

ECONOMICS/INB 3331
INTERNATIONAL ECONOMICS
Spring Semester 2004
MWF 10:00 A. M.
HCB Room 303
Joe_McKinney@Baylor.Edu

Joseph A. McKinney
Hankamer - Economics Dept.
Office Hours:
MWF 2:00-5:00
Office No. 332 (McBride Ctr.)
Voice Mail 710-6141

This course provides an overview of the field of international economics, with an emphasis on international trade policy. Topics include a brief history of foreign trade, development of basic international trade theory, examination of the instruments of international trade policy and their economic effects, a survey of recent trends in trade policy, the theory and practice of regional economic integration arrangements, the purpose and functioning of international economic organizations, and examination of the trade problems of less developed countries.

The text for this course is International Economics, (8th Edition) by Dominick Salvatore. This text includes many case studies, problems and review questions to help you apply the theoretical material. Helpful information can also be found at the textbook webpage (www.wiley.com/college/salvatore). The international trading system is currently the subject of much controversy, and is often in the news. Publications that relate to the material we are studying, such as *Financial Times*, *Economist*, and *World Economy*, are readily available to you through Lexis-Nexis. I encourage you to read regularly from the business and economic press to stay abreast of the trade issues that are making the news. Another excellent source is BRIDGES Weekly Trade News Digest that is available at no cost through E-mail. To subscribe to it, send an E-mail to listserv@iatp.org and in the body of the message type: subscribe bridges

There will be three hourly exams, each counting 20%, and a comprehensive final examination counting 25%. These examinations will consist of essay questions, objective questions, graphical analysis and problem solving. Some of the examination questions will involve recall of the material studied, while other questions will require application of concepts previously developed.

The remaining 15% of the course grade will be based upon a group project and oral report to be presented at the end of the semester, and also on in-class work during the semester. The group project and oral report will count for 10% of the course grade. For the end-of-semester project, I will divide the class into groups of four or five people to research some issue of importance from the field of international trade. Each group will have one class period near the end of the semester to present its findings to the rest of the class. For many current international economic issues, the Internet is an excellent source of information. Numerous links to international sources can be found on my home page, and also at the end of the chapters of the textbook.

The final 5% of the course grade will be based upon written work done in class throughout the semester, and brief individual reports given approximately three times during the semester. These reports, which will be given during the last few minutes of each class period, should present to the class either a new source of information related to the course (such as a particularly useful web site) or address some issue of current trade policy interest.

Grades will be assigned according to the following scale: 90-100 A; 88-89 B+; 80-87 B; 78-79 C+; 65-77 C; 50-64 D; below 50 F. No makeup exams will be given. Grades for students who must miss an exam because of an excused absence will be based on grades received on the tests that are taken, including the final examination.

At Baylor University regular class attendance is expected, and a student who misses more than 25% of the class sessions does not receive credit for the course. In addition, I request that you come to class on time, since the distraction caused by latecomers is disruptive. If for some reason you must be late, you are responsible for being sure that you are not marked absent. For my part, I shall attempt to begin and end the class on time. Class attendance and participation may be taken into consideration in determining borderline grades, and persistent tardiness will count against you. Complete honesty is expected in all work submitted for this course. Cheating will result in dismissal from the course.

THE DEAN HAS REQUESTED THAT WE STRICTLY ABIDE BY THE POLICY OF HAVING NO DRINKS OR FOOD IN THE CLASSROOMS.

GOAL FOR THE COURSE

To acquaint the student with the major features of the international economic system and the way in which it functions; to provide a framework within which the student can analyze the changing circumstances of international economic relations.

GENERAL OBJECTIVES FOR THE COURSE

1. To introduce students to the basic body of international trade theory so that they will be able to analyze the pattern of trade flows and explain the impact of policy changes upon these flows.
2. To help students develop an understanding of the economic impact of trade restrictions, so that they can explain these effects and make comparisons of the effects of different types of trade restrictions.
3. To assist students in gaining an understanding of the way the world trading system functions and implications of changes in the system, such as changes in technology, new international organizations, new trade agreements, the formation of regional economic integration schemes, the expansion of multinational corporations, etc.
4. To heighten awareness of students to changes in the international economic system, and to the significance of these changes.

I. THE BASIC THEORY OF INTERNATIONAL TRADE

Rationale:

An understanding of how the international economic system functions requires that one have a framework for analysis. The institutions, actors and other variables that influence international economic relations change. However, the person with a good theoretical framework for analysis should be able to comprehend the implications of such changes and to make predictions as to their probable effects.

Objectives:

Upon completion of this unit of study, you should be able to:

1. Summarize mercantilist ideas concerning international trade.
2. Summarize classical trade theory, particularly the contributions of Adam Smith, David Ricardo, and John Stuart Mill.
3. Analyze the role of demand conditions and scale economies in international trade.
4. Explain the Heckscher-Ohlin theory of trade and extensions of it.
5. State the Leontief paradox and provide possible explanations of it.
6. Explain the product cycle theory.
7. Use the above theories to analyze international trade patterns.
8. Use graphical analysis to explain various aspects of international trade theory.

<u>DATE</u>	<u>TOPIC</u>	<u>LEARNING ACTIVITIES</u>
Mon., Jan.12	World Trade and the American Economy	Pass out of syllabus, take pictures, etc. 1. Read Chapter 1 of Text
Wed., Jan 14	Mercantilist Trade Theory vs. Adam Smith's Theory	1. Contrast between mercantilist system of thought and Adam Smith's trade theory 2. Read pp. 29-34 of Text.
Fri., Jan. 16	Classical Trade Theory, continued.	1. Lecture on Ricardian trade theory; comparative advantage 2. Read pp. 35-52 of Text.
Mon., Jan. 19	Martin Luther King's Birthday (No Class)	
Wed., Jan. 21- Fri., Jan. 23	Tools for Analysis,	1. Lecture on trade equilibrium with increasing costs and taste differences 2. Read Chpt. 3 of Text
Mon., Jan. 26	Offer Curves and Terms of Trade	1. Lecture on Offer Curves 2. Read Chpt. 4 of Text

Wed., Jan. 28	Factor Endowments	<ol style="list-style-type: none"> 1. Lecture on Heckscher-Ohlin theory 2. Read pp. 115-128 of Text
Fri., Jan. 30	Heckscher-Ohlin Extensions	<ol style="list-style-type: none"> 1. Lecture on fpe theorem and Stolper-Samuelson Theorem 2. Read pp. 129-133 of Text
Mon., Feb. 2	Specific Factors Model	<ol style="list-style-type: none"> 1. Lecture on Specific Factors Model 2. Read pp. 134-137 of Text
Wed., Feb. 4	Explaining Trade	<ol style="list-style-type: none"> 1. Lectures on Leontief Paradox, various explanations 2. Read pp. 138-144 of Text
Fri., Feb. 6	Examination I	Questions over Lecture Notes, Chapters 1-6 of Text
Mon., Feb. 9	Alternative Theories	<ol style="list-style-type: none"> 1. Lecture on economies of scale and imperfect competition 2. Read pp. 165-177 of Text
Wed., Feb. 11	Alternative Theories, cont'd	<ol style="list-style-type: none"> 1. Lecture on technology and transportation costs 2. Read pp. 178-190 of Text
Fri., Feb. 13	Growth and Trade	<ol style="list-style-type: none"> 1. Lecture on Growth and Trade 2. Read Chapter 7 of Text.

II. INTERNATIONAL TRADE POLICY

Rationale:

While in strictly economic terms the case for free trade is very strong, the flow of international commerce is hindered in many ways by trade restrictions. A knowledge of the background of such trade restrictions and the political forces responsible for them is most important. As border barriers to trade have been reduced, the focus has shifted to the effects of domestic policies and regulations on international trade. Consequently, consideration must be given as to where the appropriate boundary between domestic policies and trade policies should be drawn.

Objectives:

Upon completion of this unit of study, you should be able to:

1. Analyze the economic effects of tariffs and other barriers to trade, and distinguish between nominal and effective tariff protection.
2. Explain and evaluate the arguments for protection, such as the employment argument, infant industry protection, strategic trade restrictions.
3. Trace the development of U.S. commercial policy from the founding of the country through North American free trade agreement and the Uruguay Round.
4. State the objectives of the United States in the Uruguay Round of trade negotiations, and summarize the results of that round.
5. Identify various types of nontariff barriers to trade and explain their economic effects.

<u>DATE</u>	<u>TOPIC</u>	<u>LEARNING ACTIVITIES</u>
Mon., Feb. 16	Tariff Theory	<ol style="list-style-type: none">1. Lectures on economic effects of tariffs2. Read pp. 233-241 of Text.
Wed., Feb. 18	Effective Protection	<ol style="list-style-type: none">1. Lecture on effective protection2. Read pp. 250-255 of Text
Fri., Feb 20	Optimum Tariff	<ol style="list-style-type: none">1. Lecture on optimum tariff2. Read pp. 254-258 of Text
Mon. Feb. 23 to	Nontariff Barriers	<ol style="list-style-type: none">1. Lecture on NTBs2. Read pp. 273-286 of Text
Fri., Feb. 27		

Mon., Mar. 1	Arguments for Protection	1. Lecture on Protectionism 2. Read 287-293 of Text
Wed., Mar. 3	Exam II	Questions over Lecture Notes, Chapters 8- p. 293 of Text
Fri., Mar. 5	History of Trade Policy	1. Lectures on trade policy history; multilateral trade negotiations; 2. Read pp. 295-309
Mon., Mar. 8	World Trade Regime	1. World Trade Organization

III. REGIONAL ECONOMIC INTEGRATION; TRADE POLICIES OF LESS DEVELOPED COUNTRIES; INTERNATIONAL MOBILITY OF FACTORS OF PRODUCTION

Rationale:

In recent years most countries of the world have joined one or more regional economic integration arrangements. Whereas the case for multilateral trade liberalization is very strong, the case for regional trading arrangements is much less clear. Both the positive and negative effects of regional economic integration must be examined, as must both static and dynamic effects.

Developing countries as a group have increased their share of total world trade from 19% two decades ago to over 25% today. Previously many of the less developed countries contended that they were treated unfairly in their international economic relations, and demanded a "new international economic order." However, a dramatic change has occurred in the past several years. Some of the less developed countries have unilaterally reduced their trade barriers, and are in the process of denationalizing industries and deregulating their economies. In the Uruguay Round of multilateral trade negotiations, less developed countries participated seriously for the first time. Still, some peculiar problems exist for less developed countries, and many of these countries remain ambivalent about their participation in international markets and about the activities of multinational firms within their borders.

While much of international trade theory has been developed under the assumption that factor supplies are immobile internationally, in fact there are tremendous movements internationally of both capital and labor. In this unit we look at the effects of factor movements. Multinational corporations account for a large proportion of world trade, and we shall examine what motivates them and the reasons for their success.

Objectives:

Upon completion of this unit of study you should be able to:

1. Explain the differences in a free trade area, a customs union, and a common market, and analyze their economic effects.
2. Discuss the process of trade policy formulation in the United States.
3. Trace the development of the European Community and discuss the functions of its major institutions.
4. Discuss the proposals for Western Hemispheric free trade, APEC, transatlantic initiatives.
5. Discuss the economic effects of the international migration of factors of production.
6. Identify the trade policy options of the less developed countries and assess their significance.
7. Describe the theories explaining the decision of a business firm to invest abroad rather than exporting or licensing its technology

<u>DATE</u>	<u>TOPIC</u>	<u>LEARNING ACTIVITIES</u>
Wed., Mar. 10	Regional Economic Integration	<ol style="list-style-type: none">1. Lecture on forms and examples of regional economic integration2. Read pp. 321-328 of Text
Fri., Mar. 12 and Mon. Mar. 22	Regional Integration, cont'd	<ol style="list-style-type: none">1. Lectures on EU, EFTA, EEA2. Read pp. 330-333 of Text
(Spring Break March 15-19)		
Wed., Mar. 24- Mon., Mar. 29	Regional Integration, cont'd.	<ol style="list-style-type: none">1. Lecture on NAFTA, Mercosur, etc.2. Read assigned materials and pp. 334-344 of Text
Wed., Mar. 31- Fri., Apr. 2	Trade Policies of LDCs	<ol style="list-style-type: none">1. Lecture on LDC Trade2. Read Chapter 11 of Text

Mon., April 5- Wed., April 7	International Factor Movements	1. Lecture on foreign investment, MNCs, and labor movements 2. Read Chapter 12 of Text
---------------------------------	--------------------------------	--

(Easter Break, April 9-12)

Wed., April 14	Examination III	Questions over Lecture Notes, Chpts. 11-12 of Text
-----------------------	------------------------	---

Fri., April 16	Go over third exam, discuss term projects, schedule, etc.
----------------	---

Mon., April 19- -Fri., April 30	Current Trade Policy Issues	1. Team Project Reports
------------------------------------	-----------------------------	-------------------------

Mon., May 3	Course evaluation, discuss final exam
-------------	---------------------------------------

Sat., May 8	Final Examination 2:00-4:00 PM	Comprehensive over Lecture Notes and Chapters 1-12 of Text
--------------------	---	---