

International Trade and Finance

Economics 412 – Fall 2008

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1 Course Objective

The aim of this course is to provide you with the tools to analyze current international trade and finance issues. The first part of the course will focus on trade. Why do countries trade? Are countries better off because they trade? Is it a zero-sum game? Who gains and who loses within an economy? The second portion of the semester we will then turn to the financial side of the economy. By gaining an understanding of interest rates, exchange rates and asset prices in the global economy one can begin to try and tackle many challenging economic questions. What are the causes and consequences of trade deficits and external imbalances? What causes a currency, banking and financial crises and why are emerging markets particularly susceptible? If a crisis occurs what is the optimal response and how can we reform the international financial architecture to ensure these crisis do not occur?

2 Readings

Required Texts: Krugman & Obstfeld "International Economics". Russell Roberts, "The Choice".
Additional readings will be assigned throughout the semester and posted on my web site.

3 Problem Sets

There will be 10-12 problem sets due on scheduled days throughout the semester. Problem Sets are due at the beginning of class. Late problem sets will be penalized 5 pts per weekday. If you will not be in class the day a problem set is due, hand it in before class or give it to a classmate to hand in.

You are encouraged to work on the problem sets with your classmates (groups of 4 or less). You must write the problem sets up in your own words and hand your work in separately.

4 Papers

You will write two papers in this class each a minimum of 5 pages. In the first few weeks of class you will come up with a question that interests you related to International Economics. The first paper will include a thesis paragraph which discusses your question and a literature review on the topic. In the second paper you will use economic theory and data in an attempt to answer your question. You will present your paper to the class the last two weeks of the semester (We will draw for days.) The presentation should include (appropriate) slides and will be graded.

5 Exams

There will be two midterms during the semester and a final exam. Midterms will be given during our regular class period. A review Session will take the night before each midterm and the final. It will take place in our classroom at 8:00 pm. **During midterms and the final students may not use their calculator in text mode.**

6 Assessment

- Midterms: 20% each (Total 40%)
- Papers: 7.5% each (Total 15%)

- Presentation: 5%
- Final: 25%
- Problem Sets 10% (Lowest score will be dropped)
- Class participation 5%

7 Tentative Class Schedule

7.1 Classical Trade Theory

- *Week One* What are the key questions in international trade and finance? "The Choice: A Fable of Free Trade and Protectionism" Krugman & Obstfeld Chapter 1
- *Week Two* Why do Countries Trade? Krugman & Obstfeld Chapter 3
- *Week Three* What do countries trade? Krugman & Obstfeld Chapter 2
- *Week Four* Who benefits from trade? Krugman & Obstfeld Chapter 4
- *Week Five* How does economic growth affect trade? Krugman & Obstfeld Chapter 5
- *Week Six* How is a country's trade impacted by foreign aid, tariffs, and export subsidies? Krugman & Obstfeld Chapter 5

7.2 Current Issues in Trade Policy

- *Week Seven* Who are the winners and losers from particular trade policies? Krugman & Obstfeld Chapters 8 & 9

7.3 Overview of the World Economy

- *Week eight* Why do countries run current account deficits? Krugman & Obstfeld Chapters 12 & 13

7.4 Exchange Rates and Economic Crisis

- *Week nine* How are exchange rates determined? Krugman & Obstfeld Chapters 14 & 15
- *Week ten* Are certain exchange rate regimes vulnerable to economic crisis? Krugman & Obstfeld Chapters 15 & 17

7.5 Exchange Rates and Output

- *Week eleven* How does government policy impact exchange rates? Krugman & Obstfeld Chapter 16
- *Week twelve* How does exchange rate policy impact output? Krugman & Obstfeld Chapters 16 & 19

7.6 Current Policy Issues

- *Week thirteen* When the US sneezes does the rest of the world catch a cold? Krugman & Obstfeld Chapter 19
- *Week Fourteen* What are the benefits of a currency zone? Krugman & Obstfeld Chapter 20
- *Week Fifteen* Student Presentations
- *Week Sixteen* Student Presentations