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 and are currently occurring in the Eurozone? (4) How does trade liberalization affect a country’s growth rate?

Office Hours:

Tuesday, 9:00 am – 9:50 am at 4-175 Herbert M. Hanson Jr. Hall, 612-625-1589. There is a sign-up sheet outside my door. During some weeks, the office hours will be on some other day than Tuesday, but that will always be posted on the sign-up sheet. If you need to meet at some other time, please do not call me at home; send me an e-mail message at tkehoe@umn.edu.

Assignments and Grading:

There will be four or five problem sets, a group project, and a final exam. All assignments must be completed in order to receive a final grade for the course. 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. 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 (but not one student). Topics for projects will be related to empirical issues in international economics, such as predictions of the gravity “model” for world trade flows, or
to issues of current policy relevance, such as the modeling financial crises. Each group will make a 50 minute 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.

**Readings:**

Copies of many of the readings will be available on the course web site.

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


Costas Arkolakis has an excellent set of notes, some of which follow the approach here, but go far beyond them based on his own research:


The best textbook in open economy macroeconomics is


We will also spend time talking about depressions and crises. A useful reference is


This book has a web page with data sets, computer programs, and a link to the book’s web page at Amazon.com:

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


Obstfeld and Rogoff, Chapters 8, 9, 10.


7. Capital Flows and Crises


Note:

We will take the material in topic 0 for granted, reviewing some of it selectively throughout the course. We will cover topics 1, 2, 3, and some of topic 4 for sure. We will not have time to do all of topics 5, 6, and 7. We hope to cover at least one of these three topics (probably 7).

Student Conduct Code:

The University seeks an environment that promotes academic achievement and integrity, that is protective of free inquiry, and that serves the educational mission of the University. Similarly, the University seeks a community that is free from violence, threats, and intimidation; that is respectful of the rights, opportunities, and welfare of students, faculty,
staff, and guests of the University; and that does not threaten the physical or mental health or safety of members of the University community.

As a student at the University you are expected adhere to Board of Regents Policy: *Student Conduct Code*. To review the Student Conduct Code, please see: [http://regents.umn.edu/sites/default/files/policies/Student_Conduct_Code.pdf](http://regents.umn.edu/sites/default/files/policies/Student_Conduct_Code.pdf).

Note that the conduct code specifically addresses disruptive classroom conduct, which means "engaging in behavior that substantially or repeatedly interrupts either the instructor's ability to teach or student learning. The classroom extends to any setting where a student is engaged in work toward academic credit or satisfaction of program-based requirements or related activities."

**Use of Personal Electronic Devices in the Classroom:**

Using personal electronic devices in the classroom setting can hinder instruction and learning, not only for the student using the device but also for other students in the class. To this end, the University establishes the right of each faculty member to determine if and how personal electronic devices are allowed to be used in the classroom. For complete information, please reference: [http://policy.umn.edu/Policies/Education/Education/STUDENTRESP.html](http://policy.umn.edu/Policies/Education/Education/STUDENTRESP.html).

**Scholastic Dishonesty:**

You are expected to do your own academic work and cite sources as necessary. Failing to do so is scholastic dishonesty. Scholastic dishonesty means plagiarizing; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; altering, forging, or misusing a University academic record; or fabricating or falsifying data, research procedures, or data analysis. (Student Conduct Code: [http://regents.umn.edu/sites/default/files/policies/Student_Conduct_Code.pdf](http://regents.umn.edu/sites/default/files/policies/Student_Conduct_Code.pdf)) If it is determined that a student has cheated, he or she may be given an "F" or an "N" for the course, and may face additional sanctions from the University. For additional information, please see: [http://policy.umn.edu/Policies/Education/Education/INSTRUCTORRESP.html](http://policy.umn.edu/Policies/Education/Education/INSTRUCTORRESP.html).

The Office for Student Conduct and Academic Integrity has compiled a useful list of Frequently Asked Questions pertaining to scholastic dishonesty: [http://www1.umn.edu/oscai/integrity/student/index.html](http://www1.umn.edu/oscai/integrity/student/index.html). If you have additional questions, please clarify with your instructor for the course. Your instructor can respond to your specific questions regarding what would constitute scholastic dishonesty in the context of a particular class-e.g., whether collaboration on assignments is permitted, requirements and methods for citing sources, if electronic aids are permitted or prohibited during an exam.

**Makeup Work for Legitimate Absences:**

Students will not be penalized for absence during the semester due to unavoidable or legitimate circumstances. Such circumstances include verified illness, participation in intercollegiate athletic events, subpoenas, jury duty, military service, bereavement, and religious observances. Such circumstances do not include voting in local, state, or national
elections. For complete information, please see:
http://policy.umn.edu/Policies/Education/Education/MAKEUPWORK.html.

**Appropriate Student Use of Class Notes and Course Materials:**

Taking notes is a means of recording information but more importantly of personally absorbing and integrating the educational experience. However, broadly disseminating class notes beyond the classroom community or accepting compensation for taking and distributing classroom notes undermines instructor interests in their intellectual work product while not substantially furthering instructor and student interests in effective learning. Such actions violate shared norms and standards of the academic community. For additional information, please see: http://policy.umn.edu/Policies/Education/Education/STUDENTRESP.html.

**Grading and Transcripts:**

The University utilizes plus and minus grading on a 4.000 cumulative grade point scale in accordance with the following:

- **A 4.000** - Represents achievement that is outstanding relative to the level necessary to meet course requirements
- **A- 3.667**
- **B+ 3.333**
- **B 3.000** - Represents achievement that is significantly above the level necessary to meet course requirements
- **B- 2.667**
- **C+ 2.333**
- **C 2.000** - Represents achievement that meets the course requirements in every respect
- **C- 1.667**
- **D+ 1.333**
- **D 1.000** - Represents achievement that is worthy of credit even though it fails to meet fully the course requirements
- **S Represents achievement that is satisfactory, which is equivalent to a C- or better.**

For additional information, please refer to:
http://policy.umn.edu/Policies/Education/Education/GRADINGTRANSCRIPTS.html.

**Sexual Harassment**

"Sexual harassment" means unwelcome sexual advances, requests for sexual favors, and/or other verbal or physical conduct of a sexual nature. Such conduct has the purpose or effect of unreasonably interfering with an individual's work or academic performance or creating an intimidating, hostile, or offensive working or academic environment in any University activity or program. Such behavior is not acceptable in the University setting. For additional information, please consult Board of Regents Policy: http://regents.umn.edu/sites/default/files/policies/SexHarassment.pdf
Equity, Diversity, Equal Opportunity, and Affirmative Action:
The University will provide equal access to and opportunity in its programs and facilities, without regard to race, color, creed, religion, national origin, gender, age, marital status, disability, public assistance status, veteran status, sexual orientation, gender identity, or gender expression. For more information, please consult Board of Regents Policy: http://regents.umn.edu/sites/default/files/policies/Equity_Diversity_EO_AA.pdf.

Disability Accommodations:
The University of Minnesota is committed to providing equitable access to learning opportunities for all students. Disability Services (DS) is the campus office that collaborates with students who have disabilities to provide and/or arrange reasonable accommodations. If you have, or think you may have, a disability (e.g., mental health, attentional, learning, chronic health, sensory, or physical), please contact DS at 612-626-1333 to arrange a confidential discussion regarding equitable access and reasonable accommodations. If you are registered with DS and have a current letter requesting reasonable accommodations, please contact your instructor as early in the semester as possible to discuss how the accommodations will be applied in the course. For more information, please see the DS website, https://diversity.umn.edu/disability/.

Mental Health and Stress Management:
As a student you may experience a range of issues that can cause barriers to learning, such as strained relationships, increased anxiety, alcohol/drug problems, feeling down, difficulty concentrating and/or lack of motivation. These mental health concerns or stressful events may lead to diminished academic performance and may reduce your ability to participate in daily activities. University of Minnesota services are available to assist you. You can learn more about the broad range of confidential mental health services available on campus via the Student Mental Health Website: http://www.mentalhealth.umn.edu.

Academic Freedom and Responsibility:
Academic freedom is a cornerstone of the University. Within the scope and content of the course as defined by the instructor, it includes the freedom to discuss relevant matters in the classroom. Along with this freedom comes responsibility. Students are encouraged to develop the capacity for critical judgment and to engage in a sustained and independent search for truth. Students are free to take reasoned exception to the views offered in any course of study and to reserve judgment about matters of opinion, but they are responsible for learning the content of any course of study for which they are enrolled.*

Reports of concerns about academic freedom are taken seriously, and there are individuals and offices available for help. Contact the instructor, the Department Chair, your adviser, the associate dean of the college, or the Vice Provost for Faculty and Academic Affairs in the Office of the Provost.

* Language adapted from the American Association of University Professors "Joint Statement on Rights and Freedoms of Students."