(4): 73-96.

\*Economist, "Economic focus: fix or float." September 13<sup>th</sup>, 2003 (CR).

\*Economist, "Economic focus: precisely wrong." June 25<sup>th</sup>, 2005 (CR)

\*Economist, "Economic focus: Asian squirrels." September 17<sup>th</sup>, 2005 (CR)

\*Economist, "Economic focus: dollar-mad." October 27<sup>th</sup>, 2001. (CR)

*International Macroeconomic Policy*

14. The International Monetary System, 1870-1973 (depending on student interests)

\*KO, chapter 18

Eichengreen, Barry (2004) Global imbalances and the lessons of Bretton Woods. NBER Working Paper 10497

15. Macroeconomic Policy and Coordination under Floating Exchange Rates, 1973-present

\*KO, chapter 19

Dooley, Michael P., David Folkerts-Landau, and Peter Garber (2003) An essay on the revived Bretton Woods system. NBER Working Paper 9971.

\*Economist, "Special report: the IMF. Doubts inside the barricades." September 28<sup>th</sup>, 2002 (CR).

\*Economist, "Rogoff: The sisters at 60." July 24<sup>th</sup>, 2004. (CR)

\*Economist, "Economic focus: currency competition." October 1<sup>st</sup>, 2005. (CR)

16. Optimum Currency Areas and the European Experience

\*KO, chapter 20

Lane, Philip R. (2006). "The Real Effects of European Monetary Union." *Journal of Economic Perspectives*, 20 (4): 47-66.

\*Economist, "Euro brief: the merits of one money." October 24<sup>th</sup>, 1998 (CR).

17. Developing Countries: Growth, Crises, and Reform (depending on student interests)

\*KO, chapter 22

Calvo, Guillermo A. and Frederic S. Mishkin (2003). "The Mirage of Exchange Rate Regimes for Emerging Market Economies." *Journal of Economic Perspectives*, 17 (4): 99-118.

Kaminsky, Graciela L., Carmen M. Reinhart, and Carlos A. Vegh (2003). "The Unholy Trinity of Financial Contagion." *Journal of Economic Perspectives*, 17 (4): 51-74.

Eichengreen, Barry (2003). "Restructuring Sovereign Debt." *Journal of Economic Perspectives*, 17 (4): 75-98

Arslanalp, Serkan, and Peter Blair Henry (2006). "Policy Watch: Debt Relief." *Journal of Economic Perspectives*, 20 (1): 207-220.

\*Economist, "Economic focus: a better way to go bust." February 1<sup>st</sup>, 2003 (CR).

\*Economist, "Economic focus: to give or to forgive." June 18<sup>th</sup>, 2005 (CR).

Dani Rodrik's weblog on economic development and globalization:

<http://rodrik.typepad.com/>

18. Global Capital Markets and International Financial Architecture (depending on student interests)

\*KO, chapter 21

Mishkin, Frederic S. (1999). "Global financial instability: framework, events, issues." *Journal of Economic Perspectives*, 13(4):3-20.

Edwards, Sebastian (1999). "How Effective Are Capital Controls?" *Journal of Economic Perspectives*, 13(4): 65-84.

Prasad, Eswar S., and Raghuram G. Rajan (2008). "A Pragmatic Approach to Capital Account Liberalization." *Journal of Economic Perspectives*, 22(3): 149-172.

Eichengreen, Barry (2008), chapter 6 – A Brave New World.

\*Economist. "Economic focus: a remedy for financial instability." April 17<sup>th</sup>, 2004. (CR)

World Bank's blog on the financial crisis: <http://crisistalk.worldbank.org/>