

ECON 151
International Economics Seminar
Swarthmore College, Fall 2020

Professor Tao Wang

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Meetings: T TH 10.45 am – 1pm (All times EDT/EST)

Office Hours: M W 11.45 am – 12.15 pm or by appt.

Goals and Expectations

This double-credit Honors seminar studies important theories in the analysis of international trade and international finance. Though the focus of the seminars and the readings is often on the theoretical analysis, the objective is to apply the theories to real-world problems.

Upon completion of the seminar, the students are expected to:

- be knowledgeable about the current global economy and resources for international data;
- be capable of reading academic papers in the field of international economics in a critical way;
- be familiar with basic theories of international economics and able to use these theories to analyze economic events and policies;
- be able to conduct basic independent research on international economic topics using the tools, skills and resources acquired.

Readings

Texts

Paul Krugman, Maurice Obstfeld, and Marc Melitz, *International Economics: Theory and Policy*, 11th edition (Pearson, 2018). (KOM)

Richard Caves, Jeffrey Frankel and Ronald Jones, *World Trade and Payments*, 10th edition (Addison-Wesley, 2007). (CFJ)

CFJ is out of print. Permissions have been obtained to make PDFs of the required chapters available through Moodle and Perusall. Please do not circulate the PDFs for non-seminar use.

In both textbooks there are Chapter Appendices and Mathematical Supplements. Generally, the Appendices are required and the Supplements are optional. For those considering graduate study in economics, the Supplements are recommended.

Other Reading

In addition to the texts, a few articles will generally be assigned each week. These will usually be posted on the course web page on Moodle.

Advanced Texts

Feenstra, Robert, *Advanced International Trade*.

Bhagwati, Jagdish and Srinivasan, T.N. *Lectures on International Trade*.

Dornbusch, Rudiger, *Open-Economy Macroeconomics*.

Obstfeld, Maurice and Rogoff, Kenneth, *Foundations of International Macroeconomics*.

Handbook of International Economics, is a valuable graduate level collection of surveys.

Data Sources

Useful summaries of international economic developments in the recent past are:

IMF *World Economic Outlook*, annual, (for a global overview)

OECD *Economic Outlook*, semi-annual (for developed countries)

World Bank, *World Development Report*, annual (for developing countries).

These organizations also have Web sites with lots of free information.

International statistics on individual countries can be obtained from the IMF's *International Financial Statistics (IFS)*, and World Bank's *World Development Indicators (WDI)*. These can be accessed online through TRIPOD.

Library Resources

The library has a research guide for a previous version of this seminar, <http://libguides.brynmawr.edu/econ151>, which has links to a variety of resources that are useful for the course. It will be a good starting point for you when start to prepare your papers

This web page was created by Social Science Librarian Sarah Elichko, who is very helpful if you need assistance in finding data or other academic resources.

Requirements

Readings

All seminar participants are expected to have read the **required readings**, including the news articles and the student papers to be discussed. Other readings will be for the papers and is optional except for the paper writers. Additionally, you are encouraged to keep up with current developments in the world economy, by reading various newspapers and magazines.

Seminar Papers

Each student will write 3 papers, one on international trade, one on international macroeconomics, and one country study, which incorporates both micro- and macroeconomic aspects. One of the three papers must be turned into a term paper at the end of the semester (see below). Some suggested reading is provided for each topic. Students are encouraged to find other sources as well, especially for the empirical topics. For country study papers as well as those covering policy issues, try to include any recent important developments. You may want to consult with the professor before writing your papers.

Seminar papers should be roughly 1500-2000 words. It's a plus to include graphics and tables of your own construction but copies from reference sources are OK. The papers should be concise and synthetic so other students can read quickly and obtain an understanding of the basic issues discussed in the paper.

Papers are due by 12 PM the day before the seminar. Please send your paper by email to the group. If the paper is late, please send out an email to everyone informing us when the paper will be available.

It is important that you read each others' papers so that we can have a good discussion.

Slides presentations of the papers, particularly the country study papers, can be helpful and are highly encouraged.

Country Study Papers

The purpose of the country study papers is to apply the concepts of the seminar to a particular case and to give us another perspective on developments in the world economy. The country study paper will vary with the nature of the country, but here are some general guidelines as to what to include.

- a. General Information. Situate the country in terms of its level of development, size, political system, etc.
- b. The main features of its international trade and payments, e.g., the composition of exports and imports, the pattern of the current account balance, capital flows, and international reserves.
- c. Exchange-rate policies and developments.
- d. Main elements of trade policy.
- e. Monetary and fiscal policies.
- f. Macroeconomic performance (growth, inflation, and unemployment).

You should also include more detail on a special topic, depending on the country, e.g., the Euro for Germany or Greece, the Brexit for the UK, the default on foreign debt for Argentina, NAFTA/USMCA for Mexico, the Asian crisis for Thailand, exports of services for India, or the trade war with the US for China.

It is important to try to apply the relevant theory in analyzing your country. This is particularly the case if you use your country paper as your term paper. This does not have to involve formal models but rather awareness and application of relevant concepts.

Final Term Paper

Due Date: Final paper is due at the end of the final exam period.

Length: about 15 pages of 12-pt font text, double-spaced, plus tables, charts for a total of some 20 pages. It can be a bit longer or shorter depending on the topic and how you approach it.

Feedback to your seminar papers will be provided. It will be helpful if you indicate which paper you intend to develop as the final term paper at the earliest convenience. If you do a good job on the first draft, it should not require a great deal more work. Respond to the comments from the professor as well as the discussion in the presentation, and do a little more research as needed.

Grading Criteria. In addition to the quality of your research and analysis, consideration will be given to how well the paper is written and organized for this final version.

Avoid Plagiarism. Make sure it is written in your own words. That is, do not copy or too closely paraphrase from your sources. Also make sure your ideas are properly referenced and others' work is not presented as your own. You do not need footnotes just for references but put author and year in parentheses following the sentence or paragraph from which it is derived. For example, you can cite Milton Friedman's 1953 article as (Friedman, 1953) and then have it in the bibliography at the end of the paper.

Problem Sets

Selected previous Honors exam questions are assigned each week as problem sets. These problem sets are not graded. Students are encouraged to work out the problems collaboratively. For each problem set, one student will be assigned to aggregate the work of all students and prepare a solution. Selected problems will be discussed in the seminar.

Current Events

Students are encouraged to keep up to date with current developments in the global economy. You may look for the relevant sections of *The New York Times*, *The Wall Street Journal*, the *Financial Times*, *The Economist* magazine, and/or other publications. Each week one student will be responsible for a briefing on the key events in international economics and lead a short discussion in connection to the seminar material. The discussion will be based on two to three news articles, at least one of which is more closely related to the topic of the week. The selected news articles should be circulated to the students by **8 pm the day before the seminar**.

Final Exam

The Honors exam in international economics will serve as the final exam for the seminar for all students.

Grading

The grade for the seminar will be based on (roughly):

- Seminar Participation (including papers, problem sets, presentations) 50%
- Final Term Paper 20%
- Final Exam 30%

Outline of the Seminar and Paper Topics (by week)

Part I. Introduction

1. Introduction to international trade and international macroeconomics
2. Comparative Advantage and the Gains from Trade
 - Is free trade better than no trade? In what sense does society gain from trade?
 - The Ricardian model with a continuum of goods
 - International labor standards and trade
3. Inter-temporal Trade; The Balance of Payments
 - Oil-price shocks and the balance of payments
 - Is the US current account deficit sustainable?
 - Is(was) China's currency undervalued?
 - Bilateral versus overall current account imbalances

Part II. International Trade

4. Classical and Neoclassical Theories of Trade
 - International trade, wages and inequality
 - New evidence on the effects of Chinese imports on US employment, prices and others
 - Empirical tests of the neoclassical models of international trade
 - Economics of immigration and emigration
 - Empirical analysis of the determinants of FDI
5. Imperfect Competition; Firms in International Trade
 - How can intra-industry trade in manufactures be explained?
 - Heterogeneous firms and trade
 - The Gravity model and its empirical application
 - Outsourcing and its welfare implications
 - Multinational firms
 - New developments in global supply chains
6. Trade Policy: Domestic and International Perspectives
 - Interest-group politics and trade policy
 - The US-China trade war and its impact
 - The effects of the WTO on trade
 - Discuss the arguments for and against a Free Trade Agreement
 - Deep free trade agreements
 - The causes and consequences of Brexit
7. Trade, Growth and Development
 - Trade and the environment; The Pollution Haven Hypothesis
 - Trade and climate change
 - The East Asian "miracle"
 - Trade and development of Africa
 - FDI and development; Knowledge spillover
 - Openness, growth, and poverty
 - The developing countries and the WTO
 - Trade in services

Part III. Macroeconomics: International Finance

8. Exchange-Rate Determination in the Short and Long Runs
 - Empirical evidence on exchange-rate models
 - Purchasing Power Parity
 - Burgernomics – the Big Mac index
9. Macroeconomic Policy Under Fixed and Flexible Exchange Rates
No papers
10. Macroeconomic Interdependence and the International Monetary System

- What are the gains from macro policy coordination?
- Is Europe an optimum currency area?
- Currency unions and trade: empirical evidence
- The history of exchange rate regimes and the trilemma

11. International Financial Markets

- How integrated are international financial markets?
- Are capital controls beneficial?
- Puzzles in international macroeconomics
- Offshore financial centers, tax evasion and money laundering

12. International Macroeconomics and the Developing Countries

- The Asian financial crisis
- Economic reform in the transition economies
- Reform of the IMF and the World Bank
- Dollarization, currency boards and other solutions to exchange-rate dilemmas in developing countries.
- Bankruptcy arrangements for sovereign debt
- Debt relief
- Lessons from the history of financial crises
- Borrowing in foreign and domestic currency (Original Sin)

This syllabus is subject to revisions. Please check the seminar's Moodle page for the up-to-date version.

Readings

Week 1: Introduction

Required readings:

KOM, Chs. 1, 2, 9.

CFJ, [Ch. 1](#).

Recent studies on the "China shock":

Daron Acemoglu, David Autor, David Dorn, Gordon Hanson and Brendan Price, "[The Rise of China and the Future of US Manufacturing](#)," *VoxEU*, 28 September 2014.

Xavier Jaravel and Erick Sager, "[The price effects of trade: New evidence from the US and implications for quantitative trade models](#)," *VoxEU*, 16 October 2019.

Short discussion on history and future on globalization/trade:

Sait Akman, Shiro Armstrong, Carlos Primo Braga, Uri Dadush, Anabel González, Fukunari Kimura, Junji Nakagawa, Peter Rashish and Akihiko Tamura, "[The crisis in world trade](#)," *VoxEU*, 04 September 2019.

Populism and the backlash against globalization:

Dani Rodrik, "[Economics of the populist backlash](#)," *VoxEU*, 03 July 2017.

Recommended:

Kevin O'Rourke, "[Brexit: This Backlash Has Been a Long Time Coming](#)," *VoxEU*, 06 August, 2016.

Martin Wolf, "[The Long and Painful Journey to World Disorder](#)," *Financial Times*, January 6, 2017. (can be accessed via TRIPOD at ft.com).

Week 2: Comparative Advantage and the Gains from Trade

Required readings:

KOM, Chs. 3, 6, 12 (pp. 299-305).

CFJ, Chs. [2](#), [3](#), [4](#), including Appendices A and B to Ch. 2.

Samuelson, P. A. 2004. "[Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization](#)." *Journal of Economic Perspectives*, 18(3): 135-146.

"[The Limits of Free Trade](#)," comment by Avinash Dixit and Gene Grossman and Samuelson's reply, *Journal of Economic Perspectives*, 19(3): 241-244.

Week 3: Inter-Temporal Trade; The Balance of Payments

Required Readings:

KOM, Ch 6 (pp. 135-138 and its appendix), Ch 13, Appendices 1 and 2 to Ch. 17.

CFJ, Chs [15](#), [16](#), [17](#).

Obstfeld, M. and K. Rogoff. *Foundations of International Macroeconomics*, [Ch 1](#) (pp. 1-33).

Eichengreen, B. 2006. "[Global Imbalances: The Blind Men and the Elephant](#)." *Issues in Economic Policy*, No. 1, The Brookings Institution.

Week 4: Classical and Neoclassical Theories of Trade

Required readings:

KOM, Chs 4, 5 including Appendices.

CFJ, Chs. [5](#), [6](#) including Appendices.

Richard Baldwin, "A long view of globalisation in short," *VoxEU* column. [Part 1](#), ([2](#), [3](#) not required) [4](#).

Recommended readings:

CFJ, Supplements to Chs 5, 6.

Stolper, W. F. and P. A. Samuelson. 1941. "[Protection and Real Wages](#)." *The Review of Economic Studies*, 9(1): 58-73.

Hanson, G. H. 2012. "[The Rise of Middle Kingdoms: Emerging Economies in Global Trade.](#)" *Journal of Economic Perspectives*, 26(2): 41-64.

Bernhofen, D. M. and J. C. Brown. 2004. "[A Direct Test of the Theory of Comparative Advantage: The Case of Japan.](#)" *Journal of Political Economy*, 112(1): 48-67

Week 5: Imperfect Competition; Firms in International Trade

Required Readings:

External economies, factor trade (FDI) and Outsourcing

KOM, Ch 7, Ch 8 (MNE and outsourcing). Ch 12 (Tech and externalities)

CFJ, Chs [8](#), [9](#).

Baldwin, R. 2018. "A long view of globalisation in short," *VoxEU* column. [Part 5](#).

Dollar, D. 2019. "[Invisible Links: Value chains transform manufacturing and distort the globalization debate.](#)" *Finance & Development*, 56(2): 50-53.

Imperfect competition firms:

KOM, Ch 8 including appendix

CFJ, Chs [7](#)

Bernard, A. B., J. B. Jensen, S. J. Redding, and P. K. Schott. 2007. "[Firms in International Trade.](#)" *Journal of Economic Perspectives*, 21(3): 105-130.

Recommended Readings:

Helpman, E. 1999. "[The Structure of Foreign Trade.](#)" *Journal of Economic Perspectives*, 13(2): 121-144.

Melitz, M. J., and D. Trefler. 2012. "[Gains from Trade When Firms Matter.](#)" *Journal of Economic Perspectives*, 26 (2): 91-118.

Feenstra, R. C. 2018. "[Alternative Sources of the Gains from International Trade: Variety, Creative Destruction, and Markups.](#)" *Journal of Economic Perspectives*, 32 (2): 25-46.

World Bank. 2020. [World Development Report 2020: Trading for Development in the Age of Global Value Chains.](#)

Costinot, A., and A. Rodríguez-Clare. 2018. "[The US Gains from Trade: Valuation Using the Demand for Foreign Factor Services.](#)" *Journal of Economic Perspectives*, 32 (2): 3-24.

Baldwin, R. 2020. "[The COVID concussion and supply-chain contagion waves,](#)" *VoxEU* column.

Week 6: Trade Policy: Domestic and International Perspectives

Required Readings:

KOM, appendix to Ch 9, [online appendix to Ch 9](#) (small country case only), Ch 10 (pp. 236-251), Ch 12 (pp. 291-298).

CFJ, Chs [10](#), [11](#), [13](#) (sections 13.1 and 13.4).

Krugman, P. R. 1987. "[Is Free Trade Passe?](#)" *Journal of Economic Perspectives*, 1(2): 131-144.

Baldwin, Robert E. 1989. "[The Political Economy of Trade Policy.](#)" *Journal of Economic Perspectives*, 3(4): 119-135.

Trade Liberalization: Multilateralism and Regionalism

KOM. Ch 10 (pp. 252-267).

CFJ, [13](#) (sections 13.2 and 13.5), [14](#) (sections 14.1-3 and 14.6)

Panagariya, A. 1999. "[The Regionalism Debate: An Overview.](#)" *World Economy*, 22(4): 455-476.

Recommended Readings:

KOM, Ch 9. – a review of partial equilibrium models covered in week 1.

Irwin, D. A. 2010. "[Trade Restrictiveness and Deadweight Losses from US Tariffs.](#)" *American Economic Journal: Economic Policy*, 2(3): 111-33.

Rodrik, D. 2018. "[What Do Trade Agreements Really Do?](#)" *Journal of Economic Perspectives*, 32 (2): 73-90.

Week 7: Trade, Growth and Development

Required Readings:

KOM, Chs 11, 12 (pp. 305-310)

Pack, H. and K. Saggi. 2006. "[Is There a Case for Industrial Policy? A Critical Survey.](#)" *World Bank Research Observer*, 21 (2): 267-297.

Rodrik, D. 2006. "[Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's Economic Growth in the 1990s: Learning from a Decade of Reform.](#)" *Journal of Economic Literature*, 44(4): 973-987.

Harrison, A. E. and A. Rodríguez-Clare. 2010. "[Trade, Foreign Investment, and Industrial Policy for Developing Countries.](#)" In D. Rodrik and M. Rosenzweig, eds: *Handbook of Development Economics*, Vol. 5, The Netherlands: North-Holland, 2010, pp. 4039-4214. [NBER working paper version](#); [VOX summary](#) (read the summary).

Frankel, J. A. 2018. "[Trade, Growth, & the Environment.](#)" slides, Graduate Consortium on Energy & Environment Harvard University.

Recommended Readings:

Espitia, A., N. Rocha and M. Ruta. 2020. "[Trade and the COVID-19 crisis in developing countries.](#)" *VocEU* column.

Week 8: Exchange-Rate Determination in the Short and Long Runs

Required Readings:

KOM, Chs 14-16 (including appendices), Appendix 1 to Ch. 18.

CFJ, Ch [27](#).

Week 9: Macroeconomic Policy under Fixed and Flexible Exchange Rates

Required Readings:

KOM, Chs 17, 18 (fixed rate and stabilization policy).

CFJ, Chs [18](#), [19](#), [22](#), [23](#).

Week 10: Macroeconomic Interdependence and the International Monetary System

Required Readings:

KOM, Chs 19, 21 (including Appendix).

CFJ, Chs [25](#), [26](#).

Frankel, J. 1999. "[No Single Currency Regime is Right for All Countries at All Times.](#)" *NBER Working Paper*, 7338.

Feldstein, M. 1992. "[The Case against EMU.](#)" *The Economist*, June 13, 1992.

Recommended Readings:

Vaitilingam, R. "[European economic policy for the COVID-19 crisis: Views of leading economists on lockdowns, Coronabonds and the ECB's role,](#)" *VoxEU* column.

Bini Smaghi, L. 2020. '[Corona bonds – great idea but complicated in reality](#)', *VoxEU* column.

Gros D. 2020. "[EU solidarity in exceptional times: Corona transfers instead of Coronabonds,](#)" *VoxEU* column.

Week 11: International Financial Markets

Required Readings:

KOM, Ch 20, Appendix 2 of Ch 18.

CFJ, Chs [21](#) (including appendix), [28](#).

Recommended Readings:

Accominotti, O., M. Briere, A. Burietz, K. Oosterlinck and A. Szafarz. 2020. "[Globalisation and financial contagion: A history,](#)" *VoxEU* column.

Coelho, R., F. Restoy and R. Zamil. 2020.. "[Regulatory convergence and market confidence,](#)" *VoxEU* column.

Obstfeld, M. and K. Rogoff. 1995. "[The Mirage of Fixed Exchange Rates.](#)" *Journal of Economic Perspectives*, 9(4): 73-96.

Rose, A. K. 2011. "[Exchange Rate Regimes in the Modern Era: Fixed, Floating, and Flaky.](#)" *Journal of Economic Literature*, 49(3): 652-672.

Kaminsky, G. L. and C. M. Reinhart. 1999. "[The Twin Crises: The Causes of Banking and Balance-Of-Payments Problems.](#)" *American Economic Review*, 89(3): 473-500.

Week 12: International Macroeconomics and the Developing Countries

Required Readings:

KOM, Ch 22.

CFJ, Chs [20](#), [24](#).

Calvo, G. and Reinhart, C. 1999. "[Capital Flow Reversals, the Exchange Rate Debate, and Dollarization.](#)" *Finance and Development*, September 1999: 13-15.

Corsetti, G. and E. Marin. 2020. "[The dollar and international capital flows in the COVID-19 crisis.](#)" *VoxEU* column.

Recommended Readings:

Rodrik, D. and Subramanian, A. 2009. "[Why Did Financial Globalization Disappoint?](#)" *IMF Staff Papers*, 56(1): 112-138.

Mishkin, F. S. 2009. "[Why We Shouldn't Turn Our Backs on Financial Globalization.](#)" *IMF Staff Papers*, 56(1): 139-170.