

Ec271 International Economic Relations

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Office Hours: T 1:30-2:30, Th 4:30-5:30
or by appointment

Syllabus

An introduction to international economic relations. The course is intended for international studies majors. Expectations are high in international studies, so the work load is ambitious. Topics include elements of game theory, the theory of international trade and trade policy, and the theory of open economy macroeconomic policy.

Prerequisites: Ec131-132.

Requirements:

Midterm examination: October 20

Term Paper: December 8 (last day of class)

Final Examination: Dec. 20, 9:00AM

Homework assignments

Class attendance: more than 3 unexcused absences will lower your grade; class participation will be rewarded.

I never give makeup exams.

About the Term Paper:

You should produce an analysis of a current policy issue in US trade policy. For example,, the US Congress recently narrowly approved a free trade agreement with the 5 Central American economies. As another example, the US and EU are currently negotiating textile and apparel quotas with China.

Plagiarism is a serious academic offense and will not be tolerated in this course. Consult standard definitions of plagiarism to clarify your understanding. When in doubt, cite.

Textbooks:

Paul Krugman and Maurice Obstfeld, *International Economics*, 7th Edition, 2005.
Avinash Dixit and Susan Skeath, *Games of Strategy*, Norton, 1999.

Websites:

Krugman and Obstfeld have a textbook website, www.aw-bc.com/krugman. Here are some other good ones:

www.cid.harvard.edu/cidtrade Dani Rodrik's trade negotiations page

www.wto.org Lots of detail on cases and some other good information

www.ustr.gov/reports The USTR official reports page

www1.worldbank.org/wbiiep/trade/tradeandproduction.html The best detailed trade and production database.

<http://www.iie.com/policybriefs> Institute for International Economics policy briefs are often really excellent. See the analysis of the steel case in Feb. 2002 for example.

More readings

Two stimulating and argumentative opposing books are Joseph Stiglitz, *Globalization and its Discontents*, Norton, 2002 and Jagdish Bhagwati, *In Defense of Globalization*, Oxford, 2004.

News

Frequent reference to current events will be made. The Economist (www.economist.com) and the NY Times (www.nytimes.com) are good sources.

Themes

International economics and international politics are both concerned with relations between *sovereign nations*. These relations have elements of both conflict and cooperation; of mutual benefit as well as loss avoidance.

- Small numbers of autonomous sovereigns interacting non-anonymously.
- National institutions to deal with external affairs and especially international institutions constrain the interactions

International economics is also concerned with markets which happen to be international. Here there is anonymous interaction of large numbers in domestic economic & political markets. These structures provide the context for international economic policy making by sovereigns.

Course Outline

I. Game Theory

Game theory has a good claim to being the foundation discipline of social science. It applies to all situations where one rational agent interacts with other rational agents such that player A's optimal strategy depends on player B's strategy.

In international economic *relations*, we focus on policy using 'the national policy maker' as the agent or player. Of course this is an enormous oversimplification, since there is no unitary national policy maker, but it is a very useful abstraction. Game theory is the essential tool for analyzing interactions between nation states.

International economics also relies on game theory to describe interactions between private players. For example, home and foreign firms compete in autos, steel, computers, etc. in both home and foreign markets. The active state and the firms of course also interact in a larger game as well. For example, the FTC, the EU Competition Commission and private firms all interact on merger and acquisition issues.

1. Introduction

DS, chs 1,2

2. Sequential Move Games

DS, ch. 3

3. Simultaneous Move Games

DS, ch. 4

4. Application: Brinkmanship & the Cuban Missile Crisis

DS, ch. 13

Application to Iran and N. Korea on proliferation?

II. Trade Theory

For many situations, individual private players face large numbers of other players both at home and abroad, and the simpler competitive economic analysis can replace game theory to describe their interactions with each other. Policies such as tariffs are regarded as set by some outside force. Much of trade theory uses this structure.

Trade theory concerns itself with flexible price (full employment) static models of 'real' exchange. Money is suppressed. Why nations trade and whether there are gains from trade are its basic questions. Game theory is used as needed to model imperfectly competitive markets. The effects (and causes) of nations' interventions with trade in this setting are the focus of international trade relations analysis.

1. Trade between Dissimilar Countries: I, Classical Theory

KO, ch. 3

2. Trade between Dissimilar Countries: II, Factor Proportions

KO, ch. 4

3. Trade between Similar Countries

KO, ch. 6

4. Trade Policy Instruments and Effects

KO, ch. 8

5. Political Economy of Trade Policy

KO, ch. 9

6. Trade Policy in Developing Countries

KO, ch. 10

7. Controversies in Trade Policy

KO, ch. 11

III. International Macroeconomic Theory and Policy

International macroeconomics is concerned with economic relations of open economies where price rigidity can cause unemployment, where monetary arrangements matter and where dynamic elements such as temporary trade balance deficits play a role. International economic relations here focuses on interactions of monetary policy and exchange rate policy, and related capital market interactions.

1. Balance of Payments Accounting

KO, ch. 12

2. The Foreign Exchange Market

KO, ch. 13

3. Open Economy Macro Policy

KO, chs. 14-16