

BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE – PILANI
HYDERABAD CAMPUS
FIRST SEMESTER: 2022-23
Course Handout (Part II)

Date: 29/08/2022

In addition to part I (General Handout for all courses appended to the time table) this portion gives further specific details regarding the course.

Course No. : ECON F311
Course Title : International Economics
Instructor-in-Charge : Dr. Archana Srivastava
Instructor : Dr. Archana Srivastava

1. Scope and objective of the course:

The aim of the course is to introduce students to the basis of international trade, gains from trade, trade policy, the dynamics and adjustment in the balance of payments. This could help students move beyond recognition and towards an understanding of current and future international events during these days of increasing globalization of economic activity.

2. Text Book :

Salvatore, Dominick. International Economics, Wiley Publishers, Latest Edition.

3. Reference Books :

R1. Feenstra, Robert and Alan Taylor. International Economics. Worth Macmillan Publishers, Fourth Edition, 2017.

R2. Krugman, Paul, Maurice Obstfeld and Marc Melitz,” International Trade: Theory & Policy,” Pearson Publishers, Tenth Edition, 2015.

4. Course Plan:

| Topic | No. of Lectures | Learning Objectives | Topics to be covered | Chapter in the Text Book |
|--------------|------------------------|--|---|---------------------------------|
| 1 | 1 | Introduction | The International Economics and Economic theory | Ch.1 (R1) |
| 2 | 2 | Basics of International Trade | Early Trade Theories | Ch.2 (R1) |
| | 3-4 | Concepts of opportunity cost in trade, basis of trade and gains from trade | The Law of Comparative Advantage | Ch.2 (R1) |
| 3 | 5 | Basis for and gains from trade with increasing costs | The Standard Theory of International Trade | Ch.3 (R1) |
| 4 | 6-7 | The Basis for trade and gains from trade restated | Demand and Supply, Offer Curves and the Terms of Trade | Ch.4 (R1) |
| 5 | 8 | Advanced tool of international trade | Edgeworth Box Diagram & the Production possibility Frontier | Ch.3 (R1) |
| | 9-11 | To investigate the basis of comparative Advantage and | Factor Endowments and the Heckscher - Ohlin (H- | Ch.4 (R1) |

| | | | | |
|-----------|-------|--|--|-------------|
| | | trade | O) Model | |
| 6 | 12-13 | To analyze the economics of scale, imperfect competition and intra-industry trade models | Modern theories of International trade | Ch.5 (R2) |
| 7 | 14-15 | To analyze the impact of growth on trade and to discuss the issue of income distribution | Economic Growth and International Trade | Ch.7 (T.B) |
| 8 | 16-18 | The theory of tariff structure, rate of effective protection and Stopler-Samuelson theorem | Trade restrictions: tariffs | Ch.8 (TB) |
| 9 | 19-20 | Import quota, Export Barriers, Export subsidies, and dumping | Non-tariff Trade Barriers and protectionism | Ch.9 (T.B) |
| | 21 | Comparison between the tariff and Non-tariff barriers of trade | Quota versus Tariff | Ch.9 (T.B) |
| 10 | 22-23 | Trade creation, trade diversion and theory of second best | Economic integration: custom union and free Trade Areas | Ch.10 (T.B) |
| 11 | 24-25 | Trade and Development | International Trade and Economic Development | Ch.11(TB) |
| 12 | 26-27 | Motives of direct foreign Investment and Reasons for the existence of MNCs. | International resource Movements and Multinational Corporations | Ch.12 (T.B) |
| 13 | 28-29 | Concepts of accounts to international transactions | Balance of Payments: Concepts and Definitions | Ch.13 (TB) |
| 14 | 30 | Study of Foreign Exchange Markets | Foreign Exchange Markets and Exchange Rates | Ch.14 (TB) |
| 15 | 31 | Determination of exchange rates | Exchange Rate Determination | Ch.15(TB) |
| 16 | 32-34 | Exchange rate adjustment mechanism | The Price Adjustment Mechanism | Ch.16(TB) |
| 17 | 35-36 | Dynamics of open economy macroeconomics | Income Adjustment Mechanism and Synthesis of automatic adjustments | Ch.17 (T.B) |
| 18 | 37-38 | Impact of various economic policies on open economy macroeconomics: Mundell - Fleming Model | Open Economy Macroeconomics: Adjustment Policies | Ch.18 (T.B) |
| 19 | 39-40 | To Evaluate BOP Adjustments and to discuss the functions of International Monetary Institutions. | International Monetary System: Past, Present & Future | Ch.21 (R3) |

5. Learning Outcomes:

Topic 1: Introduction to International Economics

The student will be able to identify the major international trade and financial problems faced by India and the world in today's context. The student will be able to appreciate the importance of international economics through various case studies; explain the relationship between international trade and a nation's standard of living; define globalisation and describe the subject matter and purpose of international economic theories and policies.

Topic 2: The Law of Comparative Advantage

The student will be able to explain the various early trade theories such as the Mercantilists' views on international trade and Adam Smith's Law of Absolute Advantage. The student will be able to define the Ricardian theory of comparative advantage; understand the meaning of gains from trade with illustrations, and outline the exceptions to the Law of comparative advantage. He or she will also be able to summarise the relationship between opportunity costs and relative commodity prices; and explain the basis for trade and show the gains from trade under constant costs conditions.

Topic 3: The Standard Theory of International Trade

The student will be able to explain how relative commodity prices and the comparative advantage of nations are determined under increasing costs; and understand the basis and the gains from trade with increasing costs. He or she will be able to distinguish between marginal rate of transformation and marginal rate of substitution; and derive the Edgeworth box diagram and production frontier. The student will be able to define community indifference curves and explain the relationship between international trade and deindustrialization in the United States and other advanced nations.

Topic 4: Demand and Supply, Offer Curves and the terms of Trade

The student will be able to outline a rigorous theoretical way of determining the equilibrium relative commodity price at which trade takes place, with the help of partial equilibrium analysis using demand and supply curves, and then with general equilibrium analysis using offer curves. He or she will also be able to explain the meaning of the terms of trade and how it changed over time for the United States and other countries.

Topic 5: Factor Endowments and the Heckscher - Ohlin (H-O) Model

The student will be able to explain how comparative advantage is based on differences in factor endowments across nations; interpret how trade affects relative factor prices within and across nations; and summarise why trade is likely to be only a small reason for higher skilled-unskilled wage inequalities.

Topic 6: Modern theories of International trade

The student will be able to explain how international trade can result from economies of scale; explain how product differentiation leads to intra-industry trade; understand the technological gap and product cycle models of trade; and analyse the relationship between transportation costs and environmental standards on international trade.

Topic 7: Economic growth and International Trade

The student will be able to extend the trade model to incorporate changes in factor endowments and improvements in technology, and show how it will affect the nation's frontier. These changes, along with changes in tastes, affect the nation's offer curve, the volume of trade, terms

of trade and gains from trade. The student will be able to define the Rybczynski theorem and the various types of technical progress; and also explain the effect of growth on international trade in case of a small country and a large country.

Topic 8: Trade restrictions: tariffs

Historically, tariff has been the most important type of trade restriction. The student will be able to explain the effects of a tariff on production, consumption, trade and welfare of the nation imposing the tariff as well as on its trade partner; define an optimum tariff and retaliation; and understand the meaning and importance of tariff structure.

Topic 9: Non-tariff Trade Barriers and protectionism

The student will be able to understand the effect of non-tariff trade barriers such as import quotas, voluntary export restraints and antidumping actions. He or she will be able to distinguish between the effects of an import quota compared to that of an import tariff, describe the effect of dumping and export subsidies; explain the political economy of protectionism and strategic and industrial policies; and summarise the effect of the Uruguay Round and the aims of the Doha Round.

Topic 10: Economic integration: custom union and free Trade Areas

The student will be able to distinguish between various forms of economic integration. Student will be able to recall the meaning of trade creation, trade diversion, and the dynamic benefits of economic integration; describe the importance and effects of the European Union and NAFTA; and describe attempts at economic integration among developing countries and countries in Central and Eastern Europe.

Topic 11: International Trade and Economic Development

The student will be able to explain the relationship between international trade and economic development; understand the relationship between the terms of trade, export instability and economic development; compare imports substitution with export orientation as a development strategy; and outline the current problems faced by developing countries.

Topic 12: International resource Movements and Multinational Corporations

The student will be able to explain the motives for international portfolio and direct investments; explain the effects of portfolio and direct investments on investing and host countries; understand the reasons for the existence of multinational corporations and their effects on the home and host countries; and understand the motives and effects of international labour migration.

Topic 13: Balance of Payments: Concepts and Definitions

The student will be able to interpret what the balance of payments is and what it measures; outline the changes in India's balance of payments over the years; and understand the importance of the serious deterioration of the trade balance of US and Indian economy in recent years.

Topic 14: Foreign Exchange Markets and Exchange Rates

The student will be able to understand the meaning and functions of the foreign exchange market; distinguish between spot, forward, cross, and effective exchange rates; and understand the meaning of foreign exchange risks, hedging, speculation, and interest arbitrage.

Topic 15: Exchange Rate Determination

The student will be able to explain the purchasing-power parity theory and why it does not work in the short run; understand how the monetary and the portfolio balance models of the exchange rate work; outline the causes of exchange rate overshooting; and understand why exchange rates are so difficult to forecast.

Topic 16: The Price Adjustment Mechanism

The student will be able to summarise the effect of a change in the exchange rate on the nation's current account; understand the meaning and importance of the "stability of the foreign exchange market"; outline the meaning and importance of the exchange rate "pass-through"; and explain the working of the gold standard.

Topic 17: Income Adjustment Mechanism and Synthesis of automatic adjustments

The student will be able to understand how the equilibrium level of income is determined in an open economy; explain the meaning of foreign repercussions; describe how the absorption approach works; and understand how all the automatic adjustments work together in open economies.

Topic 18: Open Economy Macroeconomics: Adjustment Policies

The student will be able to demonstrate how a nation can achieve internal and external balance with fiscal and monetary policies under a fixed and a flexible exchange rate system; analyse the difficulties and experiences in achieving internal and external balance; and outline the disadvantages of using direct controls to achieve internal and external balance.

Topic 19: International Monetary System: Past, Present & Future

The student will be able to distinguish between the working of the gold standard and the postwar Bretton Woods System and explain why it collapsed; outline how the present international monetary system works; and identify the major international economic problems facing the world today.

6. Evaluation Schedule:

| Component | Duration | Weightage (%) | Date & Time | Nature of Component |
|-------------------------------|----------|---------------|----------------------|---------------------|
| Mid Term Exam | 90 min. | 35 | 01/11 9.00 - 10.30AM | CB |
| Assignments and Presentations | TBA | 25 | | OB |
| Comprehensive Exam | 180 min | 40 | 20/12 FN | CB |

6. Online Consultation Hour: To be announced in the first week of classes.

7. Notice: All notices pertaining to this course shall be displayed on the **CMS Notice Board**.

8. Make-up Policy: Make-up will be granted only on genuine grounds and if prior permission is taken through official email only. Request for make up after the test/exam would not be entertained at all.

9. Academic Honesty and Integrity Policy: Academic honesty and integrity are to be maintained by all the students throughout the semester and no type of academic dishonesty is acceptable.

Instructor-in-Charge
ECON F311