International Trade and International Finance

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1 Basics of International Economics

1.1 Lecture 1: Basics of International Economics

1.1.1 Text book (Paul Krugman, Maurice Obstfeld, and Marc Melitz, International Economics, 12th edition)

1.1.2 Today's lecture contents:

1. What is international economics about?
2. Why study international trade?
3. What is globalization?
4. The gravity model

1. What is international economics about?

- International Economics consists of two main classifications:
  - International Trade (Microeconomics)
  - International Finance (Macroeconomics)

Comparision	International_Trade	International_Finance
Economics	Microeconomics	Macroeconomics
Employment	Full employment	Under employment
Savings	No savings	Savings
Trade	Balance	Imbalance
Money	Real transaction	Monetary transaction

2. Why study international trade?

- Production technologies do not flow easily across borders. There are massive differences in production technologies across countries.
- The use of some technologies is tied to human capital which can not be transferred across countries.
- Government institutions have a huge impact on the effectiveness of different technologies.

What are the subjects to focus in international trade discussion?

- Seven themes recur throughout the study of international economics:

  a. The gains from trade
  b. The pattern of trade
  c. Protectionism
  d. The balance of payments
  e. Exchange rate determination
  f. International policy coordination
  g. The international capital market

3. What is Globalization?

- Increase in international transactions in markets for goods, services, and factors
- Growth and expanded scope of international institutions and organizations, for instance, UN, World Bank, IMF, WTO

  How can globalization be measured?

- Trade flows: exports and imports of goods
- Trade in services: transportation, healthcare, telecommunications, business services
- Foreign asset ownership
- Immigration
- Price convergence: Possibility of trade may have important effects

4. The Gravity Model

- Let's begin by describing who trades with whom. An empirical relationship known as the gravity model helps to make sense of the value of trade between any pair of countries and sheds light on the impediments that continue to limit international trade even in today's global economy.
- Three of the top 15 U.S. trading partners are European nations: Germany, the United Kingdom, and France. Why does the United States trade more heavily with these three European countries than with others? The answer is that these are the three largest European economies. That is, they have the highest values of gross domestic product (GDP), which measures the total value of all goods and services produced in an economy.

  There is a strong empirical relationship between the size of a country's economy and the volume of both its imports and its exports.

2 Introduction to International Trade

2.1 Lecture 2: Introduction to International Trade

2.1.1 Reference: Chapter 1- Introduction (Paul Krugman, Maurice Obstfeld, and Marc Melitz, International Economics, 12th edition)

2.1.2 Today's lecture contents:

1. The gains from trade
2. The pattern of trade
3. How much trade?
4. Balance of payments
5. Exchange rate determination
6. International policy coordination
7. International capital market

1. The gains from trade

- Probably the most important single insight in all of international economics is that there are gains from trade that is, when countries sell goods and services to each other, this exchange is almost always to their mutual benefit.
- Although nations generally gain from international trade, it is quite possible that international trade may hurt particular groups within nations—in other words, that international trade will have strong effects on the distribution of income.

  Trade can alter the distribution of income between workers and the owners of capital.

2. The pattern of trade

- Some aspects of the pattern of trade are easy to understand. Climate and resources clearly explain why Brazil exports coffee and Saudi Arabia exports oil.
- Why does Japan export automobiles, while the United States exports aircraft?
- There are various different models that try to explain the reason behind the pattern of trade.

"Who sells what to whom" have been a major question of international economics.

3. How much trade?

- After World War II the advanced democracies, led by the United States, pursued a broad policy of removing barriers to international trade; this policy reflected the view that free trade was a force not only for prosperity but also for promoting world peace.
- In 2016, Britain shocked the political establishment by voting to leave the European Union, which guarantees free movement of goods and people among its members.

  Conflicts of interest within nations are usually more important in determining trade policy than conflicts of interest between nations.

4. Balance of payments

- The balance of payments (BOP) tracks international transactions. When funds go into a country, a credit is added to the balance of payments ("BOP"). When funds leave a country, a deduction is made.
- The balance of payments includes both the current account and capital/financial account.
  - The current account (CA) includes a nation's net trade in goods and services, its net earnings on cross-border investments, and its net transfer payments.
  - The capital/financial account (FA) consists of a nation's transactions in financial instruments and central bank reserves.
  - The sum of all transactions recorded in the balance of payments should be zero; however, exchange rate fluctuations and differences in accounting practices may hinder this in practice.

  The BOP has become a central issue for the United States because the nation has run huge trade deficits every year since 1982.

3 Introduction to International Finance

4 International Trade Models

5 The Instruments of Trade Policy

6 The Political Economy of Trade Policy

7 Trade Policy in Developing Countries

8 Controversies in Trade Policy

9 National Income Accounting

10 Exchange Rates and the Foreign Exchange Market

11 Money, Interest Rates, and Exchange Rates

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15 Developing Countries Growth, Crisis, and Reform

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