Syllabus
ECON-317-001
International Economics

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PREREQUISITES
Principles of Macroeconomics and Principles of Microeconomics. Junior level standing or above.

TEXT AND STUDY MATERIALS
The required texts for this course is International Economics, 13th edition, (South-Western/Cengage, 2011) by Robert J. Carbaugh. Cengage also provides an online version of the text (http://www.cengagebrain.com/shop/isbn/9781439038949). Additional readings may be assigned during the course and either distributed as handouts or available for download from the course webpages. Some readings are noted in the course outline.

Powerpoint slides for some lectures will also be accessible on the net, after they have been presented in class, through the course webpage. The course webpage will also link other aids for learning. Please note that I do not use Blackboard.

Students are also expected to access the resources at Cengage brain.com for additional learning tools: http://www.cengagebrain.com/shop/isbn/9781439038949. The course website will be the primary means of making class announcements and changes in the course outline, and also is the means by which you will be able to access weekly online problem sets and access a portion of both the midterm and final exams.

COURSE OBJECTIVE AND OVERVIEW
The primary objective of this course is to apply the “economic way of thinking” to the subjects of international trade and international monetary relations. International economics is an applied theory class – tools students have mastered in principles and intermediate micro and macro classes are applied to analyze international economic behavior. The course covers the reasons for international trade, the effects of international trade, the effects of trade barriers erected by governments, the balance of payments, foreign exchange and exchange-rate determination, the effects of financial globalization, and alternative international monetary systems.

THE POSITIVE BIAS OF ECONOMICS
Paul Heyne, in his introductory text Microeconomics, notes that “the economic way of thinking is a biased perspective. It does not offer an unprejudiced view of society, in which all the facts are presented and all interests are given the same weight.” Everyone engaged in the search for knowledge of any kind necessarily begins with preconceptions of what is important and what is not, what is true and what is not, and what is useful and what is not. To the extent a student comes to understand economics, he will become biased in the same way as other economists and will look at the world in a way much
different from non-economists. We should note that non-economists are also biased in their understanding of economics, and in this course the student will learn how such biases lead to errors in analyzing economic activity. This does not mean that any two economists will completely agree on "how the economy works."

**NORMATIVE BIAS AND ECONOMIC POLICY**

Much of modern economics is a consideration of what government “ought to do,” if anything, in achieving widely accepted economic goals. The question of one’s support for a particular government action will, of course, depend upon one’s preferences and interests, as well as one’s understanding of how the economy works. But beyond that, one’s basic ethical and political views will come into play. It should be of no surprise, then, that it is possible that even if two economists had identical views of the workings of the economy, they might disagree on the propriety of a particular government action.

**INSTRUCTOR EXPECTATIONS OF STUDENTS**

Students are expected to come to class having read the appropriate readings prior to lecture and discussion. Most classes (except those where the experiments will take the entire class period) will begin with the interrogatory: “Are there any questions?” This is the student’s opportunity to ask questions over material previously covered or to raise questions about the material under current discussion, the nature of economics, or other matters related to economic learning. Reviewing the Sample Questions (see next section) prior to class will aid your understanding of readings, lectures, and discussions. Students are expected to be prepared to discuss sample questions in class.

Students are expected to conduct themselves in a manner amenable to the learning process, treating one another with respect. Students are encouraged to form study groups among themselves, assist one another in mastering material, and provide one another with missed notes.

If, due to time constraints, we don’t cover some assigned readings in class, that doesn’t mean that you are necessarily excused from knowing the material. The general rule is: if a reading is assigned, you are responsible for knowing it.

Please read the handout on [Classroom Conduct and Expectations](#) that appears on the course website.

**GRADING**

The final course grade will be based upon twelve of fourteen weekly graded Aplia online problem sets, a mid-term (covering international trade) and a final (covering international macroeconomics), a book review, and participation in classroom experiments:

(1) eleven problem sets are worth 275 points;  
(2) midterm exam worth 300 points;  
(3) final exam worth 300 points;  
(4) book review worth 150 points;  
(5) participation in classroom experiments worth 125 points.
Total graded points are 1150. The following grading scale will be used:

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<thead>
<tr>
<th>Grade</th>
<th>Points Range</th>
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<tbody>
<tr>
<td>A+</td>
<td>1110 – 1150 points</td>
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<tr>
<td>A</td>
<td>1029 – 1109 points</td>
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<tr>
<td>B+</td>
<td>995 – 1028 points</td>
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<tr>
<td>B</td>
<td>914 – 994 points</td>
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<tr>
<td>C+</td>
<td>880 – 994 points</td>
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<tr>
<td>C</td>
<td>799 – 879 points</td>
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<tr>
<td>D</td>
<td>684 – 798 points</td>
</tr>
<tr>
<td>F</td>
<td>0 – 683 points</td>
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**PROBLEM SETS**

Students will be assigned a graded problem set each week of class. The problem set will be posted each Friday on the course website and is due by the following Monday. The problem set may either be handed in during class on Monday, or submitted as an electronic document no later than noon Monday to the instructor’s email address. Each problem set will be worth 25 points. The eleven highest scores will be used to help determine the student’s grade in the class.

**MID-TERM EXAM**

The mid-term exam will consist of two parts, totaling 300 points. The mid-term exam will cover the *international trade* portion of the class, tentatively consisting of chapters 1-9 of the text, associated lectures and classroom experiments.

The in-class portion of the mid-term is *tentatively scheduled* for Friday, March 11. This portion will consist of multiple-choice and true/false questions.

The take-home portion will be posted on Friday, March 11, and must be handed in at the beginning of class on Monday, March 14. This portion will consist of short answer and essay questions.

**FINAL EXAM**

The final exam will consist of two parts, totaling 300 points. The final exam will cover the *international macroeconomics* portion of the class, tentatively consisting of chapters 10-17 of the text, associated lectures and classroom experiments.

The in-class portion of the final is *scheduled* for the final exam period, Monday, May 9, 8 – 10 am. This portion will consist of multiple-choice and true/false questions.

The take-home portion will be posted on Monday, May 2, and must be handed in at the beginning of the final exam period on Monday, May 9. This portion will consist of short answer and essay questions.

**BOOK REVIEW**

The book review is worth 150 points toward your final grade. The review may be over any economics or related book that meets the approval of the instructor. Students should submit the title, author, publisher, and publication date of the book to be reviewed via email to the instructor no later than midnight, Monday, February 14. The instructor may require the student to physically present the book proposed for review if there exists a question as to the appropriateness of the book.
Books are not to be textbooks. The book need not be related to international economics. Economic classics, biographies of economists, economic history, collections of readings and modern popular economic books are all examples of books that are appropriate for this assignment. Some specific examples of books that fit into these categories are listed at the end of this section. No more than 3 reviews of the same book will be accepted. If you have a particular book in mind, submit it as early as possible.

The review should give evidence that the entire book has been read. The review should address the major idea(s) of the book and the review should conclude with the student's own evaluation and recommendation concerning the book, with supporting reasoning.

The review is to be double-spaced, typed, and in font size no larger than 12. Margins should be 1” on top, bottom, and both sides. This paper should have a cover page indicating your name, the title and author of the book; an end-note page; and a bibliography page; the paper should be eight to ten pages in length (excluding title, end-note and bibliography). It is to be submitted as a hard copy and as a word file, mailed to the instructor’s email address. The review is due April 22.

Examples of Appropriate Books

Classics
Cantillon, Essay on the Nature of Commerce in General
Turgot, Reflections on the Formation and Distribution of Riches
Keynes, The General Theory of Employment, Interest and Money
Hayek, Prices and Production

Biographies
Caldwell, Hayek’s Challenge
Ebenstein, Milton Friedman: A Biography
Skidelsky, John Maynard Keynes: 1883-1946

Economic History and History of Economics
Medema, The Hesitant Hand
Milgate & Stimson, After Adam Smith
Force, Self-interest before Adam Smith
Clark, A Farewell to Alms
Bernstein, A Splendid Exchange: How Trade Shaped the World
Shlaes, The Forgotten Man: A New History of the Great Depression

Collections of Readings
Hayek, Individualism and Economic Order
Leijonhufvud, Information and Coordination

Popular Economics
Cowen, Discover Your Inner Economist
Frank, The Economic Naturalist
Levitt & Dubner, Freakonomics
Levitt & Dubner, *Super Freakonomics*
Harford, *The Undercover Economist*
Harford, *The Logic of Life*
Harford, *Dear Undercover Economist*
Landsburg, *The Armchair Economist*
Landsburg, *More Sex is Safer Sex*
Ariely, *Predictably Irrational*
Becker & Posner, *Uncommon Sense*
McKenzie, *Why Popcorn Costs So Much at the Movies*
McKenzie, *Predictably Rational?*
Taleb, *The Black Swan*
Taleb, *Fooled by Randomness*
Ormerod, *Why Most Things Fail*
Ormerod, *Butterfly Economics*
Lowenstein, *When Genius Failed*
Mandelbrot and Hudson, *The Misbehavior of Markets*

**PARTICIPATION IN CLASSROOM EXPERIMENTS**
Participation in classroom experiments is worth 125 points. Six classroom experiments are tentatively scheduled – each will be worth 25 points. Attendance for one classroom experiment may be dropped.

**MAKE-UP POLICY**
Since most of the assignments may be turned in electronically, only in cases of extended illness will make-ups be possible for those assignments. Appropriate documentation will be required. Make-ups of the in-class portions of the mid-term and final exams will only be granted if the instructor is contacted by email prior to the start of the class period when the exam is held.

**GENERAL POLICIES**
(1) There are no extra credit projects.
(2) An incomplete will be allowed for the class only if a 70% or better average is achieved through the book review due **April 22**. To receive an incomplete requires the completion of a contract with a date certain for completion of class requirements.
(3) Withdrawal from class is the responsibility of the student.
### COURSE OUTLINE

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<tr>
<td>The International Economy</td>
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<td>Trade Theory and Comparative Advantage</td>
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<td>Trade Policies for Developing Nations</td>
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<td>Regional Trading Arrangements</td>
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<td>International Factor Movement and Multinationals</td>
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<tr>
<td><strong>International Macroeconomics Section</strong></td>
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<tr>
<td>The Balance of Payments</td>
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<td>Foreign Exchange</td>
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<td>Mechanisms of International Adjustment</td>
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<td>Exchange-Rates and Balance of Payments</td>
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<td>Exchange-Rate Systems and the Currency Crisis</td>
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<td>Macroeconomics and the Open Economy</td>
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<tr>
<td>International Banking: Reserves, Debt and Risk</td>
<td>chapter 17</td>
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LEARNING GOALS FOR INTERNATIONAL ECONOMICS

A student who has completed the international economics course (EC317) should be able to think critically about international economic issues and be able to apply economic reasoning in analyzing effects of changes in international economic policies and conditions. Specific learning goals include:

**Interdependence among nations:** Students should gain solid understanding of the sources and consequences of economic interdependence among nations.

**Comparative advantage and benefits of international trade:** Students should understand the crucial role of comparative advantage in guiding international specialization and facilitating mutual gains from trade. The evolution of economic theory to explain equilibrium and disequilibrium conditions in international markets forms a key part of this analysis.

**Equilibrium terms of trade:** Students should learn the role of international opportunity costs and international demand conditions in determining—and altering—equilibrium terms of trade.

**Protectionist policies:** Students should know the economic consequences of protectionist policies such as tariffs and nontariff barriers on disparate groups—such as exporters, import-competing industries, and consumers—in the affected nations.

**Trade policies and institutions of the U.S.:** Students should know the history and present nature of U.S. international trade policies and institutions.

**Trade policies of developing nations:** Students should understand the range and types of trade policies frequently adopted by developing nations, as well as their economic results.

**Regional trading arrangements:** Students should perceive the economic implications of alternative types of regional trading arrangements (such as a free trade area, customs union, common market, or economic union) as well as recent and historical use of these economic arrangements (for example, the North American Free Trade Agreement and European Union).

**Multinational enterprises:** Students should understand predicted and actual economic impacts of multinational enterprises on affected nations. Students should be able to use economic analysis to assess benefits and costs of the multinational enterprises, incentives to operate as a multinational enterprise, and criticisms that have been leveled against multinational enterprises.

**Balance of payments:** Students should know the mechanics of balance of payments accounting as well as the connection between the balance-of-payments accounts (e.g., the current account and the capital account) and related issues such as trade deficits, foreign direct investment, and international debt.
**Foreign exchange and exchange rate determination:** Students should learn the economic causes and results of changes in international currency prices. They should understand what determines an equilibrium exchange rate and what factors cause a currency’s appreciation or depreciation.

**Alternative exchange rate systems:** Students should learn to how exchange rate adjustment occurs under alternative exchange rate systems such as a fixed exchange rate system, an adjustable-peg system, flexible/floating exchange rate systems, and other systems.

**International economic policy:** Students should gain understanding of how nations use monetary and fiscal policy to pursue economic objectives of internal balance and external balance.

**International banking:** Students should learn the nature and functions of international reserves, the determinants of the supply of and demand for international reserves, and the role of international institutions such as the International Monetary Fund in determining the availability of reserves.

**Skill in using diagrams to express relationships:** Students should increase their ability to use graphs and other diagrams to express economic relationships and to predict the consequences of changes in relevant variables.

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EVALUATION OF STUDENT ACHIEVEMENT OF LEARNING GOALS FOR INTERNATIONAL ECONOMICS

Specific textual coverage of material relevant to the stated learning objectives is as follows:

**Interdependence among nations:** Covered explicitly in Carbaugh, Chapter 1. Discussed further in conjunction with other sections of the course material.

**Comparative advantage and benefits of international trade:** Covered explicitly in Carbaugh, Chapters 2 and 3. Discussed further in conjunction with other sections of the course material.

**Equilibrium terms of trade:** Covered explicitly in Carbaugh, Chapters 2 and 3. Discussed further in conjunction with other sections of the course material.

**Protectionist policies:** Covered explicitly in Carbaugh, Chapters 4, 5 and 6. Discussed further in conjunction with other sections of the course material.

**Trade policies and institutions of the U.S.:** Covered explicitly in Carbaugh, Chapter 6. Discussed further in conjunction with other sections of the course material.
Trade policies of developing nations: Covered explicitly in Carbaugh, Chapter 7. Discussed further in conjunction with other sections of the course material.

Regional trading arrangements: Covered explicitly in Carbaugh, Chapter 8. Discussed further in conjunction with other sections of the course material.

Multinational enterprises: Covered explicitly in Carbaugh, Chapter 9. Discussed further in conjunction with other sections of the course material.

Balance of payments: Covered explicitly in Carbaugh, Chapters 10. Discussed further in conjunction with other sections of the course material.

Foreign exchange and exchange rate determination: Covered explicitly in Carbaugh, Chapters 11 and 12. Discussed further in conjunction with other sections of the course material.

Alternative exchange rate systems: Covered explicitly in Carbaugh, Chapters 13, 14 and 15. Discussed further in conjunction with other sections of the course material.

International economic policy: Covered in Carbaugh, Chapters 4, 5, 6, 7, 15, and 17. Discussed further in conjunction with other sections of the course material.

International banking: Covered explicitly in Carbaugh, Chapter 17. Discussed further in conjunction with other sections of the course material.

Skill in using diagrams to express relationships: Covered explicitly in almost every chapter of the Carbaugh text.