

INTERNATIONAL ECONOMICS (EC351)

Course duration: 54 hours lecture and class time (Over three weeks)

Summer School Programme Area: Economics

LSE Teaching Department: Department of Economics

Lead Faculty: Dr Gianluca Benigno and Dr Swati Dhingra (Dept. of Economics)

Pre-requisites: Intermediate microeconomics and macroeconomics, knowledge of single variable calculus.

Course Organisation:

The course starts on Monday, 18 June 2018, and runs for three weeks. On each teaching day there is a three hour lecture and a one and a half hour class. The material covered in the first part of the course (international trade) will be examined in the mid-term exam. The material covered in the second half of the course (international macroeconomics) will be examined in the final exam. The exact time and location of the exams will be announced by the Summer School Office. Your final grade for the course is the average of the grade on the mid-term and final exams.

Course Content:

This course provides an analysis of the economic relationships between countries, covering both trade and monetary issues. The first half of the course deals with international trade theory and policy. It focuses on a number of classic questions such as: Why do countries trade with each other? What are the effects of trade on welfare and the income distribution? What are the effects of various barriers to trade and economic integration? We will also look at recent work on the role of firm heterogeneity in international trade and the links between globalisation and inequality.

The second half of the course considers international macroeconomic issues. This part of the course starts by laying out the balance of payments accounts and open economy income identities. The course then focuses on some of the key questions in open economy macroeconomics and relates them to current events and policy issues. For example it discusses the issues of global imbalances and provides a framework for understanding why countries run large current account surpluses or deficits; it discusses the determination of nominal exchange rates and what it means for a currency to be over or undervalued; it reviews episodes of currency and financial crisis (such as the Asian Crises in the late 1990s and the collapse of the Exchange Rate Mechanism in 1992) and provides a framework for interpreting such events along with an analysis of the alternative policy options; it focuses also on critical aspects of the current policy environment such as the issue of a liquidity trap and the implication of high debt and deleveraging.

The material covered is not mathematically complex, but it is taught in a formal and rigorous manner, which assumes a good familiarity with basic economic concepts. The level of teaching is similar to that of the upper-undergraduate level International Economics course taught at the LSE during the regular School year.

Main Textbook and Required Readings:

The main text for the course is Paul Krugman, Maurice Obstfeld and Marc Melitz *International Economics: Theory and Policy* 10th Edition (Global Edition), Pearson Education. The 9th and earlier editions of this textbook cover very similar material. Note that the chapter numbering in earlier editions is different from the 10th and 9th edition. The textbook will be complemented with a few additional required readings which are indicated with an asterisk (*) in the reading list below.

Formative Assessment/s

One problem set for each part of the course (International trade and international macroeconomics) would be graded. For International Trade the assessment will be problem set 2 and the feedback will be provided by Monday of week two. For international Macro the assessment will be problem set 2 and the feedback will be provided by Monday of week three.

Summative Assessments

Format and weighting: Two hour mid-session examination (50%)

Date: Tuesday of week two

Results due: By Monday of week three

Format and weighting: Two hour final examination (50%)

Date: Friday of week three

Results due: Within a week of final exam

The precise time and location of the exams will be circulated during the programme.

Further Readings:

The reading list contains a few further readings (without an asterisk *) which provide more background to a specific topic, but are not required readings and not included in the course pack.

Part 1: International Trade

(1) Introduction and Patterns of Trade

- *Krugman, Obstfeld & Melitz: chapters 1 and 2.
- *Krugman, Paul (1993) "What do Undergrads Need to Know about Trade?" American Economic Review 83 (2): 23-26.
- Feenstra, Robert C. (1998) "The Integration of Trade and Disintegration of Production in the Global Economy," Journal of Economic Perspectives, 12(4), 31-50.
- Leamer, Ed (2007) "A Flat World, a Level Playing Field, a Small World after All, or None of the above? A Review of Thomas L. Friedman's 'The World is Flat'," Journal of Economic Literature, (45)1, 83-126.

(2) The Ricardian Model

- *Krugman, Obstfeld & Melitz: chapter 3
- *Krugman, Paul "Ricardo's Difficult Idea" available online at:
<http://web.mit.edu/krugman/www/ricardo.htm>

(3) The Specific Factors Model

- *Krugman, Obstfeld & Melitz: chapter 4.

(4) The Heckscher-Ohlin Model

- *Krugman, Obstfeld & Melitz: chapter 5.

(5) Increasing Returns to Scale

- *Krugman, Obstfeld & Melitz: chapter 8.
- *Krugman, Paul (1979) "Increasing Returns, Monopolistic Competition, and International Trade," Journal of International Economics, 9, 469-79.

(6) The Effects of Trade Policy

- *Krugman, Obstfeld & Melitz: chapter 9.

(7) Trade and Heterogeneous Firms

- *Krugman, Obstfeld & Melitz: chapter 8.
- *Bernard, Andrew, Bradford Jensen, Steve Redding and Peter Schott (2007) "Firms in International Trade," *Journal of Economic Perspectives*, 21(3), 105-130.
- Bernard, Andrew and Bradford Jensen (1999) "Exceptional Exporter Performance: Cause, Effect, or Both?" *Journal of International Economics*, 47(1), 1-25.

(8) Trade and Inequality

- Topalova, Petia (2010) "Factor Immobility and Regional Impacts of Trade Liberalization: Evidence on Poverty from India," *American Economic Journal: Applied Economics*, 2(4), 1-41.
- Autor, David, David Dorn and Gordon Hanson (2013) "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review* 103(6): 2121-68.

Part 2: International Macroeconomics

(1) The Balance of Payments and Open Economy Identities

- *Krugman, Obstfeld & Melitz: chapter 13.

(2) Global Imbalance and European Imbalances; The Intertemporal Model of the Current Account

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- *Krugman, Obstfeld & Melitz: chapter 6 pages 167-170 and appendix chapter 6.
- Obstfeld and Rogoff, *Foundations of International Macroeconomics*, chapter 1.
- "Is the US current account sustainable? Implications for the foreign exchange market?". Tille: The Impact of Exchange Rate Movements on U.S. Foreign Debt.
- Doley, M., D. Folkerts-Landau and P. Garber (2003). "An essay on the revived Bretton Woods System". NBER Working Paper No. 9971.

(3) Asset Markets and the Nominal Exchange Rate

- *Krugman, Obstfeld & Melitz: chapters 14 and 15.

(4) Price Levels and the Exchange Rate in the Long Run

- *Krugman, Obstfeld & Melitz: chapter 16.

(5) Output and Exchange Rates in the Short Run

- *Krugman, Obstfeld & Melitz: chapter 17.
- Krugman, Obstfeld & Melitz: online appendix for chapter 17.

(6) Fixed Exchange Rates and Currency Crises

- *Krugman, Obstfeld & Melitz: chapters 18 and 19.
- Krugman, Paul (1979) "A Model of Balance-of-Payments Crises," *Journal of Money, Credit and Banking*, 11, 311-325.

(7) Financial Crises, Deleveraging and the Liquidity Trap

- *Bianchi, J. (2011). "Overborrowing and Systemic Externalities", *American Economic Review*, Vol. 101, pp. 3400-3426.
- Mendoza, E. (2010). "Sudden Stops, Financial Crisis and Leverage", *American Economic Review*, Vol. 100, pp. 1941-1966.
- Eggertsson, G. and P. Krugman (2011). "Debt, Deleveraging and the Liquidity Trap: A Fisher-Minsky-Koo Approach", *Quarterly Journal of Economics*, vol. 123.

(8) Capital Controls: a survey of the recent literature

- *Schmitt-Groher, Stephanie and Martin Uribe (2014). "Prudential Policies for Peggers" mimeo, Columbia University.
- *Obstfeld, Maurice and Kenneth Rogoff (1996). *Foundations of International Macroeconomics*, chapter 1 (pages 42-45).
- *Costinot, A., G. Lorenzoni and I. Werning (2012). "A Theory of Capital Controls as Dynamic Terms-of Trade Manipulation", *Journal of Political Economy*, University of Chicago Press, vol. 122(1), pages 77-128.

Credit Transfer: If you are hoping to earn credit by taking this course, please ensure that you confirm it is eligible for credit transfer well in advance of the start date. Please discuss this directly with your home institution or Study Abroad Advisor.

As a guide, our LSE Summer School courses are typically eligible for three or four credits within the US system and 7.5 ECTS in Europe. Different institutions and countries can, and will, vary. You will receive a digital transcript and a printed certificate following your successful completion of the course in order to make arrangements for transfer of credit.

If you have any queries, please direct them to summer.school@lse.ac.uk