E303 INTERNATIONAL ECONOMICS

Instructor: Professor Peter Rangazas
Office Hours: TR 10:30-12:00 or by appointment Cavanaugh Hall 518
e-mail: prangaza@iupui.edu
Texts: Feenstra and Taylor, Essentials of International Economics, McGraw Hill,

Grading: Based on best 20 quizzes (20 %) and 4 in-class exams (20% each)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>(90-100%)</td>
</tr>
<tr>
<td>A-</td>
<td>(85-89%)</td>
</tr>
<tr>
<td>B+</td>
<td>(80-84%)</td>
</tr>
<tr>
<td>B</td>
<td>(75-79%)</td>
</tr>
<tr>
<td>B-</td>
<td>(70-74%)</td>
</tr>
<tr>
<td>C+</td>
<td>(65-69%)</td>
</tr>
<tr>
<td>C</td>
<td>(60-64%)</td>
</tr>
<tr>
<td>C-</td>
<td>(55-59%)</td>
</tr>
<tr>
<td>D</td>
<td>(50-54%)</td>
</tr>
<tr>
<td>F</td>
<td>(0-49%)</td>
</tr>
</tbody>
</table>

(the lowest 4 of the 24 quizzes will be dropped; NO MAKEUPS FOR MISSED QUIZZES)

COURSE OUTLINE

I. Trade Theory and Facts

MEETING #1

A. Trade Facts
Reading: Chapter 1

MEETING #2

Discussion/Quiz #1

B. Ricardian Model: A Model of Domestic Trade
Reading: Chapter 2, pp.27-39
Bonus Reading: Application pp.39-40

MEETING #3

Discussion/Quiz #2

C. Ricardian Model: International Trade
Reading: Chapter 2, pp.40-46
Bonus Reading: Application pp.46-47

MEETING #4

Discussion/Quiz #3

D. Ricardian Model: The World Relative Price
Reading: Chapter 2, pp. 48-52
Bonus Reading: Application pp.52-54
MEETING #5
Discussion/ Quiz #4

E. Specific Factors Model
Reading: Chapter 3, pp.59-65
Bonus Reading: Application pp.65-66

MEETING #6
Discussion/ Quiz #5

F. Effect of Trade on Wages
Reading: Chapter 3, pp.66-70
Bonus Reading: Applications pp.70-74

MEETING #7
Discussion/ Quiz #6

G. Effects of Trade on the Returns to Capital and Land
Reading: Chapter 3, pp.74-77

Quiz #7 (Take Home)

MEETING #8
EXAM #1

MEETING #9

II. Trade Policy

A. Gains from International Trade
Reading: Chapter 7, pp.199-208
MEETING #10
Discussion/Quiz #8

B. Import Tariffs: Small-Country Analysis  
Reading: Chapter 7, pp.208-214  
Bonus Reading: Application, pp.214-218

MEETING #11
Discussion/Quiz #9

C. Import Tariffs: Large-Country Analysis  
Reading: Chapter 7, pp. 218-224  
Bonus Reading: Application, pp.224-225

MEETING #12
Discussion/Quiz #10

D. An Imperfectly Competitive Model  
Reading: Chapter 6, pp.167-171

MEETING #13
Discussion/Quiz #11

E. Imperfect Competition: Trade  
Reading: Chapter 8, pp.241-246

MEETING #14
Discussion/Quiz #12

F Imperfect Competition: Tariffs  
Reading: Chapter 8, pp.246-248, 253-255  
Quiz #13 (Take Home)

MEETING #15
EXAM #2
MEETING #16

III. Immigration

A. Heckscher-Ohlin: A Model of Domestic Trade
Reading: Chapter 4, pp.87-94

MEETING #17

Discussion/Quiz #14

B. Heckscher-Ohlin: International Trade
Reading: Chapter 4, pp.94-98

MEETING #18

Discussion/Quiz #15

C. Heckscher-Ohlin: Trade and Factor Prices
Reading: Chapter 4, pp.109-117; handout (optional)

MEETING #19

Discussion/Quiz #16

D. Immigration #1
Reading: Chapter 5, pp.127-133, 136-137
Bonus Reading: Applications pp.132-135

MEETING #20

Discussion/Quiz #17

E. Immigration #2
Reading: Chapter 5, pp.137-143 (optional); handout (required)
Bonus Reading: Applications pp.143-148

MEETING #21

Discussion/Quiz #18

F. Immigration #3
Reading: Chapter 5 pp.154-158
Bonus Reading: Application, pp.158-160

Quiz #19 (Take Home)
MEETING #22

EXAM #3

MEETING #23

IV. International Macroeconomics

A. National Income Accounting in an Open Economy
   Reading: Chapter 13 pp.457-465, 467-468
   Bonus Reading: Application pp.465-467

MEETING #24

Discussion/Quiz #20

B. Trade Balances
   Reading: Chapter 13, pp. 470-477

MEETING #25

Discussion/ Quiz #21

C. Exchange Rates
   Reading: Chapter 10, pp. 325-334
   Bonus Reading: Application, pp. 334-339

MEETING #26

Discussion/ Quiz #22

D. Purchasing Power Parity
   Reading: Chapter 11, pp.363-370
   Bonus Reading: Application, pp. 370-375

MEETING #27

Discussion/ Quiz #23

E. Money and Exchange Rates
   Reading: Chapter 11, pp. 376-385
   Bonus Reading: Application, pp. 385-390

Quiz #24 (Take Home)
Study Questions

I. Trade Theory and Facts
   I.A.
   1. How does the US compare to other countries in terms of the international trade of goods? What types of goods does the US import?
   2. What are the three international activities that define the concept of globalization? How “globalized” is the world today compared to past history?
   3. What is the trade balance? Has the US experienced balanced trade in recent times?
   4. The US attracts a lot of labor and capital from the rest of the world? What does that say about wages and the returns to assets in the US compared to other countries?

   I.B.
   1. FT 1-4, 9

   I.C.
   1. FT 5-8, 10

   I.D.
   1. FT 11-12

   I.E.
   1. FT 1-3

   I.F.
   1. FT 4, 7a,b, 9a, 10

   I.G.
   1. FT 5-6, 9b,c,d, 11

II. Trade Policy
   II.A.
   1. What are producer and consumer surplus? Identify each in a demand-supply diagram of closed-economy market equilibrium.
   2. Identify the gains and losses from international trade when the world price falls below the closed economy domestic price. Do the same for the opposite case, where the world price is above the closed-economy domestic price.
   3. Explain how the import demand curve and export supply curves are derived.

   II.B.
   1. FT 2, 9-11

   II.C.
   1. FT 3-4,8
II.D.
1. Show how equilibrium is determined in a domestic market when a monopolist is the only supplier.
2. Contrast the monopoly equilibrium to a perfectly competitive equilibrium. What are the deadweight losses to the market being dominated by a monopolist? Identify them on the demand and supply graph.
3. Suppose the market demand curve is given by \( P = 50 - 0.5Q \) and the marginal cost of producing the good is constant, \( MC = 10 \). Compute the monopoly equilibrium price and quantity, the monopoly profit, and the economy's deadweight loss.

II.E.
1. FT 1-2, 3a,b

II.F.
1. FT 5, 7

III. Immigration
III.A.
1. How does the HO-model differ from the Ricardian model? What are the advantages of the HO-model?
2. Why is the PPF concave in the HO-model rather than linear in the Ricardian model?
3. How does one characterize the competitive equilibrium in the HO-model? Where is it indicated that (a) firms are maximizing profit (b) consumers are maximizing utility and (c) markets clear?

III.B.
1. FT 1

III.C.
1. FT 5-6, 8, 11

III.D.
1. FT 1, 4
2. Be able to reproduce the analysis of immigration using Figure 5-2
3. What are the effects of immigration on the return to capital and land?

III.E.
1. FT 2
2. Explain why the relative demand for labor (RD) is downward sloping when plotted against the wage-rental rate ratio. What causes the RD-curve to shift?
3. Use Figure 4-6 to explain the short-run effects of immigration on wages, rental rates, the labor-capital ratio in each industry, and production in each industry.
4. How does immigration affect the return to capital in the shoe and computer sector? Explain how this leads to a long-run effect from immigration that differs from the short-run effect, Redo #3 to demonstrate the difference.
5. Summarize the “complementary inputs” explanation for why immigration in the modern U.S. does not affect wages of native workers.

III.F.
1. FT 11
2. Use Figure 5-14 to explain the welfare effects of immigration in the specific factor or short-run HO model.

IV. International Macroeconomics
IVA.
1. FT 1-3

IV.B.
1. What is national saving? Explain why in a closed economy national saving must equal domestic investment. What is the relationship between national saving and domestic investment in an open economy?

2. Decompose national saving into private saving and public saving.

3. Intuitively explain the accounting identity $S - I = CA$.

4. What has happened to the U.S. current account and trade balance since 1980? What happened to U.S. saving over the same period?

5. Explain how each of the following events can cause a trade deficit in the home country.
   (a) an investment boom in the home country
   (b) a saving decline in the home country

6. When in U.S. history did the events discussed in question #5 occur?

IV. C.
1. FT 1,a,c, 2a, 4

IV. D.
1. FT 1-2, 4, 5a-c, -6

IV. E.
1. FT 7
2. Can monetary policy affect the real exchange rate? Explain.