

COURSE SYLLABUS
API-102I
Economic Analysis of Public Policy:
International Economics
Spring 2017

<u>Instructor</u>	<u>Office</u>	<u>Assistant</u>
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Class Time: Tuesdays and Thursdays at 2:45-4:00pm in L140

Review Sessions: Fridays, 10:15-11:30 am in L140.

Office hours: to be posted on the Canvas Course Page

COURSE DESCRIPTION

This course is designed for students interested in an introduction to international economics, including topics such as the balance of payments, exchange rates, monetary and fiscal policy, and trade policy. The course will help students to understand how central banks affect the money supply, and the implications of monetary policy for exchange rates and trade. We will also discuss some aspects of international monetary system and multilateral institutions. The course stresses policy topics that are topical (but often timeless). It is intended to provide an introduction to select economic and policy issues for advanced economies, and emerging and developing countries.

PREREQUISITE

A knowledge of economics at the level of API-101 is assumed. Students who have taken ITF-610 or ITF-620 and have also taken API-121 or ITF-220 should probably not take this section of API-102.

GRADING

Problem Sets:	10%
Midterm Exam:	30%
Conference Presentation:	20%
Conference Report:	10%
Final Exam:	30%

EXAMS and CONFERENCE

There will be a midterm and a final exam. These exams will be closed book and closed notes. All students are expected to be present on that day. In addition to the exams, students (working in groups) must also choose a country and prepare a presentation on the difficulties faced during and in the aftermath of the 2008-2009 Global Crisis, a description of the (monetary and fiscal) policy tools employed, and an assessment of the results obtained. The findings will be presented at the Conference sessions before the Spring Break. Each student must also submit a short report on the lessons from the

policies taken during the Crisis, based on the Conference presentations.

PROBLEM SETS:

- 1) You are expected to turn in your answers to the problem sets. Although problem sets will not be graded in detail, they will be corrected by the course assistants. Detailed answers will also be posted on the course website for you to review.
- 2) Problem sets must be handed in at the beginning of class (in the classroom) on the day they are due. Late problem sets will not be evaluated.
- 3) You may work on the problem sets in small groups. However, answers must be written up **individually, in your own words**. Sharing of electronic documents in the preparation of your answers is not permitted. Please put the names of your study group member(s) on your problem set. Duplicate answers will be penalized as if the assignment were not submitted at all and subject to disciplinary review.

CLASS PARTICIPATION AND ENGAGEMENT

We strongly believe that student participation can substantially enrich the learning experience for both the students and the instructor. In this spirit, class participation is encouraged. Effective class participation requires that you read the assigned readings *before* coming to class. You are encouraged to ask questions, to share relevant insights you have from previous experiences, and to treat your classmates' participation with courtesy. We only ask that questions and comments be brief and related to the topic at hand.

REGRADE POLICY

Requests for reconsideration of grades on exams are not encouraged, and will be accepted only in writing, with a clear statement of what has been mis-graded, and within one week of receiving your graded exam. Please submit your full exam so grading on all questions can be reconsidered.

All course activities, including class meetings, homework assignments, and exams are subject to the HKS Academic Code and Code of Conduct.

READINGS

The required textbook is Paul R. Krugman, Maurice Obstfeld, and Marc Melitz (KOM henceforth) *International Economics: Theory and Policy*. Please note that any earlier editions of this book are perfectly acceptable. Additionally, slides used in lectures, lecture notes, the syllabus, and selected readings will be posted on the Course Website.

COURSE SCHEDULE

*Readings are tentative and subject to change.
Lecture slides will be provided.*

January 24	Topic: Course Overview and Introduction to International Macroeconomics <i>We describe the road map for the class and provide examples of the issues will handle throughout the semester.</i>
January 26	Topic: National Income Accounting and the Balance of Payments Required reading: KOM Chapter 13 <i>We introduce the key building blocks of an open economy.</i>
January 31	Topic: Exchange Rates and the Foreign Exchange Market: An Asset Approach Required reading: KOM Chapter 14. <i>We study how the exchange rate is determined and how it relates domestic and foreign prices.</i>
February 2	Topic: Money, Interest Rates, and Exchange Rates Required reading: KOM Chapter 15. <i>We combine the exchange rate with the money market.</i>
February 7	Topic: Output and the Exchange Rate in the Short Run Required readings: KOM Chapter 16 & Chapter 17. <i>We introduce the market for goods and integrate it with our analysis of the exchange rate and money markets.</i>
February 9	Topic: Output and the Exchange Rate in the Short Run II Required reading: KOM Chapter 16 & Chapter 17. <i>We continue by looking at the effects of monetary and fiscal policies and the differences between permanent and temporary policy shocks.</i>

February 14	<p>Topic: <i>Fixed Exchange Rates and Foreign Exchange Intervention</i></p> <p>Required reading: KOM Chapter 18</p> <p><i>We look at fixed exchange rates and highlight the differences with a flexible system.</i></p>
February 16	<p>Topic: <i>Fixed Exchange Rates, Reserves, and Crisis</i></p> <p>Required readings: KOM Chapter 18.</p> <p><i>We continue discussing fixed exchange rates and look at the importance of international reserves and at crisis episodes</i></p>
February 21	<p>Topic: <i>Alternative Exchange Rate Regimes</i></p> <p>Required reading: TBA</p> <p><i>We look at the real-world alternatives to the flexible and fixed exchange regimes.</i></p>
February 23	<p>Topic: <i>The Euro and the Optimal Currency Areas</i></p> <p>Required reading: KOM Chapter 21</p> <p><i>We look at the case of the euro zone.</i></p>
February 28	<p>Topic: <i>Financial Globalization and Capital Flows</i></p> <p>Required reading: KOM Chapter 20</p> <p><i>We look at the pros and cons of the international financial system</i></p>
March 2	Midterm Exam
March 7	Conference on countries' responses to the Global Crisis, Part I
March 9	Conference on countries' responses to the Global Crisis, Part II
March 14	Spring Break
March 16	Spring Break
March 21	<p>Topic: Closing Remarks on Open Macroeconomics</p> <p><i>We conclude the Macro section of the course by drawing some conclusions from the main topics we covered and pointing out the big open questions.</i></p> <p>Conference reports due.</p>
March 23	<p>Topic: From Macro to Micro "Trade and Jobs"</p> <p>Required Reading N Gregory Mankiw, Macroeconomics Chapter 5 The Open Economy, "The Effects of Trade Policies" in Section 5-3.</p>

	<p>Edwards, Lawrence and Robert Lawrence, Rising Tide Peterson Institute for International Economics, Chapters 1 and 3</p> <p><i>We study the links between the trade balance, trade policy and employment as well as why the share of manufactured jobs has declined over time.</i></p>
March 28	<p>Topic: <i>Comparative Advantage and the gains from trade.</i></p> <p>Required Reading: KOM Chapter 3.Labor Productivity and Comparative Advantage: The Ricardian Model.</p> <p><i>We study the gains from trade that come from exploiting comparative advantage. We also briefly discuss dynamic gains and gains when countries are similar.</i></p>
March 30	<p>Topic: <i>Winners and Losers from Trade.</i></p> <p>Required Reading: KOM Chapter 5 pp .80-88.</p> <p>Optional. Alt, James E. and Michael Gilligan “The Political Economy of Trading States: Factor Specificity, Collective Action Problems and Domestic Political Institutions” reprinted in Jeffery A. Frieden and David A. Lake (eds) International Political Economy: Perspectives on Global Power and Wealth, (Thomson Wadsworth) 2000, pp. 327 – 334.</p> <p><i>We develop theories that help us decide who gains and who might lose</i></p>
April 04	<p>Topic: <i>Trade Policies, Tariffs and Effective Protection.</i></p> <p>Required Reading: KOM Chapter 9 pages 192-203</p> <p><i>We explore how tariffs affect welfare.</i></p>
April 06	<p>Topic: <i>Trade Policies, Quotas</i></p> <p>Required Reading: KOM Chapter 9 pages 205 – 211.</p> <p><i>We consider the pros and cons of using tariffs or quotas.</i></p>
April 11	<p>Topic: <i>Market Failure and Trade Policy in an Open Economy</i></p> <p>Required Reading: KOM Chapter 10, pages 226 – 229.</p> <p>Corden, W Max, “The Theory of Domestic Divergences” pp. 7 –16. (Sections 2.2, 2.3 and 2.4) and pp. 21- 23 (Section 2.8) in W Max Corden Trade Policy and Economic Welfare. New York: Oxford University Press, 1997.</p> <p>Optional. Cooper, Richard N. “Economic Assumptions of the Case for Liberal Trade.” Chapter 1 in C. Fred Bergsten, ed., Toward a New World Trade Policy. Lexington Books, 1975, pp. 19-31.</p>

	<p>Rodrik, Dani (2010) “Why Doesn’t Everyone Get the Case for Free Trade?” Chapter three in Dani Rodrik, The Globalization Paradox.</p> <p><i>We now reconsider the arguments for trade when there is market failure</i></p>
April 13	<p>Topic: <i>Infant Industries and Industrial Policies.</i></p> <p>Required Reading: KOM The Theory of External Economies, Chapter 7, <i>International Economics</i>. Pp 138 – 150.;</p> <p>KOM Chapter 11, pp 258 – 264.</p> <p>Rodrik, Dani (2004) “Industrial Policy for the Twenty-First Century” paper for Unido Harvard Mimeo pp 1 – 6. Optional read rest of paper.</p> <p>Lawrence, Robert Z (2010) “How Good Politics Results in Bad Policy: The Case of BioFuels Mandates” Belfer Center Discussion Paper 2010-10 pp 1 -5, Optional read rest of Paper.</p> <p><i>We discuss policies to ensure that trade could be beneficial when there is market failure but also point to political and informational problems of applying them</i></p>