Course Description:

We economists traditionally divide the general field of International Economics into two subfields: International Finance and International Trade. In this course we will ignore this division. We will start by studying models from International Trade — the Ricardian model, the Heckscher-Ohlin model, and variants of the New Trade Theory model of increasing returns and monopolistic competition. By emphasizing dynamic general equilibrium versions of these models, we will develop tools compatible with modern, general equilibrium macroeconomics. We will then use these sorts of models to address a number of topics, some of which are typically studied in International Finance courses. Specifically, we will try to answer the questions: (1) Why did static applied general equilibrium models of the North American Free Trade Agreement do such a poor job in predicting its impact on trade flows? (2) How can we best model real exchange rate fluctuations and the relationship of these fluctuations to international capital flows? (3) How can we use dynamic general equilibrium models to analyze the causes and consequences of international financial crises like those that afflicted Mexico in 1994-1995 and Argentina in 2001-2002? (4) How does trade liberalization affect a country’s growth rate?

Readings:

Copies of many of the readings will be available on the course web site: http://www.econ.umn.edu/~tkehoe/classes/8401-06.

There is no textbook for this course. A good textbook in international trade — which will be especially useful the first few weeks of the course for anyone who has not studied international trade previously — is


The best textbook in open economy macroeconomics is


Office Hours:

Wednesday, 9:00 am - 11:00 am. (There is a sign-up sheet on my door.)

Walter W. Heller Hall 1168 625-1589. (Please do not call me at home; send me e-mail at tkehoe@econ.umn.edu.)
Assignments:

There will be four problem sets, a group project, and a final exam. All assignments must be completed in order to receive a final grade for the course.

Grading:

The mark for each problem set will be counted once and the mark for the group project and the mark for the exam will be counted twice, providing a total of eight marks. The lowest of these marks will be dropped and the remaining marks averaged. Notice that this means that, if the lowest grade is that of the group project or that of the exam, its weight will be halved, but it will not be completely dropped.

Group Project:

Students will form groups to work on projects. Each group will consist of two, three, or four students. Topics for projects will be related to empirical issues in international economics, such as empirical tests of the Heckscher-Ohlin model, or to issues of current policy relevance, such as the costs and benefits of dollarization. Each group will make a one hour presentation of its research at the end of the course.

Late Policy:

Any late assignment will be penalized 10 (out of 100) points for each class period it is late, up to a maximum of 40 points.

Cooperation on Assignments:

Students are permitted (and encouraged) to discuss the answers to problem sets together. Copying from another student's answers is not allowed. No cooperation on the final is allowed.

Guidelines for Defining Scholastic Dishonesty:

“Scholastic dishonesty is any act that violates the rights of another student with respect to academic work or that involves misrepresentation of a student's own work. Scholastic dishonesty includes (but is not limited to) cheating on assignments or examinations, plagiarizing (misrepresenting as one's own anything done by another), inventing or falsifying research or other findings with the intent to deceive, submitting the same or substantially similar papers (or creative work) for more than one course without consent of all instructors concerned, depriving another of necessary course materials, and sabotaging another's work.” (CLA Classroom, Grading & Examination Procedures, http://www.class.umn.edu:81/cgep/5.html.)

Penalties for scholastic dishonesty of any kind in any course will entail an “F” for the particular assignment/exam or the course. Please check http://www.osai.umn.edu for information on Student Academic Misconduct.
List of Topics and Readings:

0. Traditional Trade Theory


Feenstra, Chapters 1-3.


1. Increasing Returns and Imperfect Competition

Feenstra, Chapter 5.


2. Dynamic Trade


Obstfeld and Rogoff, Chapters 4 and 5.


3. **Models with Heterogeneous Firms**


4. **Empirical Evidence**


5. **Applied General Equilibrium Analysis of Trade Policy**

Feenstra, Chapter 6.


6. **Real Exchange Rates**


C. M. Betts and T. J. Kehoe, “U.S. Real Exchange Rate Fluctuations and Relative Price Fluctuations,” University of Minnesota and University of Southern California, 2005.


Obstfeld and Rogoff, Chapters 8, 9, 10.


7. **Capital Flows and Crises**


Obstfeld and Rogoff, Chapters 5, 6, 7.


Please note: I will take the material in topic 0 for granted, reviewing some of it selectively throughout the course. We will cover topics 1, 2, and 3 and some of topic 4 for sure. We will not have time to do all of topics 4, 5, 6, and 7. I hope to cover at least two of these four topics.