International Economic Relations

Purpose of Course: This course provides an introduction to economic relations among countries. The course is primarily designed for international studies majors, but is also appropriate for economics, business, history, or political science majors seeking a comprehensive overview of international economics. We will study the underlying determinants of trade in goods, services and capital among countries along with the policies that nations often use to influence such trade. We will also explore the theory and practice of international macroeconomics and problems of coordinating macroeconomic policies among countries. A central feature of the course includes understanding the usefulness (and limitations) of game theory for explaining international economic interactions. Given the comprehensive coverage of the course, the workload is heavy and expectations for students are high.

Prerequisites: Students will have successfully completed EC 131-132, Principles of Economics.

Office Hours: I will hold office hours on Tuesday and Thursday afternoons from 1:15 to 2:15 in room 485 of the new Administration Building. You are welcome to make an appointment for other times. My office phone number is 552-3688 and my e-mail address is murphyro@bc.edu.

Textbooks: Games of Strategy, first edition, by Avinash Dixit and Susan Skeath, W.W. Norton and Company, 1999, and International Economics: Theory and Policy, sixth edition, by Paul Krugman and Maurice Obstfeld, Addison-Wesley, 2003. Both are available at the BC Bookstore. In addition, Addison-Wesley Publishers has a web site that accompanies the textbook, http://www.aw.com/krugman_obstfeld, on which you will find some useful materials. I encourage you to explore the site and may assign some items during the semester. Finally, I will post problem sets on the course website that are drawn from the problems at the ends of chapters from the textbooks. Answer keys will be posted following the due dates listed. These problems will not be graded, but I urge you to work through them and check the answer keys.

Current Economic News: Occasionally, I will hand out or direct you to additional readings on current international policy issues. I may also post materials on the course web page, which you will find on my homepage: http://www2.bc.edu/~murphyro. I encourage you to follow current international economic issues by reading on a daily basis one of the major national newspapers (e.g., The Wall Street Journal, The New York Times, and The Washington Post). Fortune, The Economics, and Business Week magazines are also good sources for keeping up on economic events. We frequently will discuss in class the relevant economic news of the day.
Grading: Your grade for the course will be based on a mid-term exam (30%) to be given on THURSDAY OCTOBER 23 in class, a scheduled final exam (40%) to be given on FRIDAY DECEMBER 12 at 9:00 A.M., and a research paper (30%). Makeup exams will not be given. If you must miss the mid-term exam (but only with an excuse ahead of time), 70% of your grade will be based on the final exam. Attendance in class is mandatory and class participation will be used to adjust grades up or down by half a grade level.

Research Paper: You will write a research paper (6-8 pages, double-spaced) analyzing a current issue in U.S. international economic policy. The analysis may involve either a trade or macroeconomic issue. A first draft of the research paper will be due NOVEMBER 20. I will return the paper to you with comments by the first class after Thanksgiving, and you will then revise the paper and submit a final version on DECEMBER 9, our last class. Where appropriate, your analysis should draw on the tools we study in the course, including elements of game theory, trade theory, and/or macroeconomic theory. Plagiarism is a serious academic offense and will not be tolerated in this course. When in doubt, cite references.

Course Outline

Part I. An Introduction to Game Theory

1. Introduction and Overview: Dixit and Skeath, Ch. 1-2.
2. Games with Sequential Moves: Dixit and Skeath, Ch. 3.
3. Games with Simultaneous Moves: Dixit and Skeath, Ch. 4.
4. Application—The Cuban Missile Crisis: Dixit and Skeath, Ch. 13.

Part II. International Trade

1. Introduction: Krugman and Obstfeld, Ch. 1.
2. Classical Models: Krugman and Obstfeld, Ch. 2-5.
3. Economies of Scale, Imperfect Competition, and Trade: Krugman and Obstfeld, Ch. 6.
4. The Instruments of Trade Policy: Krugman and Obstfeld, Ch. 8.
5. The Political Economy of Trade Policy: Krugman and Obstfeld, Ch. 9; Dixit and Skeath, Ch. 9.1-9.5.
6. Controversies in Trade Policy: Krugman and Obstfeld, Ch. 11.

*******MID-TERM EXAM THURSDAY, OCTOBER 23, IN CLASS*******
Part III. International Macroeconomics

1. National Income Accounting and the Balance of Payments: Krugman and Obstfeld, Ch. 12.
2. Exchange Rate Determination: Krugman and Obstfeld, Ch. 13-14.
3. The International Macroeconomy in the Short Run: Krugman and Obstfeld, Ch. 16; Optional: Mankiw, Chs. 5 and 12.
4. Fixed Exchange Rates and Foreign Exchange Intervention: Krugman and Obstfeld, Ch. 17.
6. Macroeconomic Policy Coordination: Krugman and Obstfeld, Ch. 19.
7. Currency Unions and the European Experience: Krugman and Obstfeld, Ch. 20.
8. Developing Countries—Growth, Crisis, and Reform: Krugman and Obstfeld, Ch. 22.

*******FINAL EXAM FRIDAY, DECEMBER 12, at 9:00 A.M.*******