Course title: International Economics			
Course code: UEO 306	**No. of credits:** 4	**L-T-P:** 60-0-0	**Learning hours:** 60
Pre-requisite course code and title (if any): Intermediate Macroeconomics-I, Intermediate Microeconomics-I or Intermediate Microeconomics-II, Intermediate Macroeconomics-II			
Department: Policy and Management Studies			
Course coordinator: Dr. Malvika Tyagi		**Course instructor:** Guest Faculty	
Contact details: malvika.tyagi@terisas.ac.in			
Course type: Major		**Course offered in:** Semester 6	

Course description:

This course is divided broadly into three themes. Following an introductory module that will provide an overview of global trade, the discussions will focus on the trade theories under competition with a focus on the Ricardian principle of comparative advantage and the Hecksher-Ohlin model. These are followed by discussions of the theory of international trade under imperfect competition.
The second theme of the course is trade policy in which the instruments of policy, the basis of implementing the non-tariff measure, and the political economy of trade policy will be discussed.
Finally, the course will focus on the dynamics of the foreign exchange markets, the role of money with exchange rates, the determination of output in an open economy and the role of policies therein.

Course objectives:

1. To acquaint the students with various theories of international trade.
2. To provide exposure to the students with the various instruments of international trade policy.
3. To understand the political economy of trade policy.
4. To understand the dynamics of the foreign exchange market.
5. To understand the short-run equilibrium in an open economy and the role of polices.
6. To provide understanding the balance of payments crisis.

Course contents

Module	Topic	L	T	P
1.	**Introduction: An Overview of Global Trade** - The gains from trade, patterns of trade and the determinants of trade	4		
International Trade Theory				
2.	**Classical Trade Theory: The Ricardian Principle of Comparative Advantage** - Labour productivity as the basis of comparative cost advantage - Gains from trade in a one-factor (of production) world	4		
3.	**Neoclassical Trade Theories with Perfect Competition** - Specific Factors Model: impact(s) of international trade on factor earnings and its distribution - Hecksher-Ohlin Model: Roles of factor abundance and factor intensities in determining the patterns of international trade - Factor price equalization and Leontief's Paradox	10		

4.	**Neoclassical Trade Theory with Differentiated Products and Imperfect Competition** - Trade under monopolistic competition - Intra-industry trade and the gravity equation	4		
International Trade Policy				
5.	**The Instruments of Trade Policy** - Under perfect competition - Under imperfect competition - Issues related to labour and environmental standards	8		
6.	**The Political Economy of Trade Policy** - Political economy of protection and the myth of free trade	8		
Open Economy Macroeconomics				
7.	**Exchange Rate and the Role of Money in an Open Economy** - Exchange rate regimes: fixed and floating exchange rates - The foreign exchange market - Money and exchange rate in the short and long runs - The dynamics between inflation and exchange rate	10		
8.	**Determination of Output in the Short Run** - Determination of aggregate demand in the open economy - Short-run equilibrium in an open economy - Impacts of changes in monetary and fiscal policies	6		
9.	**Interventions in the Foreign Exchange Market** - Stabilization policies under the fixed exchange rate - Balance of payments crisis	6		
	Total (in hours)	60		

Evaluation criteria

1. Minor 1: Written test [after the completion of Modules 1, 2, 3 and 4] – 35% [learning outcome 1]
2. Minor 2: Project report [after the completion of Modules 5 and 6] – 25% [learning outcome 2]
3. Major exam: Written test [after the completion of the course; based on Modules 7, 8, and 9] – 40 % [learning outcome 3]

Learning outcomes

After the completion of the course, students will develop:

1. Comprehensive understanding of the theories of international trade under perfect and imperfect competition.
2. Various instruments of trade policy and the political economy of trade policy.
3. Comprehensive understanding of the foreign exchange market, the impact of the exchange rate on the monetary and the real variables.

References

Textbooks

Krugman, P., Obstfeld, M., & Melitz, M. (2017). International Economics: Theory and Policy (ninth edition), Addison-Wesley.
Feenstra, R. C., & Taylor, A. M. (2012). International Economics (third edition), Worth Publishers.

CORE reading materials (module-wise):

Module 1: Introduction: An Overview of Global Trade

Krugman, P., Obstfeld, M., & Melitz, M. (2017). Chapters 1 and 2 in International Economics: Theory and Policy, ninth edition, pp. 1-23.

Module 2:

Krugman, P., Obstfeld, M., & Melitz, M. (2017). Chapter 3 in International Economics: Theory and Policy, ninth edition, pp. 24-49.
[**Additional Readings:** Samuelson, P. A. (2004). 'Where Ricardo and Mill rebut and confirm arguments of mainstream economists supporting globalization', *Journal of Economic Perspectives*, 18(3), pp. 135-146].

Module 3:

Feenstra, R. C., & Taylor, A. M. (2012). Chapter 3 in International Economics (third edition), Worth Publishers, pp. 59-87.
Krugman, P., Obstfeld, M., & Melitz, M. (2017). Chapter 5 in International Economics: Theory and Policy, ninth edition, pp. 80-109.
Feenstra, R. C., & Taylor, A. M. (2012). Chapter 4 in International Economics (third edition), Worth Publishers, pp. 88-120.
[**Additional Readings:** Krugman, P., Obstfeld, M., & Melitz, M. (2017). Chapter 4 in International Economics: Theory and Policy (ninth edition).
Krugman, P. R., & Lawrence, R. Z. (2008). *Trade, job and wages*, Available at, https://www.scientificamerican.com/article/krugman-trade-jobs-wages/?print=true].

Module 4:

Feenstra, R. C., & Taylor, A. M. (2012). Chapter 6 in International Economics (third edition), Worth Publishers, pp. 165-194.

Module 5:

Feenstra, R. C., & Taylor, A. M. (2012). Chapters 8 and 9, in International Economics (third edition), Worth Publishers, pp. 233-321.
Krugman, P., Obstfeld, M., & Melitz, M. (2017). Chapter 12 in International Economics: Theory and Policy, ninth edition, pp. 271-291.
[**Additional Reading:**
Lin, J., & Chang, H. J. (2009). Should Industrial Policy in developing countries conform to comparative advantage or defy it? A debate between Justin Lin and Ha-Joon Chang. *Development policy review*, *27*(5), 483-502.]

Module 6:

Chang, H. J. (2007). Kicking away the ladder: the "real" history of free trade in A. Shaikh (ed.) *Globalization and the Myths of Free Trade: History, Theory and Empirical Evidence*, pp. 23-49.

Module 7:

Feenstra, R. C., & Taylor, A. M. (2012). Chapter 13, in International Economics (third edition), Worth Publishers, pp. 436-467.
Krugman, P., Obstfeld, M., & Melitz, M. (2017). Chapter 15 in International Economics: Theory and Policy, ninth edition, pp. 357-372.

Module 8:

Krugman, P., Obstfeld, M., & Melitz, M. (2017). Chapter 17 in International Economics: Theory and Policy, ninth edition, pp. 421-461.

Module 9:

Krugman, P., Obstfeld, M., & Melitz, M. (2017). Chapter 18 in International Economics: Theory and Policy, ninth edition, pp. 463-478.

Pedagogical Approach: – Classroom lectures
Additional information (if any): **Course prepared by:** Dr. Shantanu De Roy
Student responsibilities: Attendance, feedback, discipline: as per university rules.

Course reviewers:

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Dr. Seema Sangita,
Associate Professor, Centre for Economic Studies and Planning, Jawaharlal Nehru University.