

BOĞAZIÇI UNIVERSITY
International Trade Management
Graduate Program

INTT511 International Economics and World Trade

2013 – 2014 First Semester

Lecture Hours: Tuesday 14.00 – 17.00

Instructor: Dr. Altay Atli (altay.atli@boun.edu.tr)

Office Hours: Tuesday 13.00 – 14.00 or by appointment.

Course description: The objective of this course is to provide students with the ability to analyze policy issues related to international economics. The course starts with providing general outlook of Turkey in changing global political economy. The first part of the course provides a background in international economics, covering historical development of international trade theory from Adam Smith and David Ricardo to today in an attempt to understand why nations trade, how they trade, how and why trade patterns shift, and what macroeconomic and microeconomic effects trade has on an economy. The second part of the course is devoted to reviewing the international trade policies. It presents the theoretical and practical framework necessary to understand international financial flows and dynamics. Special emphasis will be placed on current trade issues and the problems of economic integration. The last section of the course analyzes challenges that nations face in the 2000s and policies adopted to regulate international trade. The specific focus of our discussions will be the readings and case studies. Students will prepare a term project either focusing on a specific trade policy issue or a country case.

Course responsibilities: It will be assumed that students have taken the undergraduate courses in micro economic and macro-economic theory or have the equivalent background. The following indicators will be used to assess your performance.

- **Attendance and Participation:** Perfect attendance is expected for this class. Students are allowed only ONE absence per semester (exceptions made for illness, under the condition that the reason of absence is officially documented). Excessive absence from class will automatically result in a failure of the course regardless of your performance on graded exams, as per departmental regulations.
- **Examinations:** One midterm and final have been scheduled for this class. These exams will stress synthesis and application, not memorization.
- **Term Project:** The term project will be done individually and will analyze a specific issue in international economics. The topics must be approved.
- **Grading:** Midterm 30% / Term project 30% / Final exam 40%.

Academic honesty: Boğaziçi University has the following rules and regulations regarding academic honesty.

- Copying work from others or giving and receiving answers/information during exams either in written or oral form constitutes cheating.
- Submitting take-home exams and papers of others as your own, using sentences or paragraphs from another author without the proper acknowledgement of the original author, insufficient acknowledgement of the consulted works in the bibliography, all constitute plagiarism.

- Plagiarism and cheating are serious offenses and will result in:
 - an automatic “F” for the assignment or the exam.
 - an oral explanation before the Ethics Committee.
 - losing the opportunity to request and receive any references from the entire faculty.

Lecture schedule and readings:

Students are expected to do the readings before coming to the class. These readings are meant to supplement the discussions made at the class.

Week 1 (September 24th)

Introduction to International Trade

- Trade and the global economy.
- Changing patterns of international trade.
- Tools of analysis for international trade models.
 - Methodology of economics.
 - General equilibrium model.
 - Price determination.
 - National demand and supply.

Readings:

- Castells, M. (2005). “Global Informational Capitalism”, in D. Held and A. McGrew (eds.) *The Global Transformations Reader*, Cambridge: Polity Press, pp.311-334.
- Maddison, A. (2008). “The West and the Rest in the World Economy: 1000-2030”, *World Economics*, 9(4), pp.75-99.
- Uchitelle, L. (2008). “Hey, Big Number, Make Room for the Rest of Us”, *New York Times*, August 31.
- World Trade Organization (2013), “World Trade Report: Factors Shaping the Future of World Trade”, Geneva: WTO (read the Executive Summary, feel free to browse through the full report, available at http://www.wto.org/english/res_e/publications_e/wtr13_e.htm)

Week 2 (October 1st)

General Outlook: Turkey in Changing Global Political Economy

- Turkish experience in historical perspective.
 - Crises.
 - Transformations.
- Fundamentals of the Turkish economy.
- Turkish economy after the global crisis.
 - Turkey’s foreign economic relations.
 - Strengths and weaknesses.
 - Turkey and the BRICS.

Readings:

- Öniş, Z. and Kutlay, M. (2013). “Rising Powers in a Changing Global Order: The Political Economy of Turkey in the Age of BRICs”, *Third World Quarterly*, 34(8) (forthcoming).
- Hakura, F. (2013). “After the Boom: Risks to the Turkish Economy”,

Chatham House Briefing Paper.

- Kirişci, K. (2013). “Turkey and the Transatlantic Trade and Investment Partnership”, *Turkey Project Policy Paper*, Washington DC: Brookings Institution.
- “The Turkish Economy: Strong But Vulnerable”, *The Economist*, June 15, 2013.

Week 3 (October 8th)

The Classical Model of International Trade

- Trade based on absolute advantage.
- Trade based on comparative advantage.
- Gains from trade.
- General equilibrium solution of the classical model.

Readings:

- Husted, S. and Melvin, M. (2013). “Chapter 3: The Classical Model of International Trade”, in *International Economics*, Essex: Pearson.
- Porter, M.E. (1990). “The Competitive Advantage of Nations”, *Harvard Business Review*, March-April.
- Maneschi, A. (2009) “Comparative Advantage,” in K.A. Reinert, R.S. Rajan, A.J. Glass, and L.S. Davis (eds.), *The Princeton Encyclopedia of the World Economy*, Princeton University Press, pp.198–205.
- Dizikes, P. (2012). “Economists Find Evidence for Famous Hypothesis of Comparative Advantage”, *MIT News*, June 20.
- Bradsher, K. (2010) “Amid Tension, China Blocks Vital Exports to Japan”, *New York Times*, September 22.

October 15th

NO CLASS (KURBAN BAYRAMI)

Week 4 (October 22nd)

The Neo-Classical Trade Model

- The Heckscher-Ohlin Model.
- The factor-proportions theorem.
- The factor-price equalization theorem.
- The Stolper-Samuelson theorem.
- The Rybczynski theorem.

Readings:

- Husted, S. and Melvin, M. (2013). “Chapter 4: Heckscher-Ohlin Model”, in *International Economics*, Essex: Pearson.
- Dunn, R.M. and Mutti, J.H. (2004). “Trade Between Dissimilar Countries: Insights from the Factor Proportions Theory”, in *International Economics*, London: Routledge, pp.51-81.

October 29th

NO CLASS (NATIONAL HOLIDAY)

BUT: Term project proposals due to be submitted to the instructor through email!

Week 5 (November 5th)

Testing the Trade Models

- Tests of the classical model.
- Tests of the neo-classical model.
- Leontief paradox.
- Alternative theories of comparative advantage.
 - Human skills theory
 - The product life cycle theory
 - Similarity of preferences theory.
- Intra-Industry trade.

Readings:

- Husted, S. and Melvin, M. (2013). “Chapter 5: Tests of Trade Models: The Leontief Paradox and Its Aftermath”, in *International Economics*, Essex: Pearson.
- Vernon, R. (1966). “International Investment and International Trade in the Product Cycle”, *Quarterly Journal of Economics*, 80(2), pp.190-207.
- Kumagai, S. (2008). “A Journey Through the Secret History of the Flying Geese Model”, IDE Discussion Papers, Tokyo.

Week 6 (November 12th)

International Trade and Economic Growth

- Trade and development.
- Growth theories.
- International flows of factors.
- Free trade versus fair trade.

Readings:

- Gilpin, R. (2001). “New Economic Theories” in *Global Political Economy: Understanding the International Economic Order*, Princeton: Princeton University Press, pp.103-128.
- Dunn, R.M. and Mutti, J.H. (2004). “Trade and Growth”, in *International Economics*, London: Routledge, pp.223-241.
- World Trade Organization (2008). “Ten Benefits of the WTO Trading System”, Geneva: WTO.
- World Fair Trade Organization (2009). “A Charter of Fair Trade Principles”, WFTO.

November 19th

MID-TERM EXAM

Week 7 (November 26th)

Instruments of Trade Policy

- Tariffs.
- Non-tariff barriers.
- Arguments for protection.
- Political economy of trade policy.

Readings:

- Husted, S. and Melvin, M. (2013). “Chapter 6: Tariffs”, in *International Economics*, Essex: Pearson.
- Husted, S. and Melvin, M. (2013). “Chapter 7: Non-Tariff Barriers and Arguments for Protection”, in *International Economics*, Essex: Pearson.
- Reinert, K.A. (2012). “The Political Economy of Trade”, in *An Introduction to International Economics*, New York: Cambridge University Press, pp.57-75.
- Krugman, P. (2007). “Trouble With Trade”, *New York Times*, December 28.

Week 8 (December 3rd)

National Income Accounting and the Balance of Payments

- BOP accounting.
- BOP equilibrium and adjustment.
- Capital flows and developing economies.
- Global imbalances.
- Theories of the current account.

Readings:

- Husted, S. and Melvin, M. (2013). “Chapter 8: The Balance of Payments”, in *International Economics*, Essex: Pearson.
- Ghosh, A. and Ramakrishnan, U. (2012). “Current Account Deficits: Is There a Problem?”, *Finance & Development*, IMF online.
- Lim, W. (2013). “Global Imbalances, Financial Crisis and Economic Recovery”, in *Think Tank 20: The G-20 and Central Banks in the New World of Unconventional Monetary Policy*, New York: Brookings Institution.
- Karabell, Z. (2009). “The Global Imbalances Myth”, *Wall Street Journal*, December 31.

Week 9 (December 10th)

Exchange Rates and the Foreign Exchange Market

- The foreign exchange rate market.
 - Supply and demand.
 - Spot versus forward rates.
 - Fixed versus floating exchange rates.
- Exchange rate behavior.
- Interest rate parity.
- Purchasing power parity.
- Currency manipulation.

Readings:

- Krugman, P., Obstfeld, M. and Melitz, M.J. (2012). “Exchange Rates and the Foreign Exchange Market: An Asset Approach”, in *International Economics*, Boston: Addison-Wesley, pp.320-353.
- Eichengreen, B. (2012). “When Currencies Collapse”, *Foreign Affairs*, January/February issue.
- Subramanian, A. (2011). “Projecting Economic and Currency Dominance”, in *Eclipse: Living in the Shadow of China’s Economic Dominance*, Washington DC: Peterson Institute for International Economics, pp.99-118.

- Gagnon, J.E. (2012). “Combating Widespread Currency Manipulation”, *Policy Brief*, Washington DC: Peterson Institute for International Economics.
- “My Money is Bigger Than Yours”, *The Economist*, June 15, 2012.

Week 10 (December 17th)

Governance of International Trade

- WTO.
- Preferential trade agreements.
- Regionalism versus multilateralism.

Readings:

- Hoekman, B.M and Kostecki, M.M. (2009). “The World Trade Organization”, in *The Political Economy of the World Trading System: The WTO and Beyond*, Oxford: Oxford University Press, pp.57-83.
- Husted, S. and Melvin, M. (2013). “Chapter 9: Preferential Trade Agreements”, in *International Economics*, Essex: Pearson.
- Bhagwati, J. (2008) “Why PTAs are a Pox on the World Trading System”, in *Termites in the Trading System: How Preferential Trade Agreements Undermine Free Trade*, New York: Council of Foreign Relations, pp.49-88.
- Palacio, A. (2013). “The Regional Route to Global Free Trade”, *Project Syndicate*, August 1.
- Boskin, M.J. (2013). “Transatlantic Trade Goes Global”, *Project Syndicate*, July 16..

Week 11 (December 24th)

International Production

- Foreign market entry.
- Foreign direct investment.
- Multinationals and the international economy.
- Regionalization of manufacturing and services.

Readings:

- Gilpin, R. (2001). “The State and the Multinational” in *Global Political Economy: Understanding the International Economic Order*, Princeton: Princeton University Press, pp.103-128.
- Tachiki, D. (2005). “Between Foreign Direct Investment and Regionalism: The Role of Japanese Production Networks”, in T.J. Pempel (ed.) *Remapping East Asia: The Construction of a Region*, New York: Cornell University Press, pp.149-169.
- United Nations Conference on Trade and Development (2013), “World Investment Report: Global Value Chains Investment and Trade for Development”, New York and Geneva: UNCTAD (read the Key Messages, feel free to browse through the full report, available at http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

Week 12 (December 31st)

A Changing World

- Financial globalization.
- Impact of rising energy and commodity prices.
- Outsourcing and offshoring.
- The China factor.

Wrap-up session.

IMPORTANT: Term projects due to be submitted to the instructor!

Readings:

- Blinder, A.S. (2006). “Offshoring: The Next Industrial Revolution?”, in *Foreign Affairs*, 85(2), pp.113-128.
- McNally, C.A. (2012). “Sino-Capitalism: China’s Reemergence and the International Political Economy,” in *World Politics*, 64(4), pp.741-776.
- Krugman, P., Obstfeld, M. and Melitz, M.J. (2012). “Financial Globalization: Opportunity Crisis”, in *International Economics*, Boston: Addison-Wesley, pp.586-618.
- McNally, R. and Levi, M. (2011). “A Crude Predicament: The Era of Volatile Oil Prices”, *Foreign Affairs*, July/August issue.

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