700 - International Economics, Fall 2017

Course Overview

International Economics is the study of commercial transactions that take place between countries. This course provides an introduction to international trade.

In the first part of the course, we address the question "Why do countries trade?" One answer is that countries differ in their technologies or in their resources and specialize in the things that they do relatively well. We study the Ricardian model where trade is driven by differences in labor productivity across countries and the Heckscher-Ohlin model where trade is driven by differences in resources across countries. In both models, comparative advantage considerations determine the pattern of trade, that is, which goods each country exports. The Heckscher-Ohlin model has the additional interesting property that trade always generates winners and losers.

Another answer to the question "Why do countries trade?" is that countries specialize in the production of a limited range of goods to take advantage of economies of scale and then trade with each other to consume the full range of goods. We study a model of monopolistic competition that generates trade between countries and gains from trade even when the countries are structurally identical. Economists think that this model is particularly relevant for understanding trade between European countries that are structurally similar.

In the second part of the course, we address the question "Why do countries restrict trade?" We study the most commonly used ways of restricting international trade: tariffs on imported goods, import quotas and export subsidies. For each form of government intervention, we solve for the equilibrium effects, who gains, who loses and by how much. Then we turn to the debate about free trade versus protectionism and present the main arguments on both sides: why countries should adopt free trade and why countries should protect industries from foreign competition. Finally, we discuss the politics underlying trade policy and why trade policy has changed over time.

Intended Learning Outcomes

After completing the course, the student should be able to:

1. Solve general equilibrium models of trade and use these models to address various policy issues.
2. Evaluate the welfare effects of trade policy interventions using cost-benefit analysis.
3. Express and explain the economic case for free trade as well as various arguments for protectionist trade policies and contrast these views.

Course Contents

The following topics are covered in the course:

- Labor Productivity and Comparative Advantage
- Resources and Comparative Advantage
- The Standard Trade Model
- Imperfect Competition and Trade
- International Factor Movements
- The Instruments of Trade Policy
- The Political Economy of Trade Policy
- Trade Policy in Developing Countries
- Controversies in Trade Policy

Teaching

The course consists of 15 lectures and 6 seminars. The lectures follow closely the course textbook and the seminars cover supplementary readings in the course compendium as well as old exam questions. There are homework assignments associated with each of the 6 seminars (located in the course compendium) and these homework assignments are graded.

Attending the seminars is not compulsory but is highly recommended. We think you will do better on the final exam if you attend all the seminars.

Prerequisites

410 (404) Microeconomics.

Teaching Language

The lectures and exam are in English. All of the course literature is in English. The s

Literature

International Trade by Krugman, Obstfeld and Melitz, Tenth edition, global edition.
ISBN13: 9781292060439
ISBN10: 1292060433

The text book can be purchased at Akademibokhandeln, Mäster Samuelsgatan 28, Stockholm or at www.bokus.com

Article compendium. The compendium can be purchased at Canon PrintCenter, Stockholm School of Economics, Sveavägen 65.

Examination

At the end of the course, there is a written exam that determines the course grade (with questions that should be answered in English). The last of the questions on the exam may be skipped if the student has the grade of "pass" on all 6 homework assignments.

Please note that in order to obtain the 10 points, you have to hand in all six problem sets on time, and they all have to be satisfactory. Thus , all answers have to be carefully motivated. The 10 points are valid for the main exam and the two following re-exams.

The exam is graded on the A-F scale.

Individual questions on the exam are graded using numbers, then all the numbers are added together to get an aggregate score and then this is converted to the A-F grade scale. A student can get zero correct on some questions and still pass the exam if they do sufficiently well on other questions. The measure of how well students have achieved the three intended learning outcomes is their aggregate score on the entire exam.