

## INTERNATIONAL ECONOMICS

*Number of sessions: 30*

*Length of each session: 1,5 h*

*Total length of the module: 45 hours*

### OBJECTIVE

This course will concentrate mainly on the trade aspect of international economics, while certain monetary aspects will be discussed superficially when debating the case studies.

### PREREQUISITES

Basic microeconomics and basic macroeconomics course, and elementary calculus are necessary to fully appreciate the content of this course.

### REQUIRED TEXTS

Krugman, K. and Obstfeld, M. (2002) [International Economics: Theory and Policy \(6th Edition\)](#)

Salvatore, D. (2004) International Economics. Wiley (8<sup>th</sup> edition).

### CONTENT

#### 1. Introduction: The importance of International Economics

1.1 International trade theory

1.2 Mercantilist views on trade

1.3 Trade based on absolute advantage: Adam Smith

1.4 Trade based on comparative advantage: David Ricardo

1.4.1 The Law of Comparative Advantage and gains from trade

1.4.2 Exception to the Law of Comparative Advantage

1.5 Comparative advantage and opportunity cost

#### 2. The standard theory of international

2.1 Production frontier with increasing cost

2.2 Reasons for increasing opportunity costs and different production frontiers

2.3 The basis for and the gains from trade with increasing costs

2.4 The gains from exchange and from specialization

2.5 Trade based on differences in tastes

#### 3. Demand, Supply, Offers Curves, and the Terms of Trade

3.1 The equilibrium relative commodity price with trade – Partial Equilibrium analysis

3.2 Origin and definition of offer curves

3.3 The equilibrium relative commodity price with trade – General equilibrium analysis

3.4 Relationship between general and partial equilibrium analyses

3.5 The terms of trade:

3.5.1 Definition and measurement

3.5.2 Illustration of the terms of trade

3.5.3 Terms of trade of developing and developed nations

#### 4. Factor Endowments and the Heckcher-Ohlin Theory

- 4.1 Assumptions of the theory
  - 4.2 Factor intensity, factor abundance, and the shape of the production frontier
  - 4.3 General equilibrium framework of the Heckcher-Ohlin Theory
  - 4.4 Factor price equalization and income distribution
  - 4.5 Effect of trade on income distribution
  - 5. Economies of scale, imperfect competition, and international trade
    - 5.1 The Heckcher-Ohlin model and new trade theories
    - 5.2 Economies of scale and international trade
    - 5.3 Imperfect competition and international trade
    - 5.4 Trade based on product differentiation
    - 5.5 Trade based on dynamic technological differences
    - 5.6 Synthesis of trade theories
  - 6. Trade restrictions: Tariffs
    - 6.1 Partial equilibrium analysis of a tariff
    - 6.2 General equilibrium analysis of a tariff: small country case
    - 6.3 General equilibrium analysis of a tariff: large country case
    - 6.4 The optimum tariff: Meaning of the concept and retaliation
    - 6.5 The Stolper-Samuelson Theorem and the Metzler paradox
  - 7. Non-tariff trade barriers and the new protectionism
    - 7.1 Import quotas
    - 7.2 Import quota vs. import tariff
    - 7.3 Other non-tariff barriers and the new protectionism
      - 7.3.1 Voluntary exports restraints
      - 7.3.2 Technical, administrative, and other regulations
    - 7.4 The political economy of protectionism
    - 7.5 Fallacious and questionable arguments for protection
    - 7.6 The infant industry and other qualified arguments for protection
    - 7.7 The General Agreement on Trade and Tariff (GATT)
    - 7.8 The Uruguay Round: Establishment of the World Trade Organization (WTO) and outstanding trade problems
  - 8. Economic integration: Customs Unions and Free Trade Areas
    - 8.1 Trade creating and trade diverting Customs Unions
    - 8.2 The theory of second best and other static effects of Customs Unions
    - 8.3 Dynamic effects from Customs Unions
    - 8.4 History of attempts at economic integration
  - 9. International trade and economic development
    - 9.1 Trade theory and economic development
    - 9.2 The terms of trade and economic development
    - 9.3 Export instability and economic development
    - 9.4 Import substitution versus export orientation
    - 9.5 Current trade problems and demand of developing countries
    - 9.6 Demand for a New International Economic Order
- Grading system:  
Term paper 50%  
Exam 50%

