

**International Economics**

**Number of credits:** 4

**Evaluation criteria:** The evaluation for the entire course will be based on two examinations – midterm and end-term. The weights on the two will be 50% and 50% respectively.

**Part A: Pure Theory of International Trade**

**Instructor:** Professor Aparna Sawhney

**Pre-requisite:** Basic *Microeconomic Theory* and *International Trade*

(Students who do not have adequate background in Microeconomic/ Trade Theory would be required to cover supplementary basic readings in the first two weeks of the semester.)

This part of the course will cover the core models of international trade including the classical, neo-classical trade theories, and the newer trade theories; as well as gains from trade and positive trade policy analysis. The study of the theoretical trade models will be supplemented with empirical literature.

**Required textbooks:**

Jagdish Bhagwati, Arvind Panagariya and T.N. Srinivasan (1998) *Lectures on International Trade*, MIT Press, 2<sup>nd</sup> edition.

Robert C. Feenstra (2016) *Advanced International Trade: Theory and Evidence*, Princeton University Press, 2<sup>nd</sup> edition.

The modules and readings are as follows:

**I. Ricardian and Heckscher-Ohlin models**

Review: Bhagwati et al chapters 1-7; Feenstra chapters 1-2

- Paul A. Samuelson (1948) “International Trade and the Equalization of Factor Prices”, *The Economic Journal*, 58(230): 163-184.
- Edward E. Leamer (1980) “The Leontief Paradox, Revisited”, *Journal of Political Economy*, 88(3): 495-503.
- Daniel Trefler (1993) “International Factor Price Differences: Leontief was Right!”, *Journal of Political Economy*, 101(6): 961-987.
- Daniel Trefler (1995) “The Case of Missing Trade and Other Mysteries”, *American Economics Review* 85: 1029-46.
- Don Davis (1995) “Intra-industry trade: a Heckscher-Ohlin-Ricardo Approach”, *Journal of International Economics*, Volume 39(3-4): 201-226.

## II. Imperfect Competition and Heterogenous Firms

Review: Feenstra chapters 5-6.

- Paul Krugman (1980) "Scale Economies, Product Differentiation and the Pattern of Trade", *American Economic Review*, Volume 70(5): 950-959.
- P. R. Krugman (1991) Increasing Returns and Economic Geography, *Journal of Political Economy*, Volume 99: 483-499
- Donald Davis and David E. Weinstein (2003) "Why countries trade: Insights from firm-level data", *The Japanese and International Economies*, 17: 432-447.
- Marc J. Melitz (2003) "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 71(6): 1695-1725
- Petia Topalova and Amit Khandelwal (2011) "Trade Liberalization and Firm Productivity: The Case of India", *The Review of Economics and Statistics*, 93(3): 995-1009.

## III. Gains from Trade and Strategic Trade Policy

Review: Bhagwati et al chapters 12, 17-19, 29

- Paul A. Samuelson (1930) "The Gains from International Trade", *The Canadian Journal of Economics and Political Science*, 5(2): 195-205.
- Robert C. Feenstra (1992) "How Costly is Protectionism", *The Journal of Economic Perspectives*, 6(3): 159-178.
- Jeffrey Frankel and David Romer (1999) Does Trade Cause Growth, *American Economic Review*, 379-399.
- Marc J Melitz (2005) "When and how should infant industries be protected?", *Journal of International Economics*, 66: 177-196.
- Marc J. Melitz and Daniel Trefler (2012) "Gains from Trade when Firms Matter", *Journal of Economic Perspectives*, 26(2): 91-118.
- Robert C. Feenstra (2018) "Alternative Sources of the Gains from International Trade: Variety, Creative Destruction, and Mark-ups", *The Journal of Economic Perspectives*, 32(2): 25-46.

## **Part B: International Macroeconomics**

**Instructor:** Professor Meeta K. Mehra

This part of the course will cover key themes in international macroeconomics with focus on the underlying theories that have evolved to understand these, and the applications to real economies. The course will comprise topics such as global imbalances, the static Mundell-Fleming model, an intertemporal approach to open economy macroeconomics, including government budgetary policy and current account, real and nominal exchange rate determination.

Pre-requisites: Basic *Microeconomics*, *Macroeconomics* and *Mathematical Economics*.

The **main texts** for the course are:

1. Obstfeld, Maurice and Rogoff, Kenneth (1996), *Foundations of International Macroeconomics*, MIT Press – henceforth O&R
2. Nelson, C. Mark (2001), *International Macroeconomics and Finance: Theory and Econometric Methods*, Blackwell Publishers–henceforth NM
3. Schmitt-Grohe, Stephanie, Uribe, Martin, Woodford, Michael (2016), *International Macroeconomics*, Columbia University - henceforth SGU&W

### **Module I: Introduction**

1. Balance of Payments Accounting and Global Imbalances  
SGU&W, Chp 1
2. Static Mundell-Fleming Model  
NM, Chp 8

Additional readings

- Lawrence H. Summers (2006), "Reflections on Global Account Imbalances and Emerging Market Reserve Accumulation". L K Jha Memorial Lecture, Reserve Bank of India.  
[https://www.harvard.edu/president/speeches/summers\\_2006/0324\\_rbi.php](https://www.harvard.edu/president/speeches/summers_2006/0324_rbi.php)
- Obstfeld, Maurice, and Kenneth Rogoff (2005), "Global Current Account Imbalances and Exchange Rate Adjustment", *Brookings papers on Economic Activity*, No 1, 67-123.
- Obstfeld, Maurice, Jay Shambaugh, and Alan Taylor (2009), "Financial Stability, the Trilemma, and International Reserves", NBER Working paper 14217.  
<https://www.nber.org/papers/w14217.pdf>

### **Module II: Intertemporal Open Economy Macroeconomics**

1. Intertemporal Approach to Current Account Balance
  - a. A small two-period endowment economy
  - b. Role of investment: defining the current account
  - c. A two-region world economy

O&R, Chp 1

2. Dynamics of a Small Open Economy
  - a. A small open economy with many periods and finite time
  - b. An infinite-horizon stochastic model both for endowment economy and with investment
  - c. A stochastic small-country current account model
  - d. Extending the intertemporal model by incorporating shocks in interest rates and relative prices

O&R, Chp 2

3. The Life Cycle, Tax Policy, and the Current Account
  - a. Government budget policy in the absence of overlapping generations
  - b. Government budget deficits in an overlapping generations model: government saving, private saving and current account balance; timing of taxes and implications for current account deficit
  - c. Output fluctuations, demographic changes and life cycle savings.

O&R, Chp 3

Additional readings

- Obstfeld, M. and K. Rogoff (2000), The Six Major Puzzles in International Macroeconomics, in NBER Macroeconomics Annual 2000.
- Bergin, P. R. and S. M. Sheffrin (2001), Interest Rates, Exchange Rates and Present Value Models of the Current Account, *The Economic Journal*, 110 (463): 535–558.
- Glick, R. and K. Rogoff (1995), Global versus Country-specific Productivity Shocks and the Current Account, *Journal of Monetary Economics*, 35(1): 159–192.
- Feldstein, M. and C. Horioka (1980), Domestic Saving and International Capital Flows, *Economic Journal*, 90(358): 314-329.

### **Module III: Real and Nominal Exchange Rates**

1. The Determinants of Real Exchange Rates
  - a. Law of one price
  - b. Purchasing power parity
  - c. Productivity differentials and real exchange rates: The Balassa-Samuelson model

NM, Chp 7; SGU&W, Chp 1

2. Monetary Model and Nominal Exchange Rate Determination
  - a. The monetary model of the balance of payments under flexible exchange rates
  - b. Monetary approach to nominal exchange rate determination – the one money economy and the Lucas' two-money monetary economy

NM, Chps 3 & 4; SGU&W, Chp 13

3. Dornbusch's Dynamic Mundell-Fleming Model
  - a. Sticky domestic prices and exchange rates
  - b. Deterministic and stochastic versions of the Dornbusch's Mundell-Fleming model

NM, Chp 8, O&R, Chp 9

Additional readings

- Rogoff, Kenneth (1996), The Purchasing Power Parity Puzzle, *Journal of Economic Literature*, 34, 647-668.
- Goldberg, Pinelopi, and Michael Knetter (1997), Goods Prices and Exchange Rates: What Have We Learned, *Journal of Economic Literature*, 35(3), 1243-1272.
- Engel, Charles, Nelson, C, Mark, and Kenneth D. West (2007), Exchange Rate Models Are Not As Bad As You Think, *NBER Macroeconomics Annual* 2007, 381-441
- Evans, Martin, and Richard Lyons (2005), Meese-Rogoff Redux, *Micro-Based Exchange Rate Forecasting*, *American Economic Review Papers and Proceedings*, 95(2), 405-416.
- Rogoff, Kenneth (2002), Dornbusch's Overshooting Model After Twenty-Five Years, *The Mundell-Fleming Lecture*, IMF Working Paper 02/39.  
<https://www.imf.org/external/pubs/ft/wp/2002/wp0239.pdf>