

COURSE SYLLABUS
API-102B
Economic Analysis of Public Policy:
International Economics
Spring 2013

Instructor	Office	Assistant	Office
Suzanne Cooper	L112	Pam Mutascio	R207
Robert Lawrence	L316	Jean Dombrowski	L107A

Class Time: Tuesdays and Thursdays at 8:40-10:00 a.m. in L280, **plus one Friday for Quiz #2.**

Review Sessions: Fridays, 10:10-11:30 a.m. in RG-20

COURSE DESCRIPTION

This course is designed for students interested in an introduction to international economics, including the balance of payments, exchange rates, monetary and fiscal policy, and trade policy. The course will help students to understand how central banks affect the money supply, and the implications of monetary policy for exchange rates and trade. We will also discuss how fiscal policy can affect the economy and the economic interactions between countries. Current examples from around the world will be used throughout the course

PREREQUISITE

A knowledge of economics at the level of API-101 is assumed. Students who have taken ITF-110 or ITF-210 and have also taken API-121 or ITF-100 or ITF-220 should probably not take this section of API-102.

This section of API-102 is open only to MPP1 students also enrolled in IGA-100, API-202B (Yanagizawa-Drott) and DPI-101C (Masoud).

GRADING

Problem Sets:	10%
Quiz I	15%
Quiz II	15%
Memo (part of simulation exercise)	15%
Final Exam:	45%

EXAMS

There will be two quizzes and a final exam. These will be closed book and closed notes. All students are expected to be present on each of these days. Please note that one of the quizzes will take place on a FRIDAY.

PROBLEM SETS

- 1) You are expected to turn in your answers to the problem sets. Although problem sets will not be graded in detail, they will be corrected by the course assistants. Detailed answers will also be posted on the course website for you to review.
- 2) Problem sets must be handed in at the beginning of class (in the classroom) on the day they are due. Late problem sets will not be evaluated.
- 3) The lowest problem set grade will be dropped from the calculation of the overall problem set score.
- 4) You may work on the problem sets in small groups. However, answers must be written up ***individually, in your own words***. Sharing of electronic documents in the preparation of your answers is not permitted. Please put the names of your study group member(s) on your problem set. Duplicate answers will be penalized as if the assignment were not submitted at all and subject to disciplinary review.

CLASS PARTICIPATION AND ENGAGEMENT

We strongly believe that student participation can substantially enrich the learning experience for both the students and the instructor. In this spirit, class participation is encouraged. Effective class participation requires that you read the assigned readings *before* coming to class. You are encouraged to ask questions, to share relevant insights you have from previous experiences, and to treat your classmates' participation with courtesy. We only ask that questions and comments be brief and related to the topic at hand.

SIMULATION

We will have a simulation exercise jointly with DPI-101 in early April. The memo assignment will be related to the simulation in which you participate.

REGRADE POLICY

Requests for reconsideration of grades on exams are not encouraged, and will be accepted only in writing, with a clear statement of what has been mis-graded, and within one week of receiving your graded exam. Please submit your full exam so grading on all questions can be reconsidered.

All course activities, including class meetings, homework assignments, and exams are subject to the HKS Academic Code and Code of Conduct.

COURSE SCHEDULE

Readings are tentative and subject to change.

January 29: Gains from Trade: Comparative and Competitive Advantage.

Sykes, Alan O. 1998. "Comparative Advantage and the Normative Economics of International Trade Policy." *Journal of International Economic Law* 1(1): 49-82.

Debate:

Chang, Ha-Joon. "Protectionism. The truth is on a \$10 bill" *The Independent*, 23 July 2007

<http://www.independent.co.uk/news/business/comment/hajoon-chang-protectionism-the-truth-is-on-a-10-bill-458396.html>

Panagariya, Arvind. "Free Trade Skeptics: Wrong Again" *Economic Times*, January 25, 2006

http://www.columbia.edu/~ap2231/ET/et86_January25-06.htm

January 31: Winners and Losers.

Alt, James E. and Michael Gilligan. "The Political Economy of Trading States: Factor Specificity, Collective Action Problems and Domestic Political Institutions" reprinted in Jeffery A. Frieden and David A. Lake (eds) *International Political Economy: Perspectives on Global Power and Wealth*, (Thomson Wadsworth) 2000, pp. 327 – 334.

Debate:

Paul R. Krugman, December 29, 2007 "The Trouble with Trade" *Pittsburgh Post-Gazette*

Robert Z. Lawrence, 2008 "The globalization paradox: More Trade Less Inequality" *Vox EU*

Problem of the Day #1 Due

February 5: Market Failure and Trade Policy Instruments

Kreinen, Mordechi E. 1998. "Protection of Domestic Industries: The Tariff," In *International Economics: A Policy Approach, Euro Update [8th edition]*, Chicago, IL: Dryden Press. pp. 85-112.

Corden, W. Max, “The Theory of Domestic Divergences” pp. 7 –16. (Sections 2.2, 2.3 and 2.4) and pp. 21- 23 (Section 2.8) in W Max Corden Trade Policy and Economic Welfare. New York: Oxford University Press, 1997.

Debate:

Cooper, Richard N. “Economic Assumptions of the Case for Liberal Trade.” Chapter 1 in C. Fred Bergsten, ed., *Toward a New World Trade Policy*. Lexington Books, 1975, pp. 19-31.

Rodrik, Dani (2010) “Why Doesn’t Everyone Get the Case for Free Trade?” Chapter three in D Rodrik, *The Globalization Paradox*.

Problem of the Day #2 Due

February 7: Market Failure in the Open Economy 2.

Required: Paul R Krugman and Maurice Obsfeldt: The Theory of External Economies, Chapter 6, *International Economics*. 2003, pp. 147 – 155.

Debate:

Romer, Christina. “Do Manufacturers Need Special Treatment?” New York Times February 4, 2012.

http://www.nytimes.com/2012/02/05/business/do-manufacturers-need-special-treatment-economic-view.html?_r=0

Krugman, Paul R. “Jobs, Jobs and Cars” New York Times, January 26, 2012.

<http://www.nytimes.com/2012/01/27/opinion/krugman-jobs-jobs-and-cars.html>

Problem of the Day #3 Due

February 12: Trade Rules when Domestic institutions differ.

Charan Devereaux, "Food Fight: The US, Europe and Trade in Hormone-Treated Beef" Kennedy School Case Program N14-02-1677.0.

Problem of the Day #4 Due

February 14: QUIZ

February 19

Introduction to International Macroeconomics

Required Readings:

Krugman, Paul and Maurice Obstfeld, (2009) “National Income Accounting for an Open Economy” in *International Economics, Theory and Policy*, Boston: Addison-Wesley, pp. 293-301.

Salvatore, Dominick, (2010) “The Balance of Payments: Definition and Use,” in *Introduction to International Economics*, John Wiley and Sons, Inc., pp. 261-265.

Optional Readings:

Rodrik, Dani, “New Rules for the Global Economy,” January 10, 2011, *Project Syndicate*, <http://www.project-syndicate.org/commentary/rodrik52/English>

Bok, Derek, “The Official Pursuit of Happiness,” January 4, 2011, *Project Syndicate*, <http://www.project-syndicate.org/commentary/bok1/English>

February 21

Exchange Rates and Capital Flows

Required Readings:

Mankiw, N. Gregory, (2010) “Exchange Rates,” in *Macroeconomics*, New York: Worth Publishers, pp. 135-139 and 143-144.

Krugman, Paul and Maurice Obstfeld, (2009) “The Foreign Exchange Market” in *International Economics, Theory and Policy*, Boston: Addison-Wesley, pp. 321-327.

Chan, Sewell, “Geithner Urges New Start for U.S.-China Relations,” in *The New York Times*,” January 12, 2011.
<http://www.nytimes.com/2011/01/13/business/economy/13treasury.html?scp=1&sq=geithner%20urges%20new%20start%20for%20U.S.-China%20relations&st=cse>

Erdbrink, Thomas and Gladstone, Rick, “Violence and Protest in Iran as Currency Drops in Value,” in *The New York Times*, October 3, 2012.
<http://www.nytimes.com/2012/10/04/world/middleeast/clashes-reported-in-tehran-as-riot-police-target-money-changers.html?smid=pl-share>

Optional Readings:

Dantas, Iuri, “Brazil Trade Surplus Fell 20% Last Year on Currency Gains, Economic Growth,” January 3, 2011, *bloomberg.com*
<http://www.bloomberg.com/news/2011-01-03/brazil-trade-surplus-fell-20-last-year-on-currency-gains-economic-growth.html>

February 26

Fiscal Policy I - Stimulus

Required Readings:

Mankiw, N. Gregory, (2010) "The Goods Market and the IS Curve," in *Macroeconomics*, New York: Worth Publishers, pp. 289-301.

Problem Set Due

February 28

Fiscal Policy II – Deficits and Debt

Required Readings:

Thesing, Gabi, "German Consumer Confidence Will Remain Close to Three-Year High as Households Increase Spending," December 21, 2010, *bloomberg.com*

<http://www.bloomberg.com/news/2010-12-21/german-consumer-confidence-will-remain-close-to-three-year-high-gfk-says.html>

Jacobs, Andrew, "China Politics Stall Overhaul for Economy," in *The New York Times*, September 26, 2012.

<http://www.nytimes.com/2012/09/27/world/asia/chinas-politics-hinder-effort-to-shore-up-economy.html?smid=pl-share>

Mankiw, N. Gregory, "The Blur Between Spending and Taxes," November 20, 2010, *The New York Times*.

<http://www.nytimes.com/2010/11/21/business/economy/21view.html?scp=1&sq=the%20blur%20between%20spending%20and%20taxes&st=cse>

Optional Readings:

Cheremukhin, Anton and Tutino, Antonella, "Cost of Decisionmaking Influences Individual Selections," Economic Letter, Federal Reserve Bank of Dallas, September 2012.

<http://www.dallasfed.org/research/ecllett/2012/e11210.cfm>

James, Harold, "Debt and Democracy," January 5, 2011, *Project Syndicate*

<http://www.project-syndicate.org/commentary/james48/English>

Hassett, Kevin A., "How to Cut \$100 Billion Without Really Crying," January 10, 2010, *American Enterprise Institute for Public Policy Research*

<http://www.aei.org/article/102984>

March 5

Monetary Policy I – Central Banks

Required Readings:

Feenstra, Robert C. and Taylor, Alan M., (2008) “Money Market Equilibrium: Deriving the LM Curve,” in *International Economics*, New York: Worth Publishers, pp. 734-738.

Federal Open Market Committee’s Statement on Monetary Policy, December 12, 2012

<http://www.federalreserve.gov/newsevents/press/monetary/20121212a.htm>

Harding, Robin, “Fed split over when to halt QE3,” in *Financial Times*, January 3, 2013.

<http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/1266339304/13BD8D2721F46446000/35?accountid=11311>

Optional Readings:

Atkinson, Tyler and Koenig, Evan F., “High Unemployment Points to Below-Target (But Still Stable) Inflation, Economic Letter, Federal Reserve Bank of Dallas, October 2012.

<http://www.dallasfed.org/research/eclett/2012/el1212.cfm>

Problem Set Due

March 7:

Monetary Policy II – Quantitative Easing

Required Readings:

Soliani, Andre and Dantas, Iuri, “Brazil Bank Stocks Fall After Reserve Levels Raised to Slow Credit Growth,” December 8, 2010, *bloomberg.com*

<http://www.bloomberg.com/news/2010-12-03/brazil-raises-reserve-requirements-to-remove-36-billion-from-circulation.html>

“The Economic Outlook and Monetary and Fiscal Policy,” Testimony of Chairman Ben S. Bernanke before the Committee on the Budget, U.S. Senate, Washington, DC, July 17, 2012

<http://www.federalreserve.gov/newsevents/testimony/bernanke20120717a.htm>

Optional Readings:

“Why I Do Not Like QE2 – Becker”, The Becker-Posner Blog, November 14, 2010.

<http://www.becker-posner-blog.com/2010/11/why-i-do-not-like-qe2-becker.html>

Yellen, Janet L., Speech at the Brimmer Policy Forum, Allied Social Science Associations Annual Meeting, January 8, 2011.

<http://www.federalreserve.gov/newsevents/speech/yellen20110108a.htm>

“Quantitative Easing – Posner,” The Becker-Posner Blog, November 14, 2010
<http://www.becker-posner-blog.com/2010/11/quantitative-easingposner.html>

“Q&A on QE2: What a Fed Move Would Mean,” November 3, 2010, *The Wall Street Journal*
<http://blogs.wsj.com/economics/2010/11/03/qa-on-qe2-what-a-fed-move-would-mean/>

March 8 (FRIDAY) – QUIZ during review session time (and location)

March 12 Fiscal and Monetary Policy Together

Required Readings:

Lanman, Scott, “Bernanke, Two Officials Express Concern Over Unemployment Rate,” January 7, 2011, *bloomberg.com*
<http://bx.businessweek.com/ben-bernanke/view?url=http%3A%2F%2Fwww.bloomberg.com%2Fnews%2F2011-01-07%2Ffed-officials-signal-they-will-complete-asset-purchases-on-jobless-concern.html>

Taylor, John B, “QE2 and G20,” A Blog by John B. Taylor, November 14, 2010.
<http://johnbtaylorblog.blogspot.com/2010/11/qe2-and-g20.html>

Chan, Sewell, “Bernanke Fearing Fate of Japan, Not Greece,” *The New York Times*, November 5, 2010
<http://www.nytimes.com/2010/11/05/business/05fed.html?scp=1&sq=bernanke%20fearing%20fate%20of%20japan,%20not%20greece&st=cse>

March 14 Net Exports and Exchange Rates

Readings:

Ethier, Wilfred J., (1995), “Relative Price Adjustment: The Elasticity Approach,” in *Modern International Economics*, New York: W.W. Norton and Co., pp. 538-543.

Problem Set Due

March 19 NO CLASS – SPRING BREAK

March 21 NO CLASS – SPRING BREAK

March 26 Mundell-Fleming I

March 28

Mundell-Fleming II

Required Readings:

Feldstein, Martin, "Quantitative Easing and the Renminbi," November 26, 2010
Project Syndicate

<http://www.project-syndicate.org/commentary/feldstein30/English>

Wallsten, Peter and Reddy, Sudeep, "Fresh Attack on Fed Move," November 15,
2010, *The Wall Street Journal*

<http://online.wsj.com/article/SB10001424052748704327704575614853274246916.html>

Problem Set Due

April 2

**The Euro Zone
Readings TBA**

April 4

Simulation: 8:40-11:30 a.m. – using both the API-102 and DPI-101 times

April 9

FINAL EXAM REVIEW

April 11

FINAL EXAM: 8:40-11:30 a.m.