

INTERNATIONAL ECONOMICS

The course consists of two parts.

Part I: International Trade, lecturer is Roman Zakharenko.

Part II: International Finance, lecturer is Konstantin Kozlov.

Course description

This course is elective. The main goal of the first part of the course is to introduce students to both classical and modern theories of international trade in goods and services, as well as empirical research on trade. A substantial fraction of the course is dedicated to examination of efficient trade policies.

The aim of the second part of the course is to introduce students to introductory level of theories of international finance flows, determination of interest and exchange rates in interconnected economies, macroeconomic policies available to the government, and the nature of financial crises.

Prerequisites: Microeconomics 1-2 and Macroeconomics 1-2.

Methods of Instruction

The teaching is based on the principle that mathematical models and graphical analysis have value insofar as they allow given economic problems to be analyzed in a coherent and rigorous manner. Thus formal mechanics and geometrical methods are complements to verbal exposition, which is most useful for conveying key insights and discussing empirical evidence. The approach encourages the development of economic intuition as well as some formal skills.

The following methods and forms of study are used in the course:

- lectures
- seminars
- home assignments
- self-study

You are encouraged to work together on homework assignments, but you must write up the assignment individually. Overall, the course includes 66 hours of lectures and 66 hours of classes. Self-study is an extremely important element of the course.

Required reading

Krugman P., Obstfeld M. Melitz M. (KOM) International Economics: Theory and Policy,

10th edition, 2015

9th edition is a close substitute.

Additional Reading

1. Copeland L. (CL) Exchange rates and International Finance, 5th edition, 2008
2. Appleyard D., Field A. and S. Cobb (AFC), International Economics, 6th edition, 2008
3. Sodersten B., Reed G. (SR) International Economics, 3rd ed. Macmillan, 1994.
4. D. Petropoulou, A. Vanags (UL) International Economics. University of London, Subject Guide, 2011.
5. Feenstra, R. Advanced International Trade. Princeton University Press, 2004.

Grading System and Knowledge Assessment

The final grade for the first semester consists of the following elements:

- Home assignments (4 per semester) – 4% each
- Class activity (assigned by seminar leaders) – 6%
- Mid-semester evaluation (one per semester) – 28%
- End-of-semester exam (one per semester) – 50%

The final grade for the second semester consists of the following elements:

- Home assignments (4 per semester) – 5% each
- Class activity (assigned by seminar leaders, includes quiz grades) – 5%
- Mid-semester mock exam – 25%
- End-of-semester exam – 50%

Overall Grade for the Course: the descriptions of Parts I and II above explain how the grade for each part is determined. The overall grade for the Course is the average of these two grades.

To receive a passing grade, students should earn at least 33% of the maximum possible final grade, or at least 40% of the maximum possible grade for the final exam.

In May, students take the University of London exam in International Economics that includes problems in International Finance.

Sample materials for knowledge assessment are available in ICEF Information system at <https://icef-info.hse.ru>.

Valid excuses

If you have to miss a homework or mid-semester examination due to illness, the weight of the missed assignments will be shifted onto other course elements (other exams, class activity, and homeworks).

Special Equipment and Software Support

Laptop, projector, Internet connection

MS Word, MS Excel

Course plan

PART I: INTERNATIONAL TRADE

1. Introduction

- Important issues in international trade.
- History and present state of world trade flows
- Russian trade balance
- History of the development of trade theory

2. Essentials: Ricardo and Comparative Advantage

- The Ricardian model of trade
- Empirical evidence and policy results

3. Factor Price Equalization and Trade

- Heckscher-Ohlin model of trade
- Stolper-Samuelson effects
- Rybczynski effects

4. Who Wins and Who Loses from Trade?

- The “Specific Factors” model of trade
- Redistribution aspect of trade policy
- International experience

5. Standard Trade Models and Country Welfare

- Welfare comparisons across countries
- Welfare comparisons within countries

6. An Empirical Evaluation of Trade Patterns

- Problems with the Heckscher - Ohlin model
- Empirical evidence of trade theory

7. Market Imperfections and Trade

- Imperfect Competition and trade
- Externalities and protectionism
- Empirical evaluation of importance

8. International Factor Movements

- International Labor Mobility
- International Capital Flows
- Multinational Firms and Direct Foreign Investment

9. Tariffs and Non-Tariff Barriers to Trade

- Economics of Tariffs
- Economics of Quotas
- Protection and Imperfect Competition

10. Government Intervention in Trade

- Welfare arguments
- Income Distribution
- Optimum Tariff

11. Strategic Trade Policies

- Technology and Externalities
- Imperfect Competition and Protection

12. Development through Trade Policies

- Import Substitution and Infant Industry argument

- Export-oriented development strategies
- The East Asian Miracle?

13. Political Economy of Trade (optional, time permitting)

- Pros and Cons of government intervention
- Strategic trade policy
- Median voter theorem
- Theory of collective action
- Politicians for sale (partial eqm analysis)

14. World Trade Organization, Preferential Trading Arrangements, Custom Unions and Economic Integration

- Free trade agreements, customs unions
- Trade creation vs trade diversion
- Trade policy in developing countries: import substitutions, export promotion
- International negotiations: GATT, WTO, Doha round.

PART II: INTERNATIONAL FINANCE

1. Introduction

- Distinction between International Trade and International Macroeconomics
- Why International Finance became relevant in the last decade: capital flows in open economy, Washington consensus rethink, global crisis 2008-09, eurozone problems, global banking. Importance for Russia

2. National Income accounting revisited and the Balance of Payments

- National income accounts, main macroeconomic identity reminder.
- National income accounting for open economy, BoP and transaction accounting
- Importance of BoP as a measure of foreign currency flow balance

3. Asset Approach to Exchange Rate Determination

- Demand for foreign currency assets
- Equilibrium in the foreign exchange market.
- Interest rates, expectations, and uncovered exchange rate parity

4. Money, Interest Rates, and Exchange Rates

- Aggregate money demand
- Equilibrium interest rate
- Money and exchange rate in the short run. Dornbusch overshooting model
- Money, price level and exchange rate in the long run

5. Price Levels and the Exchange Rate in the Long Run

- Empirical evidence on PPP and the law of one price. Problems with PPP approach
- Models of long-run exchange rates determination
- Real exchange rate and real interest parity

6. Output and the Exchange Rate in the Short Run

- Output market equilibrium in the short run: The DD schedule
- Asset market equilibrium in the short run: The AA schedule
- Short-Run Equilibrium for an open economy
- Temporary vs. permanent changes in monetary and fiscal policies
- Macroeconomic policies and the current account
- Mundell-Fleming (IS-LM-BP) model and comparison with AA-DD model

7. Fixed exchange rate regime

- Central bank intervention in the foreign exchange market
- Stabilization policies and exchange rate regimes comparison
- Three models of currency (balance of payments) crises

8. The international monetary system

- The Gold Standard and the Bretton Woods agreements. IMF.
- Policy coordination with floating exchange rates.
- Optimum currency area theory. Single currency and economic integration. EMU.

9. International capital markets and emerging markets

- The efficiency of international capital markets: theory and evidence
- Problems in international banking
- Problems of international finance for developing countries.

10. Financial and economic crisis of 2008-09

- Recent financial crises: Mexico 1994, Asia 1997-98, Russia 1998.
- What was the same, and what was different in 2008-09.
- European crisis in 2010-15, Russian crisis in 2014-15