

UNIVERSITY OF WISCONSIN–MADISON

ECONOMICS 464: INTERNATIONAL TRADE AND FINANCE

Fall 2009

Prof. Isao Kamata

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Course web page: [http://www.ssc.wisc.edu/~ikamata/econ464\\_f09](http://www.ssc.wisc.edu/~ikamata/econ464_f09) (under construction)

Office Hours: Monday 3:30 – 4:30pm (office: 309 La Follette School)

Tuesday 2:30 – 3:30pm (office: 6426 Social Science)

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**Course Description:**

This is a course for economics majors and has **Econ 301 (or 311) and Econ 302 (or 312) as prerequisites.**

The first and major part of the course explores the theoretical foundations of **International Trade**, focusing on why countries trade and what they trade, and in what sense international trade is beneficial to trading countries. Current policy issues will be examined to demonstrate the usefulness as well as the limitations of the theory. We will also study how trade policies can be used to pursue national or global objectives. The second part of the course (remaining 1/3 of classes) will cover selected topics in **International Finance**.

It is extremely important that you work on linking the concepts that we cover in class with developments in the real world. This is the only way to make sure that these concepts are really understood. I will occasionally send you e-mails with links to articles where international economics issues are discussed, but I urge you to do this on your own as well. Good sources are The New York Times, the Financial Times, The Economist, and Google World News. Also check the Trade Observatory (<http://www.tradeobservatory.org>). If you find an interesting or amusing article about any of the issues we discuss in class, please send it to me so that we could discuss it in class.

**Required Readings:**

(1) Textbook:

Robert C. Feenstra and Alan M. Taylor, *International Economics*, Worth Publishers, 2008

(2) Handouts and assigned articles: available through the course web page and the UW Library e-reserves.

**Grading, Important Dates and Notes:**

1. The course grade will be on the basis of **three exams and homework assignments (between four and six)**. Exams are non-cumulative.

***Homework grading:*** I will decide which homework will be graded and we will randomly pick one or more problems to grade (this is due to the shortage of grading help for the TA). Even if the homework is not graded, we will record who turned it in. **No late homework will be accepted.**

The dates and weighting are as follows:

	<u>Weight</u>	<u>Date(s)</u>
<b>Exam 1:</b>	<b>32%</b>	<b>Thursday, October 8</b>
<b>Exam 2:</b>	<b>32%</b>	<b>Thursday, November 12</b>
<b>Exam 3:</b>	<b>30%</b>	<b>Friday, December 18, 10:05 am</b>
<b>Homework Assignments:</b>	<b>6%</b>	To be announced in class

2. Students are responsible for announcements made in class and via e-mail.

3. As a general rule, with a class of this size, I do **not** give make-up exams. However, if there are exceptional circumstances that make it impossible for you to take an exam at the scheduled time, you must contact me as immediately as possible but at the latest **before** the exam.

### **E-mail and Course Web Page:**

The class will be put on an electronic mailing list. This allows distribution of announcements and class-related information to everyone enrolled in the course. Please activate your account and check your e-mail regularly (**this is mandatory**). The course web page has the syllabus and required reading materials as well as other relevant information and useful links.

### **General Approach:**

The Microeconomic Theory Handouts (Part I and II), which are available through the course web page, contain most of the material from Intermediate Microeconomic Theory that we will be using in our class. You are also encouraged to consult Hal Varian's *Intermediate Microeconomics* for additional help. The tests are based on the material covered in class, in discussion section and in the homework assignments.

## **COURSE OUTLINE AND READINGS:**

(Note: The reading list is tentative in the sense that other readings may be added, especially for topics to be covered later in the course.)

\* Below Feenstra and Taylor's textbook will be referred to as "FT."

### **I. Introduction to International Trade**

FT, Chapter 1

[World Trade Organization \(WTO\), "World Trade Developments—World Trade in 2007"](#) (in *International Trade Statistics 2008*; through the course web page)

[Microeconomics Handout, Part I](#) (by Prof. Maria Muniagurria; on the course web page)

[Microeconomics Handout, Part II](#) (by Prof. Maria Muniagurria; on the course web page)

### **II. Standard Trade Model and Gains from Trade**

"Supply and Production Possibilities," Chapter 2 of Markusen, James R. et al., *International Trade: Theory and Evidence*, McGraw-Hill, 1995 (on the e-reserve)

"General Equilibrium in Open and Closed Economies," Chapter 4 of Markusen, James R. et al., *International Trade: Theory and Evidence*, McGraw-Hill, 1995 (on the e-reserve)

"The Gains from Trade," Chapter 5 of Markusen, James R. et al., *International Trade: Theory and Evidence*, McGraw-Hill, 1995 (on the e-reserve)

### **III. The Ricardian Model and Comparative Advantage**

FT, Chapter 2

Handouts for Ricardian Model (by Prof. Maria Muniagurria; on the course web page):

[Ricardian Model Example](#)

[Ricardian Model Example: Changes in Technology](#)

[Ricardo: More Comparative Statics Examples](#)

["Ricardian Model: I and II" and "Mark's recipe for Ricardo"](#) (by Mark Hopkins; on the course web page)

["In Praise of Cheap Labor,"](#) Paul Krugman, *Slate*, March 21, 1997 (through the course web page)

### **IV. Specific-Factors Model and Income Distribution**

FT, Chapter 3

[Handout: Specific Factors Model](#) (by Prof. Maria Muniagurria; on the course web page)

[Handout: Example of Cobb-Douglas Production Function](#) (by Prof. Maria Muniagurria; on the course web page)

**V. Trade and Resources: The Heckscher-Ohlin Model**

FT, Chapter 4

**VI. Movement of Labor and Capital between Countries**

FT, Chapter 5

**VII. Economies of Scale and Trade: the Monopolistic Competition Model**

FT, Chapter 6

**VIII. Foreign Outsourcing**

FT, Chapter 7

**IX. Import Tariffs, Quotas, and Export Subsidies**

FT, Chapter 8 (*excluding* pp. 273-275)

FT, Chapter 10

**X. WTO/GATT, U.S. Trade Policy, and International/Regional Trade Agreements**

FT, Chapter 8 (pp. 273-275 for a brief history of WTO and the key provisions of GATT)

FT, Chapter 8 (pp. 286-288 about the U.S. Section 201)

FT, Chapter 9 (pp. 322-325 and 336-339 about the U.S. Section 201; pp. 343-350 for antidumping and countervailing duties)

(Also refer to FT Chapter 6 pp. 215-222 for dumping)

[USITC: Overview of Antidumping and Countervailing Duty](#) (through the course web page)

[USITC: Overview of Safeguard](#) (through the course web page)

[USITC: Import Injuries-FAQ](#) (through the course web page)

[WTO: Anti-dumping, Subsidies, Safeguard](#) (through the course web page)

FT, Chapter 6 (pp. 199-208 for NAFTA)

FT, Chapter 11 (some topics will be skipped)

**(TOPICS ON INTERNATIONAL FINANCE)**

**XI. National Income Accounting and the Balance of Payments**

FT, Chapter 16

“Intertemporal Trade,” from Markusen, James R. et al., *International Trade: Theory and Evidence*, McGraw-Hill, 1995 (on the e-reserve)

“Do Government Budget Deficits Worsen the Current Account?,” from Krugman, Paul R. and Maurice Obstfeld, *International Economics: Theory and Policy*, 4<sup>th</sup> edition, Addison-Wesley, 1997 (on the e-reserves)

**XII. Exchange Rates and the Foreign Exchange Market**

FT, Chapter 13

**XIII. Money, Interest Rates, and Exchange Rates: a Short-run Model of Exchange Rates**

FT, Chapter 15 (pp. 549-569)

**XIV. Purchasing Power Parity and a Long-run Model of Exchange Rates**

FT, Chapter 14

FT, Chapter 15 (pp. 569-593; some topics may be skipped)

### **Important -- H1N1 Influenza Update:**

The University and your instructors are especially concerned about your health and the health of your classmates this flu season. Students should e-mail the instructor in the event they are suffering from flu-like symptoms or contact the flu – students should not be encouraged to “tough it out” and come to class. In the event a student misses class, we will make every effort to ensure students are able to have access to class materials. Also be sure to stay informed on this issue by visiting **the University’s Influenza Web site** (<http://flu.wisc.edu>) as well as checking your e-mail for important updates from the University administrators.

### **Academic Integrity and Misconduct**

Academic Integrity is critical to maintaining fair and knowledge based learning at UW Madison. Academic dishonesty is a serious violation: it undermines the bonds of trust and honesty between members of our academic community, degrades the value of your degree and defrauds those who may eventually depend upon your knowledge and integrity.

Examples of academic misconduct include, but are not limited to: cheating on an examination (copying from another student's paper, referring to materials on the exam other than those explicitly permitted, continuing to work on an exam after the time has expired, turning in an exam for regrading after making changes to the exam), copying the homework of someone else, submitting for credit work done by someone else, stealing examinations or course materials, tampering with the grade records or with another student's work, or knowingly and intentionally assisting another student in any of the above.

The Department of Economics will deal with these offenses harshly following UWS14 procedures (<http://students.wisc.edu/saja/misconduct/UWS14.html>):

1. The penalty for misconduct in most cases will be removal from the course and a failing grade.
2. The department will inform the Dean of Students as required and additional sanctions may be applied.
3. The department will keep an internal record of misconduct incidents. This information will be made available to teaching faculty writing recommendation letters and to admission offices of the School of Business and Engineering.

If you think you see incidents of misconduct, you should tell your instructor about them, in which case they will take appropriate action and protect your identity. You could also choose to contact our administrator (Mary Beth Ellis: [mellis@ssc.wisc.edu](mailto:mellis@ssc.wisc.edu)) and your identity will be kept confidential.

### **Grievance Procedure**

The Department of Economics has developed a grievance procedure through which you may register comments or complaints about a course, an instructor, or a teaching assistant. The Department continues to provide a course evaluation each semester in every class. If you wish to make anonymous complaints to an instructor or teaching assistant, the appropriate vehicle is the course evaluation. If you have a disagreement with an instructor or a teaching assistant, we strongly encourage you to try to resolve the dispute with him or her directly. The grievance procedure is designed for situations where neither of these channels is appropriate.

If you wish to file a grievance, you should go to room 7238 Social Science and request a Course Comment Sheet. When completing the comment sheet, you will need to provide a detailed statement that describes what aspects of the course you find unsatisfactory. You will need to sign the sheet and provide your student identification number, your address, and a phone where you can be reached. The Department plans to investigate comments fully and will respond in writing to complaints.

Your name, address, phone number, and student ID number will not be revealed to the instructor or teaching assistant involved and will be treated as confidential. The Department needs this information, because it may become necessary for a commenting student to have a meeting with the department chair or a nominee to gather additional information. A name and address are necessary for providing a written response.