

ECONOMICS 165
International Economics

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Winter 2007-08
Classroom: Meyer Forum
Time: 9:00-10:50 MW

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Course Outline

This course has two parts. The first and major part explores the theoretical foundations of **international trade**, focusing on why nations export what they export, and in what sense international trade is beneficial to trading countries. Also considered will be the possibility that trade policies can be used to pursue national or global objectives. Current policy issues will be examined to demonstrate the usefulness as well as the limitations of the theory. The second part of the course covers selected topics in **international finance**, with emphasis on the foreign exchange market, balance of payments analysis, and the international adjustment process.

Prerequisites: Economics 51 and 52.

Books:

Required: Paul R. Krugman and Maurice Obstfeld, International Economics: Theory and Policy (Seventh Edition: Addison, Wesley 2005).

Recommended: Kyle Bagwell and Robert W. Staiger, The Economics of the World Trading System (MIT Press, 2002).

Grading: There will be one midterm, a final exam, a paper and 6 problems sets. The grading will be as follows:

- 10% - 6 graded problems sets.
- 30% - midterm exam (Wednesday, February 13)
- 20% - paper (due Monday, March 3)
- 40% - final exam (Monday, March 17, 8:30 a.m.-11:30 a.m.)

More information on the paper will be distributed later in the course. Absolutely no papers will be accepted after the end of class on Monday, March 3.

Reading List

A. International Trade

I. Introduction

Chapter 1

II. The Law of Comparative Advantage

1. Pure Exchange
2. Production, Consumption, and Trade
3. Applications

Chapter 5

III. Protection, Industrial Policy and the Economics of Trade Agreements

Chapters 8, 9, 11

Recommended: The Economics of the World Trading System, Chapters 1-5, 8, 10.

IV. Theories of Comparative Advantage

1. Who Trades What with Whom? An Overview.

Chapter 2

2. The Ricardian Model: The 2-Good Model and the Continuum-of-Goods Model.

Chapter 3

Recommended: Dornbusch, R., Fischer, S. and P. Samuelson, "Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods," (*AER*, Dec. 1977).

3. The Specific Factors Model and The Heckscher-Ohlin Model

Chapter 4

V. Alternative Explanations of International Trade

1. Increasing Returns and Imperfect Competition

Chapter 6

B. International Finance

I. The Balance of Payments

Chapter 12

II The Foreign Exchange Market

Chapter 13

III. The International Adjustment Process

Chapters 14-17