

**SIS-616-001 International Economics**  
**American University**  
**Spring 2023**  
**Syllabus**

**Professor:** Ricardo Reyes-Heroles

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**Lecture hours and location:** Wednesdays, 5:30pm – 8:00pm, Spring Valley Building 545

**Office Hours:** Thursdays, by email appointment, with at least 24 hours' notice

## **1. Overview**

This course provides an *introduction to international economics*. We will rely on *micro and macroeconomic principles* to study the interaction of countries in an increasingly integrated global economy. We will study how countries interact with each other through the exchange of goods and services, the flow of capital, and the flow of people (migration). In the first part of the course, we will focus on *what* goods and services countries trade, *why* countries traded, and *who* might win/lose from countries trading. In the second part of the course, we turn to international macroeconomics and finance, and will focus on the drivers and consequences of trade in financial assets including currency like \$US and €EUR.

## **2. Prerequisites**

Introductory micro and macroeconomics are the prerequisites for this course. (ECON 603)

## **3. Learning Objectives**

In general terms, the objective of the course is for students to acquire a sound grasp of the essential vocabulary and foundational models that economists rely on to analyze the global economy. In more detail, this objective consists of students acquiring: 1) an understanding of the basic theories in international economics; 2) the ability to relate theory to current policy trends and debates; and 3) the basic analytical and statistical tools to evaluate policy using theory and data.

## 4. Required Readings

**KOM** - Krugman, Paul R., Marc J. Melitz and Maurice Obstfeld (2012): *International Economics: Theory and Policy*, 11<sup>th</sup> Edition, Pearson Addison-Wesley.

Note: Copies of the 11<sup>th</sup> edition of the book are on reserve in the AU library or you can purchase/rent a hard copy, a loose-leaf copy, or an online copy. Note that I will be using the 12<sup>th</sup> edition for teaching. However, the tables of contents in both editions are nearly identical. You are free to use any editions of the book that are more recent than (including) the 9<sup>th</sup> edition.

**Additional required supplemental readings are provided in the course plan below. These reading will be posted on Canvas.**

## 5. Requirements and Grading

The final grade will be based on 1) two exams—a midterm and a final— 2) four problem sets, and 3) class participation. The distribution of the course grade will be as follows:

Exams	40%
Four Problem Sets	40%
Group presentations	10%
Participation	10%

Note: You are encouraged to work and submit problem sets in groups (no more than four students per group).

## 6. Other Information

- **Support from the university**

Please keep in mind the following resources:

- [Academic Support and Access Center](#): special accommodations for learning or exam-taking, requests must go through this office.
- [Office of Information Technologies](#): free technical training workshops (e.g., Excel).
- [The Writing Center](#)
- [Counseling Center](#)
- [Center for Diversity and Inclusion](#)
- [OASIS: The Office of Advocacy Services for Interpersonal and Sexual Violence](#)
- [International Student and Scholar Services](#)

- **Standards of academic conduct**

Standards of academic conduct are set forth in the University's Academic Integrity Code. By registering, you have acknowledged your awareness of the Academic Integrity Code, and you are obliged to become familiar with your rights and responsibilities as defined by the Code. Violations of the Academic Integrity Code will not be treated lightly, and disciplinary actions will be taken should such violations occur. Please see me if you have any questions about the academic violations described in the Code in general or as they relate to particular requirements for this course.

- **Technology**

The use of phones and computers in class can be distracting to the owner, the other students, and the professor. For this reason, you are strongly encouraged to keep the use of electronic devices to a minimum.

- **Emergency preparedness**

In the event of an emergency, AU will implement a plan for meeting the needs of all members of the university community. Should the university be required to close for a period of time, we are committed to ensuring that all aspects of our educational programs will be delivered to our students. These may include altering or extending the duration of the traditional term schedule to complete essential instruction in the traditional format and/or use of distance instructional methods. Specific strategies will vary from class to class, depending on the format of the course and the timing of the emergency. Faculty will communicate class-specific information to students via AU e-mail and Blackboard, while students must inform their faculty immediately of any absence. Students are responsible for checking their AU email regularly and keeping themselves informed of emergencies. In the event of an emergency, students should refer to the AU Student Portal, the AU website ([www.prepared.american.edu](http://www.prepared.american.edu)) and the AU information line at (202)885-1100 for general university-wide information, as well as contact their faculty and/or respective dean's office for course and school/college-specific information.

- **Early warning notices**

Students may receive Early Warning Notices. These notices are designed for you to contact your faculty, receive assistance, and develop strategies to improve your performance in the class. Please note that you should seek help throughout the semester when you have questions, fail to submit an assignment, fail to attend class, or receive an unsatisfactory grade.

## 7. Course Plan and Readings

Introduction, logistics, and course overview		January 18
<b>I. INTERNATIONAL TRADE THEORY</b>		
<b>A. WORLD TRADE AND GLOBALIZATION</b> <ul style="list-style-type: none"> <li>– KOM: Chapters 1-2</li> <li>– Irwin, Douglas A. (2020): <i>Free Trade Under Fire</i>, Princeton University Press: Chapter 1.</li> <li>– Hanson, G. H. (2012) "The Rise of Middle Kingdoms: Emerging Economies in Global Trade." <i>Journal of Economic Perspectives</i> 26 (2): 41–64.  <a href="https://www.aeaweb.org/articles?id=10.1257/jep.26.2.41">https://www.aeaweb.org/articles?id=10.1257/jep.26.2.41</a></li> </ul>		January 18
<b>B. WHAT AND WHY DO COUNTRIES TRADE</b> <ol style="list-style-type: none"> <li>1. Technology and Trade: The Ricardian Model <ul style="list-style-type: none"> <li>– KOM: Chapter 3</li> <li>– Irwin, Douglas A. (2020): <i>Free Trade Under Fire</i>, Princeton University Press: Chapter 2.</li> <li>– Eaton, Jonathan, and Samuel Kortum. (2012) "Putting Ricardo to Work." <i>Journal of Economic Perspectives</i>, 26 (2): 65-90.  <b>[READ AFTER LECTURE]</b></li> </ul> </li> </ol>		January 25
<ol style="list-style-type: none"> <li>2. Endowments and Trade: The Specific Factors and Heckscher-Ohlin Models <ul style="list-style-type: none"> <li>– KOM: Chapters 4-5</li> </ul> </li> </ol>		February 1 – 8
<ol style="list-style-type: none"> <li>3. The Standard Trade Model <ul style="list-style-type: none"> <li>– KOM: Chapter 6</li> <li>– Fort, T. C., Pierce J. R., Schott, P. K. (2018) "New Perspectives on the Decline of US Manufacturing Employment." <i>Journal of Economic Perspectives</i>, 32 (2): 47-72.</li> </ul> </li> </ol>		February 8
<b>Problem Set 1 posted by February 8 and due February 15</b>		
<ol style="list-style-type: none"> <li>4. Intra-industry Trade: Economies of Scale and Imperfect Competition <ul style="list-style-type: none"> <li>– KOM: Chapters 7-8</li> <li>– Melitz, Marc J., and Daniel Trefler. (2012) "Gains from Trade When Firms Matter." <i>Journal of Economic Perspectives</i>, 26 (2): 91-118.</li> </ul> </li> </ol>		February 15 (on Zoom, regular schedule)
<b>C. WHO GAINS AND WHO LOSES FROM TRADE?</b> <ol style="list-style-type: none"> <li>1. The Distributional Effects of Trade <ul style="list-style-type: none"> <li>– KOM: Chapters 4-5</li> <li>– Irwin, Douglas A. (2020): <i>Free Trade Under Fire</i>, Princeton University Press: Chapter 4.</li> </ul> </li> <li>2. The Distribution Effects of Offshoring <ul style="list-style-type: none"> <li>– Gene Grossman and Rossi-Hansberg, E. The Rise of Offshoring: It's Not Wine for Cloth Anymore, <i>The New Economic Geography: Effects and Policy Implications</i>, Federal Reserve Bank of Kansas City, 2006.</li> </ul> </li> <li>3. Trade and Wages: Evidence</li> <li>4. Trade, Inequality, and Poverty: Evidence</li> </ol>		March 1

II. INTERNATIONAL TRADE POLICY	
<p><b>D. THE POSITIVE AND NORMATIVE THEORY OF PROTECTION</b></p> <ol style="list-style-type: none"> <li>Trade Policy and Resource Allocation <ul style="list-style-type: none"> <li><i>KOM: Chapter 9</i></li> <li>Irwin, Douglas A. (2020): <i>Free Trade Under Fire</i>, Princeton University Press: Chapter 3.</li> </ul> </li> <li>The Political Economy of Protection <ul style="list-style-type: none"> <li><i>KOM: Chapter 10</i></li> </ul> </li> </ol> <p><b>Problem Set 2 posted by March 1 and due March 9</b></p>	<p>March 2 (Zoom lecture, 8:30-10:40pm, recording will be available afterwards)</p>
<p><b>E. TOPIC IN TRADE POLICY</b></p> <ol style="list-style-type: none"> <li>Trade Policy in Developing Countries <ul style="list-style-type: none"> <li><i>KOM: Chapter 11</i></li> </ul> </li> </ol> <p><b>Group Presentations 1 and 2</b></p>	<p>March 8</p>
<b>MIDTERM EXAMINATION</b>	<b>March 22</b>

III. INTERNATIONAL MACROECONOMICS AND FINANCE	
<p><b>F. THE CURRENT ACCOUNT</b></p> <ol style="list-style-type: none"> <li>National Accounts and the Balance of Payments <ul style="list-style-type: none"> <li><i>KOM: Chapter 13</i></li> <li>Gourinchas, P.O, and H. Rey (2007) "From World Banker to World Venture Capitalist: U.S. External Adjustment and the Exorbitant Privilege," G7 Current Account Imbalances: Sustainability and Adjustment. [Note: You need only read until section 1.4.2 page 25]</li> </ul> </li> <li>The Intertemporal Approach to the Current Account <ul style="list-style-type: none"> <li><i>KOM: Chapter 6 p. 127-130</i></li> </ul> </li> </ol> <p><b>Group presentation 3</b></p>	<p>March 29</p>
<p><b>G. EXCHANGE RATES</b></p> <ol style="list-style-type: none"> <li>Exchange Rates and the Foreign Exchange Market: An Asset Approach <ul style="list-style-type: none"> <li><i>KOM: Chapter 14</i></li> <li>Frankel, Jeffrey, 2008. "Carried Away: Everything you Always Wanted to Know about the Carry Trade," Milken Institute Review, January.</li> </ul> </li> <li>Money, Interest Rates, and Exchange Rates <ul style="list-style-type: none"> <li><i>KOM: Chapter 15</i></li> <li>Bernanke, Laubach, Mishkin, and Posen. "The Rational for Inflation Targeting," in <i>Inflation Targeting: Lessons from the International Experience</i>. Princeton, NJ: Princeton University Press, 1999.</li> </ul> </li> </ol>	<p>April 5 – 12</p>

<b>H. EXCHANGE RATES AND INTERNATIONAL MACROECONOMICS</b> 1. Price Levels and the Exchange Rate in the Long Run – <i>KOM</i> : Chapter 16 – Pakko and Pollard, 2003. "Burgeronomics: A Big Mac Guide to Purchasing Power Parity," FRB St. Louis Review, November/December 2003. 2. Output and the Exchange Rate in the Short Run – <i>KOM</i> : Chapter 17  <b>Problem Set 3 posted by April 12 and due April 19</b>	<b>April 12 – 19</b>
<b>D. EXCHANGE RATE REGIMES</b> 1. Fixed Exchange Rates and Foreign Exchange Intervention – <i>KOM</i> : Chapter 18 – Pesenti and Tille, 2000. "The Economics of Currency Crises and Contagion: An Introduction," FRBNY Economic Policy Review, September.	<b>April 19</b>
<b>IV. INTERNATIONAL MACROECONOMIC POLICY</b>	
1. International Monetary Systems: An Historical Overview – <i>KOM</i> : Chapter 19	<b>April 19</b>
2. Financial Globalization: Opportunity and Crisis – <i>KOM</i> : Chapter 21 3. Developing Countries: Growth Crisis and Reform – <i>KOM</i> : Chapter 22  <b>Problem Set 4 posted by April 26 and due April May 3</b> <b>Group presentations 4, 5 and 6</b>	<b>April 26</b>
<b>FINAL EXAMINATION</b>	<b>May 10</b>