

International Trade and Finance

(revised 18/1/05)

1. INTRODUCTION

This course surveys international trade and open economy macroeconomics (sometimes called international finance). On the trade side, comparative advantage based on technologies, and factor endowments, is shown. Trade based on monopolistic competition is modeled. Trade policy is illustrated by use of partial equilibrium models. Finally, current issues of globalization (trade, jobs and wages debate; the role of China) are analyzed using these models. On the macroeconomic side, the determination of output, the trade balance, interest and exchange rates are analyzed in the context of a macroeconomic model. Topics include the structure of international financial markets; the role of central banks; exchange-rate systems; the determination of balance of payments and exchange rates; policy analysis for open economies; policy coordination; and financial crises.

Students enrolling in this course should be comfortable with algebraic and graphical analysis. It requires sustained immersion in relevant economic theory, and does not present a primarily descriptive or historical approach.

2. OFFICE HOURS

Instructor: M 1:30-3:30 (subject to revision)
Social Sciences 7418
Phone: 262-7397
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Updated information will be posted on the course website,
http://www.ssc.wisc.edu/~mchinn/web464_s05.html.

3. SCHEDULE AND READINGS

The textbook is Caves, Frankel and Jones, *World Trade and Payments*, 9th Edition (Addison-Wesley Longman, 2002) available at the University Bookstore. Additional required readings will be assigned during the semester; some of these will be in a reader, and some from the Web, including from the *Economic Report of the President, 2005* (forthcoming in February). Below is a list of reading assignments, which is subject to revision.

LEC.	DATES	TEXT	READER	TOPICS
1	1/19	1,2		Introduction/Ricardian Model
2-3	1/24-26	4		Ricardian model
4-6	1/31-2/7	7	1	Factor proportions model
7-9	2/9-16	8	2	Imperfect competition
10-11	2/21-23	10		Trade policy
12	2/28	13	3, 4	Aspects of globalization
13	3/2	15		Balance of payments accounting
14	3/7			Midterm I
15	3/9	16.1		Foreign exchange market
16	3/14	16.2	5	Elasticities, devaluation
17	3/16	17.1-2		National savings identity
18-19	3/28-30	17.3-4	6	Multipliers
20	4/4	17.5-6		Large country effects
21	4/6	18.1		Transmission of effects
22	4/11	18.2	7, 8	Expenditure switching/reduction
23	4/13			Midterm II
24	4/18	18.3, 19.1		Monetary factors
25	4/20	19.2-3		Purchasing power parity
26-27	4/25-27	22	9, 10	Fiscal & monetary policies w/imperfect cap. mobility
28	5/2	23	11	Fiscal & monetary policies w/perfect cap. mobility
29	5/4			Financial crises; the dollar and global rebalancing
5/9 (Monday) 5:05PM FINAL EXAM				

Readings:

1. Heckscher-Ohlin reduction
2. Imperfect competition and intra-industry trade
3. Offshoring and outsourcing
4. Amiti and Wei, "Demystifying Outsourcing," *Finance and Development* (Dec. 2004).
5. The elasticities approach
6. The Keynesian model of equilibrium and trade balance
7. Expenditure switching and expenditure reduction
8. Devaluation in an IS-LM-TB=0 model
9. IS-LM-BP=0 under fixed exchange rates
10. IS-LM-BP=0 under floating exchange rates
11. Empirical estimate of policy linkages
12. Covered interest parity and uncovered interest parity
13. A portfolio balance model of the risk premium

4. GRADING

Letter grading is determined as follows:

20%	Problem sets
40%	Two midterm exams (20% each)
40%	Final examination

There will be no make-up midterm exams. Missed midterm exams will increase accordingly the weight assigned to the other midterm and the term paper. The problem sets are an integral part of the course. Assignments will be handed into me in lecture on the appropriate date. Late assignments will not be accepted for credit. Although the problem sets do not constitute a large portion of the grade, I strongly encourage you to do the assignments in a timely and serious fashion. The problem sets provide valuable information regarding your grasp of the concepts.