

BOSTON COLLEGE  
Department of Economics

EC 271 International Economic Relations  
Fall 2004  
Class: T & Th 10:30  
<http://www2.bc.edu/~murphyro>

Professor Bob Murphy  
21 Campanella Way, Room 485  
Office Hours: T & Th 2:00-3:00  
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### **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. One 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 2:00 to 3:00 in room 485 of 21 Campanella Way. 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](mailto:murphyro@bc.edu).

Textbooks: International Economics: Theory and Policy, sixth edition, by Paul Krugman and Maurice Obstfeld, Addison-Wesley, 2003 and State Power and World Markets: The International Political Economy by Joseph M. Grieco and G. John Ikenberry, Norton, 2003. Both are available at the BC Bookstore. In addition, Addison-Wesley Publishers has a web site that accompanies the Krugman-Obstfeld textbook, [http://www.aw.com/krugman\\_obstfeld](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.

Other Required Books: The Elusive Quest for Growth by William Easterly, MIT Press, 2002 and Globalization and Its Discontents by Joseph E. Stiglitz, Norton, 2002. These books also are available at the BC Bookstore.

For a comprehensive treatment of game theory, a useful text is Games of Strategy, by Avinash Dixit and Susan Skeath, Norton, 1999. From time to time I will assign problem sets that are drawn from the problems at the ends of chapters of the Krugman-Obstfeld textbook. Answer keys will be posted on the course website. 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 Economist, 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 21** in class, a scheduled final exam (40%) to be given on **MONDAY DECEMBER 20 at 9:00 A.M.**, and a policy 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.

Policy Paper: You will write a short, focused policy paper (1500 words maximum) on a current issue in U.S. international economic policy. The analysis should be carefully written in the style of an opinion article or policy brief. As you'll see, this is not an easy exercise since you'll need to be concise while providing a substantive analysis. The paper is due on **DECEMBER 9**, our last class. Where appropriate, your analysis should draw on the tools we study in the course, including trade theory, macroeconomic theory and/or elements of game theory. Plagiarism is a serious academic offense and will not be tolerated in this course. When in doubt, cite references.

## Course Outline

### **I. Introduction to International Economics**

Greico and Ikenberry, Ch. 1.

Krugman and Obstfeld, Ch. 1.

### **II. Economics of International Trade**

#### i. Classic Models

Greico and Ikenberry, pp. 19-43.

Krugman and Obstfeld Ch. 2, 4 and 5.

#### ii. The Instruments of Trade Policy

Krugman and Obstfeld, Ch. 8.

#### iii. The Political Economy of Trade Policy

Krugman and Obstfeld, Ch. 9.

- Greico and Ikenberry, pp. 43-49.
- iv. Economies of Scale, Imperfect Competition, and Trade  
 Greico and Ikenberry, pp. 49-53.  
 Krugman and Obstfeld, Ch. 6.

### **III. Economics of International Money and Finance**

- i. Exchange Rates and the Foreign Exchange Market  
 Krugman and Obstfeld, Ch. 13.  
 Greico and Ikenberry, pp. 57-69.
- ii. National Income Accounting and the Balance of Payments  
 Krugman and Obstfeld, Ch. 12.  
 Greico and Ikenberry, pp. 69-75.
- iii. Macroeconomic Models of the Open Economy  
 Krugman and Obstfeld, Ch. 14, 16-17.  
 Greico and Ikenberry, pp. 76-90.

**\*\*\*\*\*MID-TERM EXAM THURSDAY, OCTOBER 21, IN CLASS\*\*\*\*\***

### **IV. International Economic Integration**

- i. The International Monetary System, 1870-1973  
 Krugman and Obstfeld, Ch. 18.  
 Greico and Ikenberry, pp. 124-140.
- ii. Macroeconomic Policy Coordination Under Floating Exchange Rates  
 Krugman and Obstfeld, Ch. 19.
- iii. European Economic and Monetary Union  
 Krugman and Obstfeld, Ch. 20.  
 Greico and Ikenberry, pp. 140-158.

**V. The Debate Over Economic Globalization**

- i. Controversies in Trade Policy  
Krugman and Obstfeld, Ch. 11.
- ii. Backlash Against Globalization  
Stiglitz, selected chapters.  
Greico and Ikenberry, Ch. 7

**VI. Developing Countries and the Quest for Growth**

- i. Overview  
Easterly, Part I.  
Greico and Ikenberry, pp. 244-251.
- ii. Trade Policy in Developing Countries  
Krugman and Obstfeld, Ch. 10.  
Greico and Ikenberry, pp. 252-258
- iii. Financial Flows and Developing Countries  
Krugman and Obsfeld, Ch. 22.  
Greico and Ikenberry, pp. 258-283.
- iv. Failed Policies to Promote Growth  
Easterly, Part II.
- v. Incentives Really Do Matter  
Easterly, Part III.

**\*\*\*\*\*FINAL EXAM MONDAY, DECEMBER 20, at 9:00 A.M.\*\*\*\*\***