

Masaryk University
Faculty of Economics and Business Administration

Course **International Trade & Finance (or Market, Finance, & Global Problems)**
Fall Semester, 2006

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Office Hours: Monday 10:00 – 11:00 and 17:00 – 17:30

Prerequisites: Microeconomics and Macroeconomics.

Course Objectives

With the opening up of post centrally planned economies and the increasing interdependence of world economies, a proper understanding of how national economies interact becomes essential for informed policy and business decisions making. This course responds to this need by sharpening your ability for clear economic analysis. It provides you with a guide to a comprehensive, relevant, and up-to-date review of the *political economy* of international trade and finance. By utilizing the analytical tools that you studied in Macroeconomics and Microeconomics, this course first introduces the analytical aspect of the global flow of commodities and financial assets. It presents the core components of modern trade theory, determinants of interest rates, exchange rates, and capital flows. Subsequently, the course discusses practical and political questions relating to trade barriers, trade policies of select developed and developing countries, the behavior of multinational firms, and the consequences of free capital flows.

Required Readings, Text

1. **Text:** Robert Carbaugh. 2006. *International Economics*. Available at the circulating desk of the library. Earlier editions are also acceptable.
2. **Reading:** Paul Krugman. 1997. *Pop Internationalism*, Cambridge: MIT Press. Available at the circulating desk of the library.
3. **Summary of lecture notes** can be downloaded from university online system.

Upon completion of this course, you should be able to:

1. Define the Comparative Advantage Theorem;
2. Identify the distinction between various approaches to international trade;
3. Master the techniques of open economy macroeconomics;
4. Analyze tariff and non-tariff barriers to trade;
5. Understand the basics of trade finance;
6. Consider different types of exchange rate determination;
7. Understand international money & capital markets and interest rate determination.

Course Contents

Part I. Causes and Consequences of International Trade

A. What is the difference between free trade and Globalization?

Reading: Text, Chapter 1

B. Supply-Side Arguments for Trade

1. Trade on the basis of absolute advantage.
2. Trade on the basis of comparative advantage.
3. Trade under conditions of constant costs.
4. Trade under conditions of increasing costs.

Reading: Text, Chapter 2 and lecture notes.

C. Demand-Side Arguments for Trade

1. What determines the terms of trade?
2. How does economic growth affect the terms of trade?

Reading: Text, Chapter 3 and lecture notes.

D. More Complex Issues in International Trade

1. What is the relationship between relative prices among countries and their factor endowments?
2. How do economies of scale affect trade?
4. Similarities in the structure of demand as the basis for trade.
5. The difference between inter-industry trade and intra-industry trade.
6. Can comparative advantage be engineered by government policies?

Reading: Text, Chapter 3 and lecture notes.

E. Barriers to Trade

1. Tariffs and their effects on the welfare of nations.
2. Tariff quotas and their effects on the welfare of nations.
3. Import Quotas and their effects on the welfare of nations.
4. Tariffs versus quotas: Which one is worse.
5. Local Content Requirements.
6. Domestic and Export Subsidies.
7. Dumping.
8. International Cartels.
9. What justifies protectionist policies?

Reading: Text, Chapters 4 & 5.

Part II. The Causes and Consequences of the International Flow of Capital

1. How are interest rates determined in a global economy.
2. International capital flows.
3. Short-run and long-run determinants of exchange rates.

Reading: Text, Chapters 11, 12 & 16, and Lecture Notes

Part III. The Political Economy of Globalization

1. Competitiveness: A Dangerous Obsession (Krugman, Chapter 1).
2. Trade, Jobs, and Wages (Krugman, Chapter 3).
3. Does Third World Growth Hurt First World Prosperity (Krugman, Chapter 4).
4. The Illusion of Conflict in International Trade (Krugman, Chapter 5).
5. Challenging Conventional Wisdom (Krugman, Chapter 9).
6. The Myth of Asia's Miracle (Krugman, Chapter 11).

Course Requirements

Final Exam: The Final exam constitutes 100% of your grade. It is 90 minutes long. It is in multiple choice form. The questions are based on material covered in the text, handouts, or lectures. They are based on these materials, but they are not identical to them. Exam questions do not ask you to reproduce the same information that you find in these materials. They ask you to analyze situations with a method derived from the material that you discussed in class or which are covered in the text. Therefore, do not be surprised if I ask you to respond to a question that is not illustrated in the text or in the handouts. 20% of the exam will be based on the reader text Pop Internationalism.

First Attempt: **December 10**
Second Attempt: **January 28**
Third Attempt: **February 11**

Grading Scale

| Letter Grade | Percent (%) | Generally Accepted Meaning |
|---------------------|--------------------|--|
| A | 91-100 | Outstanding work |
| B | 81-90 | Good work, distinctly above average |
| C | 71-80 | Acceptable work |
| D | 66-70 | Below average work |
| E | 60-65 | Minimum standard work |
| F | 0-59 | Work that does not meet minimum standards for passing the course |

Class Participation: This class is interactive. To insure your understanding of the materials, you should try to answer questions I pose in class. It is better to make a mistake in class discussion than in an exam.

Talking in class: Talking with your colleagues in class distracts me and distracts your colleagues. Therefore, it is absolutely necessary that you control yourself and curb your impulse to chat with your colleagues in class. If you have difficulties with controlling yourself, please do not attend class.

Tardiness or leaving the class early: Try to arrive in class five minutes before it starts in order to review your latest notes and get ready for the new material. Late arrivals are distracting to me and to your fellow students. If you have a good reason to leave the class before it ends, let me know before the class starts and sit next to the nearest exit so that you cause a minimum distraction.

Etiquette of Grade Disputing: I encourage you to discuss your performance in any exam. This is done in my office during the designated office hours or by setting up an appointment with me if my office hours do not suit you. If you have a concern to debate with me, please do it in my office. You are also welcome to review your exam with me even if you have no desire to dispute your grade.

Some obvious notes on maximizing your learning potentials in this course

Economics is a science that applies deductive logic to facts to help you make efficient decision. Its complexity arises from the syntheses of many simple laws that operate simultaneously. Your success in this course depends on your ability to synthesize these laws correctly and on your familiarity with the definitions of the terms used to describe the relevant facts. I suggest that you read the section below to maximize your learning experience:

First: Read each assigned chapter before you come to class and highlight the concepts, phrases, and ideas that you had difficulties in comprehending. This is a very important part of your preparation for the course because attending class will not substitute for reading the textbook. You need to work on the material independently to become familiar with economic logic.

Second: participate in class discussion. Do not hesitate to ask about the definition of terms I use in my presentations. Key definitions are crucial to comprehending the material. Be certain to identify any possible weaknesses you may have towards any topic.

Third: concentrate on my presentation while you are in the class. Referring back and forth to the textbook may be a confusing process. After class, get back to those issues which you highlighted and see if you now have a better understanding of them. If you still have difficulties with them make sure that you ask me to clarify whatever you are unclear about in the next class. If you feel uncomfortable about asking questions in class, feel free to consult me after the class is over.

Fourth: the lectures are interdependent and will gradually become more complex. Therefore, if you do not deal with any difficulties promptly, you will fall behind the class and feel confused as the rest of the class progresses. Do not wait for the last class meeting to ask for help. It may then be too late. Always remember that my cooperation will improve your performance only if you are willing to work hard independently.