

BOSTON COLLEGE  
Department of Economics

EC 271 International Economic Relations  
Fall 2007  
Class: T & Th 10:30  
<http://www2.bc.edu/~murphyro>

Professor Bob Murphy  
21 Campanella Way, Room 485  
Office Hours: T & Th 2:00-3:00  
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### **International Economic Relations**

Purpose of Course: This course provides an introduction to economic relations among countries. The course is primarily designed for international studies majors, but is also appropriate for economics, business, history, or political science majors seeking a comprehensive overview of international economics. We will study the underlying determinants of trade in goods, services and capital among countries along with the policies that nations often use to influence such trade. We will also explore the theory and practice of international macroeconomics and problems of coordinating macroeconomic policies among countries. One feature of the course includes understanding the usefulness (and limitations) of game theory for explaining international economic interactions. Given the comprehensive coverage of the course, the workload is heavy and expectations for students are high.

Prerequisites: Students will have successfully completed EC 131-132, Principles of Economics.

Office Hours: I will hold office hours on Tuesday and Thursday afternoons from 2:00 to 3:00 in room 485 of 21 Campanella Way. You are welcome to make an appointment for other times. My office phone number is 552-3688 and my e-mail address is [murphyro@bc.edu](mailto:murphyro@bc.edu).

Textbook:

International Economics: Theory and Policy, seventh edition, by Paul Krugman and Maurice Obstfeld, Addison-Wesley, 2006, available at the BC Bookstore. In addition, Addison-Wesley Publishers has a web site that accompanies the Krugman-Obstfeld textbook, [http://www.aw.com/krugman\\_obstfeld](http://www.aw.com/krugman_obstfeld), on which you will find some useful materials. I encourage you to explore the site and may assign some items during the semester.

Problem Sets: From time to time I will assign problem sets that are drawn from the problems at the ends of chapters of the Krugman-Obstfeld textbook. Answer keys will be posted on the course website. These problems are to be handed in and will be graded on a pass/fail basis.

Current Economic News: Frequently, I will hand out or direct you to additional readings on current international policy issues. I may also post materials on the course web page, which you will find on my homepage: <http://www2.bc.edu/~murphyro>. I encourage you to follow current international economic issues by reading on a daily basis one of the major national newspapers (e.g., The Wall Street Journal, The New York Times, and The Washington Post). Fortune, The Economist, and Business Week magazines are also good

sources for keeping up on economic events. We frequently will discuss in class the relevant economic news of the day.

**Grading:** Your grade for the course will be based on a mid-term exam (30%) to be given on **TUESDAY, OCTOBER 23** in class, a scheduled final exam (40%) to be given on **THURSDAY, DECEMBER 13 at 9:00 A.M.**, and a policy paper (30%). Makeup exams will not be given. If you must miss the mid-term exam (but only with an excuse ahead of time), 70% of your grade will be based on the final exam. Attendance in class is mandatory and class participation, along with performance on problem sets, will be used to adjust grades up or down by half a grade level.

**Policy Paper:** You will write a short, focused policy paper (1500 words maximum) on a current issue in U.S. international economic policy. The analysis should be carefully written in the style of an opinion article or policy brief. As you'll see, this is not an easy exercise since you'll need to be concise while providing a substantive analysis. The paper is due on **DECEMBER 6**, our last class. Where appropriate, your analysis should draw on the tools we study in the course, including trade theory, macroeconomic theory and/or elements of game theory. Plagiarism is a serious academic offense and will not be tolerated in this course. When in doubt, cite references.

## **Course Outline**

### **Part I. Economics of International Trade**

#### **1. Introduction and Overview**

Krugman and Obstfeld, Chapters 1 and 2.

#### **2. Comparative Advantage as a Reason for Trade**

Krugman and Obstfeld, Chapters 3 and 4.

#### **3. Economies of Scale as a Reason for Trade**

Krugman and Obstfeld, Chapter 6.

#### **4. International Factor Movements**

Krugman and Obstfeld, Chapter 7

### **Part II. Policy Issues in International Trade**

#### **1. The Instruments of Trade Policy**

Krugman and Obstfeld, Chapter 8.

2. The Political Economy of Trade Policy

Krugman and Obstfeld, Chapter 9.

3. Trade Policy in Developing Countries

Krugman and Obstfeld, Chapter 10.

4. Controversies in Trade Policy

Krugman and Obstfeld, Chapter 11.

**\*\*\*\*\*MIDTERM EXAM TUESDAY, OCTOBER 23, IN CLASS\*\*\*\*\***

**Part III. Economics of International Money and Finance**

1. Exchange Rates and the Foreign Exchange Market

Krugman and Obstfeld, Chapter 13.

2. National Income Accounting and the Balance of Payments

Krugman and Obstfeld, Chapter 12.

3. Macroeconomics of Flexible Exchange Rates

Krugman and Obstfeld, Chapters 14 and 16.

4. Macroeconomics of Fixed Exchange Rates

Krugman and Obstfeld, Chapter 17.

**Part IV. Policy Issues in International Macroeconomics**

1. The International Monetary System, 1870-1973

Krugman and Obstfeld, Chapter 18.

2. Macroeconomic Policy Coordination Under Floating Exchange Rates

Krugman and Obstfeld, Chapter 19.

3. European Economic and Monetary Union

Krugman and Obstfeld, Chapter 20.

4. Developing Countries: Growth, Crisis, and Reform

Krugman and Obstfeld, Chapter 22.

**\*\*\*\*\*FINAL EXAM THURSDAY, DECEMBER 13, at 9:00 A.M.\*\*\*\*\***