

# International Economics

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## PART I. Trade Theory and Industrial Policy

### Course Description

In this course, students will be exposed to the lasting debate of managed trade from various viewpoints. This is meant to help would-be managers understand the international economic context in which they operate. The traditional theory of international trade will be introduced first and served as a base to assess the effect of policy interventions, the recent development of trade theory and international trade agreements. We will discuss theory and policy in the light of world events and evaluate many of the developments in the world trading area, including the GATT/WTO, NAFTA, ASEAN and its possible expansion, the EC, US-Japan relations as well as cross-straight trade flow.

### Course Requirement

The class requirement includes regular participation and class responses (10%), two in-class quizzes (20%), two case reports (20%), and a final examination (50%). You have to stay in a study group (up to 5 members) throughout the semester. The composition of any study group has to be a balanced mix of ability, sex and enthusiasm.

### Textbook

The main required textbook for this course in both modules is:  
*International Economics: Theory and Policy*, by Paul R. Krugman and Maurice Obstfeld, 7th edition, 2006 (KO).

### *Tentative Schedule*

## I. Who produces and exports what?

- Feb. 14: Trade and Trend in the World Economy, ch. 1 & 2  
21: Comparative Advantage and Classical Ricardian Model, ch. 3  
28: No class meets today
- Mar. 6: **HBS CASE: Pfizer: Global Protection of Intellectual Property (HBS 9-392-073)**  
Reading: Standard Trade Model, ch. 5

## II. International Agreements and Preferential Trading: Can we ever agree on free trade?

- 13: Global Competition and Instrument of Trade, ch. 8  
20: **HBS CASE: NAFTA (HBS 9-797-013)**  
Reading: Imperfect Competition and Economic Integration, ch. 9  
27: Trade Policy for Economic Growth, ch.10.
- Apr. 3: Final Exam

## **PART II. International Finance**

### **Course Description**

The aim of this module is to provide a strong foundation of the key concepts and a thorough understanding of selected topics in international finance. We begin with an introduction of the national income accounting and the balance of payments. We then give an overview of the institutional characteristics of the foreign exchange market and proceed to examine the fundamental determinants of exchange rate dynamics. We will review the theoretical models and the empirical evidence regarding exchange-rate behavior. We also cover the international implications of macroeconomic policies, international monetary arrangements, and issues regarding developing countries.

### **Course Requirements**

**Assignments:** There are two to three problem sets and a group project. The problem sets are meant as exercises to practice some of the material and can be taken as representative of possible final exam questions. The group project will be an assessment of the recent macroeconomic performance and current macroeconomic problems in particular country using the analytic tools and concepts we introduced in this module.

**Class Participation:** Participation in class discussions is highly recommended.

**Course Grading:** Problem Sets 30%; Group Project 30%; Final Exam 30%; Class Participation 10%.

**Textbook:** The main required textbook for this course in both modules is: *International Economics: Theory and Policy*, by Paul R. Krugman and Maurice Obstfeld, 7th edition, 2006 (KO).

### **Syllabus**

1. (April 10) Accounting Issues: the National Income Accounts and the BOP (KO, Ch. 12)
  - Lane, P. R. and G. M. Milesi-Ferretti (2006), "Examining Global Imbalances," *Finance and Development*, 43, 1.
  - "A Topsy Turvy World: Emerging Economies and the US Current Account Deficit," *The Economist*, Sep 28, 2006.

2. (April 17) The Foreign Exchange Market and International Interest Parity (KO, Ch. 13)
  - Bank for International Settlements, “Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in April 2007,” Sep 2007.
  - Cavallo, M., “Interest Rates, Carry Trades, and Exchange Rate Movements,” FRBSF Economic Letter, 2006-31, Nov 17, 2006.
3. (April 24) Money, Inflation and Exchange Rates (KO, Ch. 14)
  - Dornbusch, R. (1976), “Expectations and Exchange Rate Dynamics,” *Journal of Political Economy* **84**, 1161-1176.
  - “Measuring Inflation: Costs of Living,” *The Economist*, June 3<sup>rd</sup> 2004.
4. (May 1) Purchasing Power Parity and the Exchange Rate in the Long Run (KO, Ch. 15)
  - Taylor, A. M. and M. P. Taylor (2004), “The Purchasing Power Parity Debate,” *Journal of Economic Perspectives*, **18**, 135-58.
  - “The Big Mac Index,” *The Economist* web article, Feb 1<sup>st</sup> 2007.
  - “Sizzling,” *The Economist*, Jul 5<sup>th</sup>, 2007.
5. (May 8) Fixed Exchange Rate and the International Monetary System (KO, Ch. 17, 18)
  - Cavallo, M., “To Float or Not to Float?” FRBSF Economic Letter, 2005-01, Jan 7, 2005.
  - “Japanese Currency Intervention: A Fountain of Yen,” *The Economist*, Mar 25, 2004.
6. (May 15) International Capital Markets and Emerging Market Countries (KO, Ch. 21, 22)
  - Arslanalp, S and P. B. Henry (2006), “Policy Watch: Debt Relief,” *Journal of Economic Perspectives* **20**, pp. 207-220.
  - “Emerging Economies: Climbing Back,” *The Economist*, Jan 19, 2006.
7. (May 22) Final Exam
8. (May 29) Project Presentations