E303 INTERNATIONAL ECONOMICS

Instructor: Professor Peter Rangazas
Office Hours: TR 3:00-5:00 or by appointment Cavanaugh Hall 518
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Grading: Based on best 20 quizzes (20%) and 4 in-class exams (20% each)

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<tr>
<th>Grade</th>
<th>Description</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>A</td>
<td>(90-100%)</td>
<td>C+ (65-69%)</td>
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<td>A−</td>
<td>(85-89%)</td>
<td>C (60-64%)</td>
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<td>B+</td>
<td>(80-84%)</td>
<td>C− (55-59%)</td>
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<td>B</td>
<td>(75-79%)</td>
<td>D (50-54%)</td>
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<td>B−</td>
<td>(70-74%)</td>
<td>F (0-49%)</td>
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(the lowest 4 of the 24 quizzes will be dropped; NO MAKEUPS FOR MISSED QUizzes)

COURSE OUTLINE

I. Trade Theory and Facts
A. Trade Facts
Reading: Chapter 1

Discussion/Quiz #1

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

Discussion/Quiz #2

C. Ricardian Model: International Trade
Reading: Chapter 2, pp.40-47
Bonus Reading: Application pp.47-49

Discussion/Quiz #3

D. Ricardian Model: The World Relative Price
Reading: Chapter 2, pp. 49-53
Bonus Reading: Application pp.53-56

Discussion/Quiz #4

E. Specific Factors Model
Reading: Chapter 3, pp.61-69
Bonus Reading: Application pp.69-70

Discussion/Quiz #5

F. Effect of Trade on Wages
Reading: Chapter 3, pp.70-75
Bonus Reading: Applications pp.75-79

Discussion/Quiz #6
G. Effects of Trade on the Returns to Capital and Land
Reading: Chapter 3, pp.79-86

Discussion/Quiz #7

EXAM #1

II. Trade Policy

A. Gains from International Trade
Reading: Chapter 8, pp.271-280

Discussion/Quiz #8

B. Import Tariffs: Small-Country Analysis
Reading: Chapter 8, pp.281-286
Bonus Reading: Application, pp.286-290

Discussion/Quiz #9

C. Import Tariffs: Large-Country Analysis
Reading: Chapter 8, pp. 290-294
Bonus Reading: Application, pp.294-298

Discussion/Quiz #10

D. An Imperfectly Competitive Model
Reading: Chapter 6, pp.185-190

Discussion/Quiz #11

E. Imperfect Competition: Trade
Reading: Chapter 9, pp.315-318

Discussion/Quiz #12

F. Imperfect Competition: Tariffs
Reading: Chapter 9, pp.318-320, 340-342
Bonus Reading: Application pp.342-343

Discussion/Quiz #13

EXAM #2

III. Immigration

A. Heckscher-Ohlin: A Model of Domestic Trade
Reading: Chapter 4, pp.95-103

Discussion/Quiz #14

B. Heckscher-Ohlin: International Trade
Reading: Chapter 4, pp.103-110

Discussion/Quiz #15
C. Heckscher-Ohlin: Trade and Factor Prices  
*Reading:* Chapter 4, pp. 110-120; handout (optional)

Discussion/Quiz #16

D. Immigration #1  
*Reading:* Chapter 5, pp. 141-146, 150-151  
*Bonus Reading:* Applications pp. 146-150

Discussion/Quiz #17

E. Immigration #2  
*Reading:* Chapter 5, pp. 152-158 (optional); handout (required)  
*Bonus Reading:* Applications pp. 158-161

Discussion/Quiz #18

F. Immigration #3  
*Reading:* Chapter 5 pp. 170-174  
*Bonus Reading:* Application, pp. 174-177

Discussion/Quiz #19

EXAM #3

IV. Capital Movements and Trade Imbalances

A. Foreign Direct Investment  
*Reading:* Chapter 5 pp. 161-166  
*Bonus Reading:* Application pp. 166-168

Discussion/Quiz #20

B. Capital Movements and Development  
*Reading:* Chapter 17, pp. 681-686  
*Bonus Reading:* Application, pp. 686-690

Discussion/Quiz #21

C. Capital Movements and Diversification  
*Reading:* Chapter 17, pp. 692-697  
*Bonus Reading:* Application, pp. 698-700

Discussion/Quiz #22

D. Capital Movements and Trade Imbalances #1  
*Reading:* Chapter 16, pp. 605-618  
*Bonus Reading:* Application, pp. 618-624

Discussion/Quiz #23
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, 9c,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, 8 (error in text—y-intercept of the demand curve should be 14, not 18)
II.C.
1. FT 3-4

II.D.
1. FT 10, 12

II.E.
1. FT 1-2

II.F.
1. FT 3a,b, 9

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. Capital Movements and Trade Imbalances

IVA.
1. What is FDI? What is “Greenfield” FDI? “Brownfield” FDI?
2. What are the short-run effects of FDI on wages, rental rates, and output abroad? What are the long-run effects?
3. Summarize the “FDI” explanation for why immigration in the modern U.S. does not affect wages.
IV.B.
1. FT 5-8

IV.C.
1. FT 12

IV.D.
1. FT 1-3

IV.E.
1. Show how 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
2. When in US history did the events discussed in question #1 above cause trade deficits to occur?