

## Ec271 International Economic Relations

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Office Hours: TTh 4:30-5:30  
or by appointment

### Syllabus

An introduction to international economic relations. The course is intended for international studies majors. Expectations are high in international studies, so the work load is ambitious. Topics include elements of game theory, the theory of international trade and trade policy, and the theory of open economy macroeconomic policy.

Prerequisites: Ec131-132.

#### **Requirements:**

Midterm examination: Feb. 28

Term Paper: April 30

Final Examination: May 7, 9AM

Homework assignments

Class attendance: more than 3 unexcused absences will lower your grade; class participation will be rewarded.

*I never give makeup exams; absences require doctor's written excuses.*

#### ***About the Term Paper:***

You should produce an analysis of a current policy issue in US trade policy. For example, as of Jan. 8, 2002 the US steel industry has pushed for antidumping actions leading to tariffs, quotas or some form of price fixing, and President Bush has promised action. The ITC staff has analyzed the antidumping petitions and the Commission will soon be recommending action to the President.

Plagiarism is a serious academic offense and will not be tolerated in this course. Consult standard definitions of plagiarism to clarify your understanding. When in doubt, cite.

**Textbooks:**

Robert Dunn and John Mutti, *International Economics Fifth Ed*, Routledge, 2000.  
Avinash Dixit and Susan Skeath, *Games of Strategy*, Norton, 1999.

**Websites:**

Besides those listed in Dunn-Mutti, here are some other good ones:

[www.cid.harvard.edu/cidtrade](http://www.cid.harvard.edu/cidtrade) Dani Rodrik's trade negotiations page

[www.wto.org](http://www.wto.org) Lots of detail on cases and some other good information

[www.ustr.gov/reports](http://www.ustr.gov/reports) The USTR official reports page

[www1.worldbank.org/wbiiep/trade/tradeandproduction.html](http://www1.worldbank.org/wbiiep/trade/tradeandproduction.html) The best detailed trade and production database.

## Themes

International economics and international politics are both concerned with relations between *sovereign nations*. These relations have elements of both conflict and cooperation; of mutual benefit as well as loss avoidance.

- Small numbers of autonomous sovereigns interacting non-anonymously.
- National institutions to deal with external affairs and especially international institutions constrain the interactions

International economics is also concerned with markets which happen to be international. Here there is anonymous interaction of large numbers in domestic economic & political markets. These structures provide the context for international economic policy making by sovereigns.

Globalization is good mostly.

## Course Outline

### I. Game Theory

Game theory has a good claim to being the foundation discipline of social science. It applies to all situations where one rational agent interacts with other rational agents such that player A's optimal strategy depends on player B's strategy.

In international economic *relations*, we focus on policy using 'the national policy maker' as the agent or player. Of course this is an enormous oversimplification, since there is no unitary national policy maker, but it is a very useful abstraction. Game theory is the essential tool for analyzing interactions between nation states.

International economics also relies on game theory to describe interactions between private players. For example, home and foreign firms compete in autos, steel, computers, etc. in both home and foreign markets. The active state and the firms of course also interact in a larger game as well. For example, the FTC, the EU Competition Commission and private firms all interact on merger and acquisition issues.

#### 1. Introduction

DS, chs 1,2

## **2. Sequential Move Games**

DS, ch. 3

## **3. Simultaneous Move Games**

DS, ch. 4

## **4. Application: Brinksmanship & the Cuban Missile Crisis**

DS, ch. 13

## **II. Trade Theory**

For many situations, individual private players face large numbers of other players both at home and abroad, and the simpler competitive economic analysis can replace game theory to describe their interactions with each other. Policies such as tariffs are regarded as set by some outside force. Much of trade theory uses this structure.

Trade theory concerns itself with flexible price (full employment) static models of 'real' exchange. Money is suppressed. Why nations trade and whether there are gains from trade are its basic questions. Game theory is used as needed to model imperfectly competitive markets. The effects (and causes) of nations' interventions with trade in this setting are the focus of international trade relations analysis.

### **1. Trade between Dissimilar Countries: I, Classical Theory**

DM, ch. 2

### **2. Trade between Dissimilar Countries: II, Factor Proportions**

DM, ch. 3

### **3. Trade between Similar Countries**

DM, ch. 4

### **4. The Theory of Protection**

DM, ch. 5

### **5. Political Economy of Trade Policy**

DM, ch. 6

### **6. International Political Economy of Trade Policy**

DM, ch. 9

### **7. Regionalism and Trade Policy**

DM, ch. 8

## ***8. International Externalities***

DM, ch. 11

## **III. International Macroeconomic Theory and Policy**

International macroeconomics is concerned with economic relations of open economies where price rigidity can cause unemployment, where monetary arrangements matter and where dynamic elements such as temporary trade balance deficits play a role.

International economic relations here focuses on interactions of monetary policy and exchange rate policy, and related capital market interactions.

### ***1. Balance of Payments Accounting***

DM, ch. 12

### ***2. The Foreign Exchange Market***

DM, ch. 13

### ***3. Open Economy Macro Policy***

#### a. Fixed Exchange Rates

DM, ch. 18

#### b. Flexible Exchange Rates

DM, ch. 19