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?

Readings:

The (optional) textbook for this course is:


Copies of most of the other readings will be available on my web site: http://www.econ.umn.edu/~tkehoe/classes/umd-03.

Assignments:

There will be three 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 of the exam, its weight will be halved, but it will not be completely dropped.

**Group Project:**

Students will form groups to work on research 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.

**List of Topics:**

1. **Increasing Returns and Imperfect Competition**


2. Dynamic Trade


Obstfeld and Rogoff, Chapters 4 and 5.


3. Applied General Equilibrium Analysis of Trade Policy


4. Empirical Evidence


5. **Real Exchange Rates**


Obstfeld and Rogoff, Chapters 8, 9, 10.


6. Capital Flows and Crises


Obstfeld and Rogoff, Chapters 5, 6, 7.