

**ECON 3224**  
**INTERNATIONAL**  
**ECONOMICS**  
**Spring 2009**

Professor: Gunjan Sharma

Office: Professional 228

Phone: x2-3161

Email: [sharmag@missouri.edu](mailto:sharmag@missouri.edu)

Office Hours: Tue 12.30-1.30

Wed 3.30-5 pm

And by appointment

Course Web Site:

[www.missouri.edu/~sharmag/ECON3224.html](http://www.missouri.edu/~sharmag/ECON3224.html)

for overheads, announcements

# Readings

Textbook: Feenstra & Taylor

*International Economics*

**First Edition**

Topical Readings: Assigned during the semester  
see class and web site announcements

## Course Requirements

.Midterm 1: 19<sup>th</sup> Feb (thur)

.Midterm 2: 2<sup>nd</sup> April (thur)

.Final : 11<sup>th</sup> May (mon)

.Problem sets (3 in number) assigned through the semester

No variation allowed (by University rules)

**NO Make-up exams!**

# Objectives of the course

1. Learn important facts on the global economy
2. Tools of analysis used by economists
3. Empirical evidence !
4. Analyzing the role of trade and finance in the U.S. and world economies – welfare, wages, prices etc
5. Become intelligent readers of news reports/commentary on IT&F issues

## Course Outline

Part 1: Trade Theory, Trade Policy & World Economy

Part 2: International finance and macroeconomics

# Why study international economics?

Era of globalization:

Increasing interactions between countries

- increasing in quantity and variety
- in economics and politics

## Readings

F&T Chapter 1

# Point 1: Increasing importance of International Dependence

## Examples

- Oil Price Shocks (1970's):

*Demonstrates Vulnerability of US economy to actions of other economies.*

- VER's on Auto Imports from Japan (1980's):

*Demonstrates how Trade (& trade policy) can change the structure of production- relocation of factories from Asia to US.*

- South Asian Crisis (1990's):

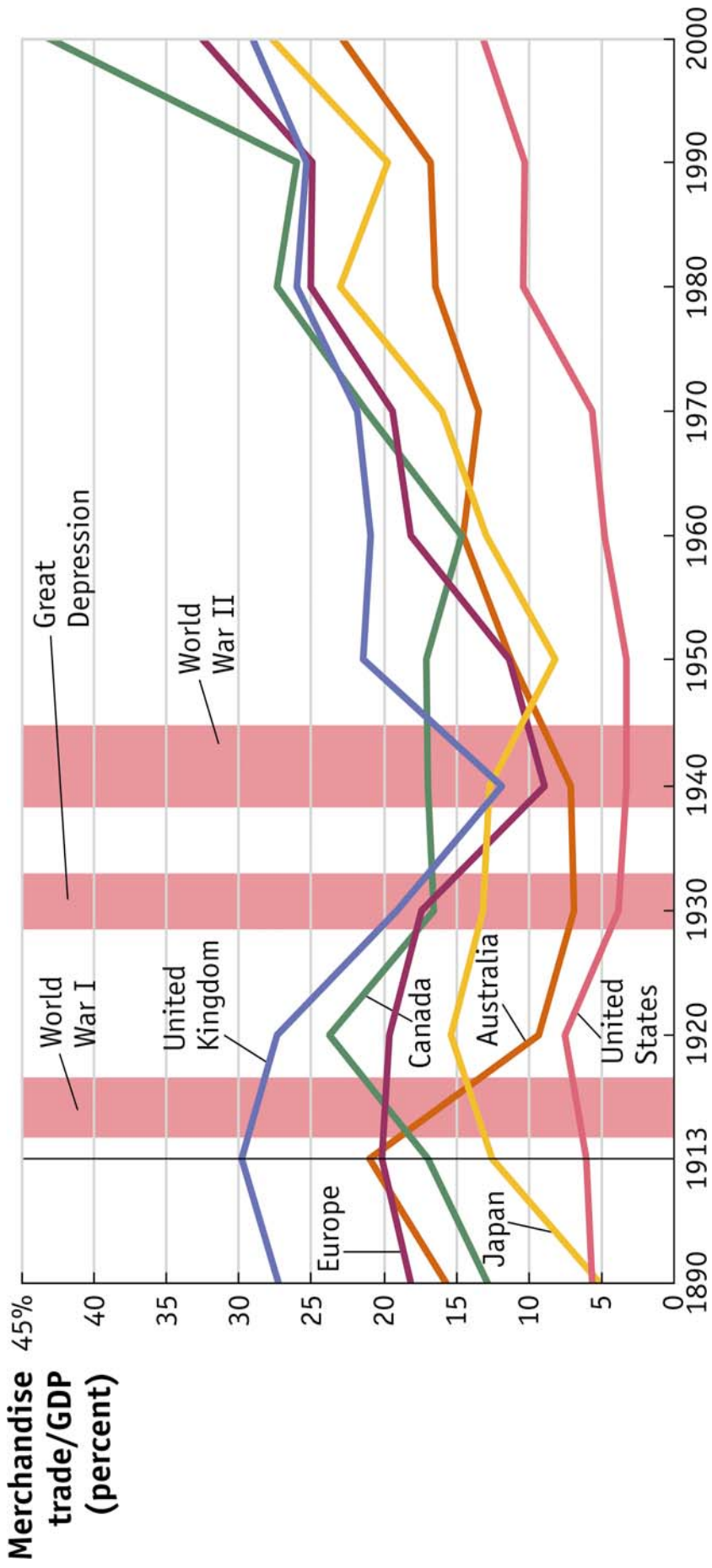
*Demonstrates "Dominoes Effect" - so many economies get affected. Also, Increasing Importance of Developing Countries in World Economy.*

## **Point 2: Indicators of Rising International Dependence**

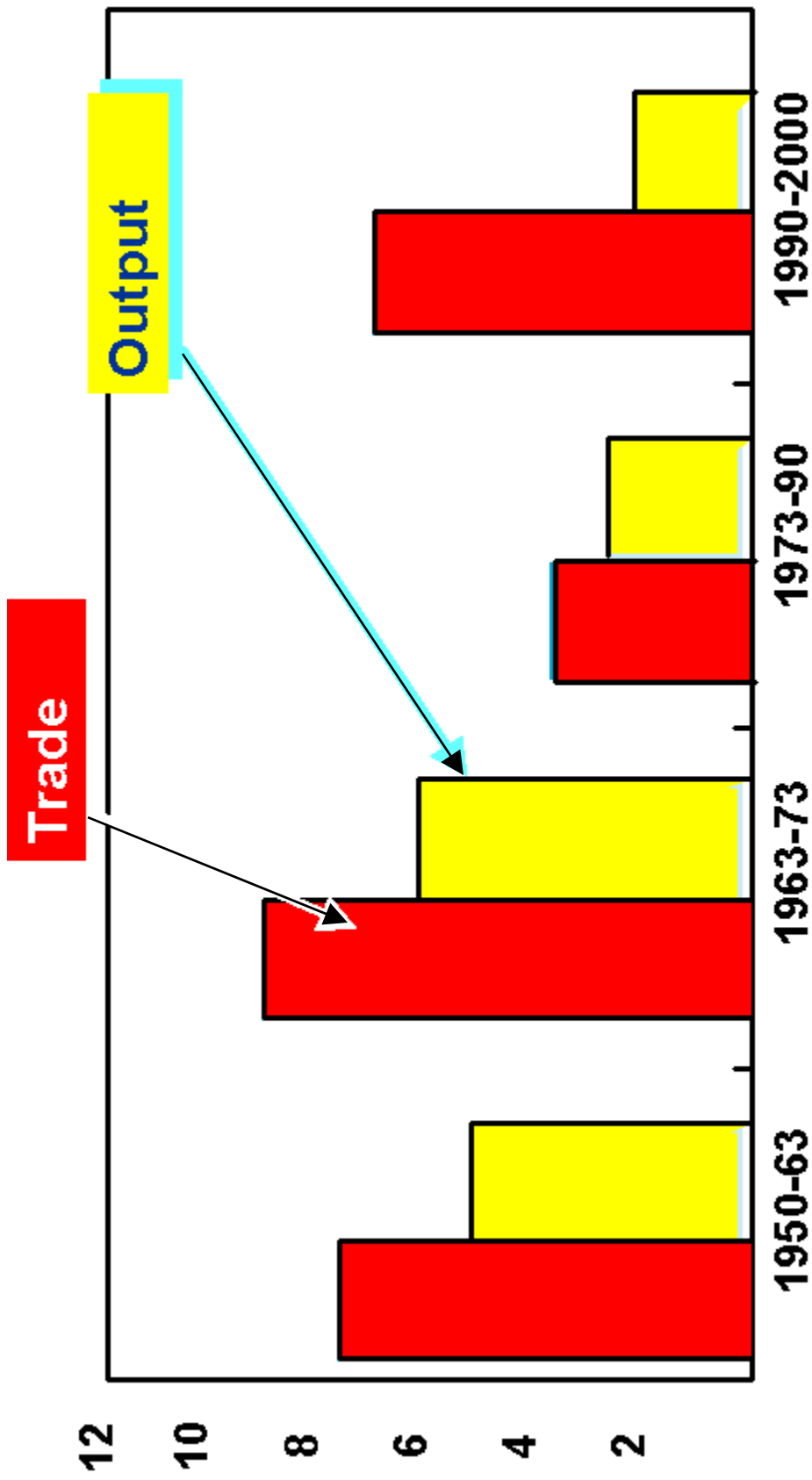
Barbie example in Ch. 1 – difficult to figure out where a good is produced!

Figure 1-3 : Unprecedented and large increases in the magnitude of international trade!!

# Rising Importance of Trade Over time



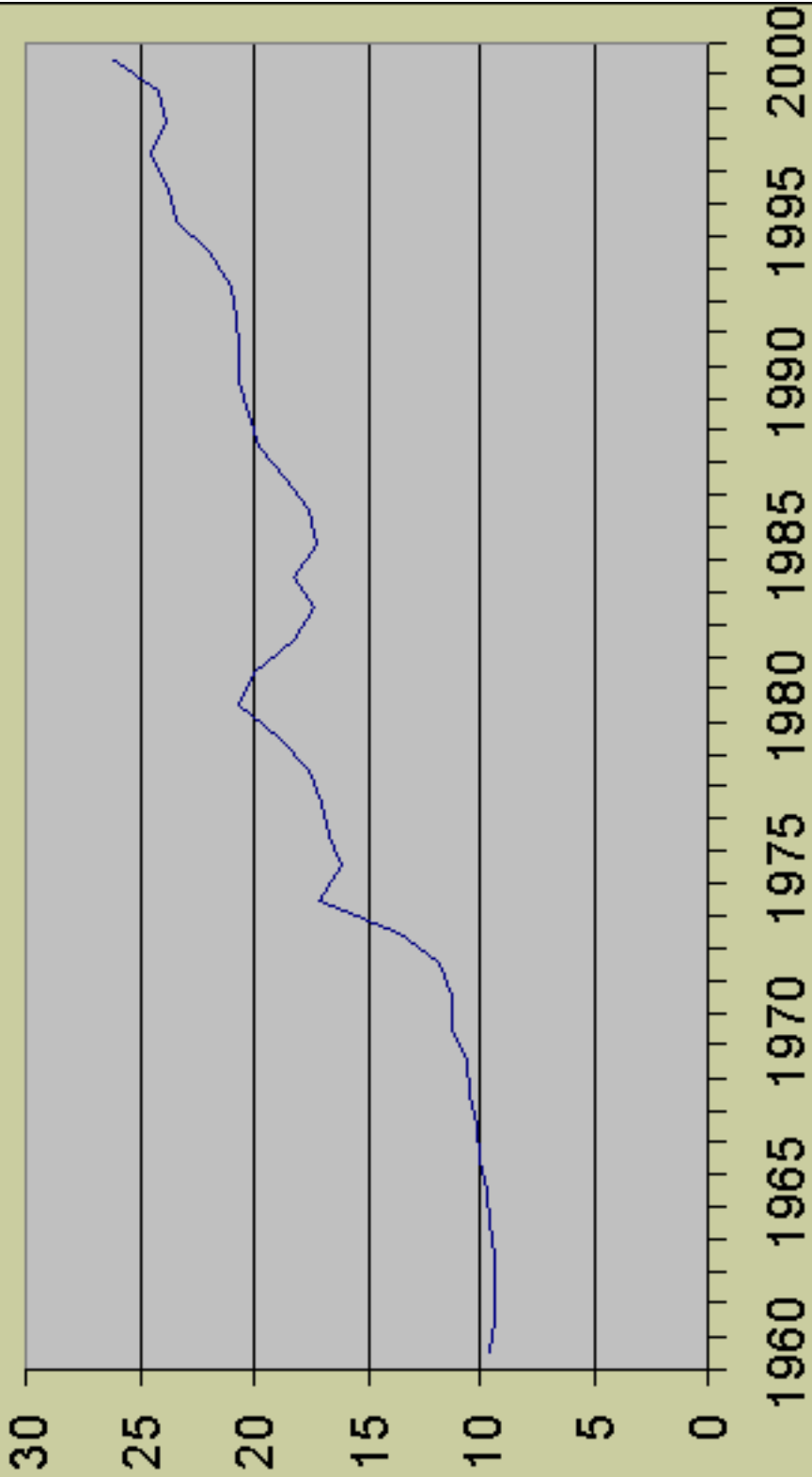
# Growth in World Output and World Trade



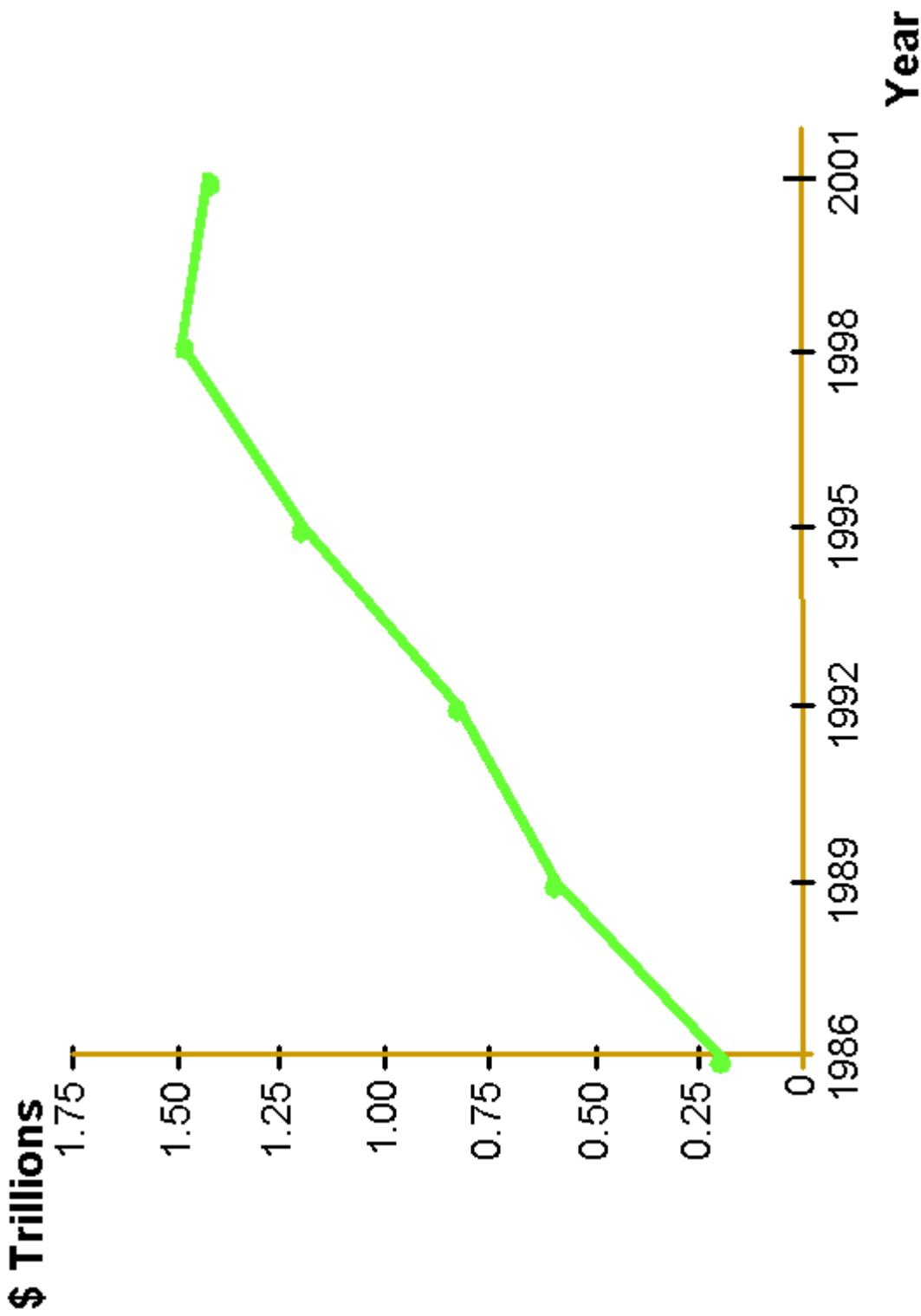
# How important is trade to a country?

<b>Country</b>	<b>Trade/GDP (%)</b>	<b>GDP (\$ billions)</b>
Hong Kong (China)	192%	\$178
Malaysia	111	130
Thailand	75	177
Hungary	68	109
Switzerland	49	366
Sweden	42	354
South Korea	42	788
Denmark	41	254
Germany	38	2,782
Norway	38	284
Canada	36	1,115
Indonesia	35	287
China	33	2,229
Venezuela	31	139
Mexico	31	768
Turkey	31	363
Russian Federation	28	764
Spain	28	1,124
United Kingdom	28	2,193
Greece	28	214
Italy	27	1,723
France	27	2,110
South Africa	24	240
Argentina	22	183
Australia	20	701
India	20	785
Brazil	19	794
Pakistan	18	111
Japan	14	4,506
United States	13	12,455

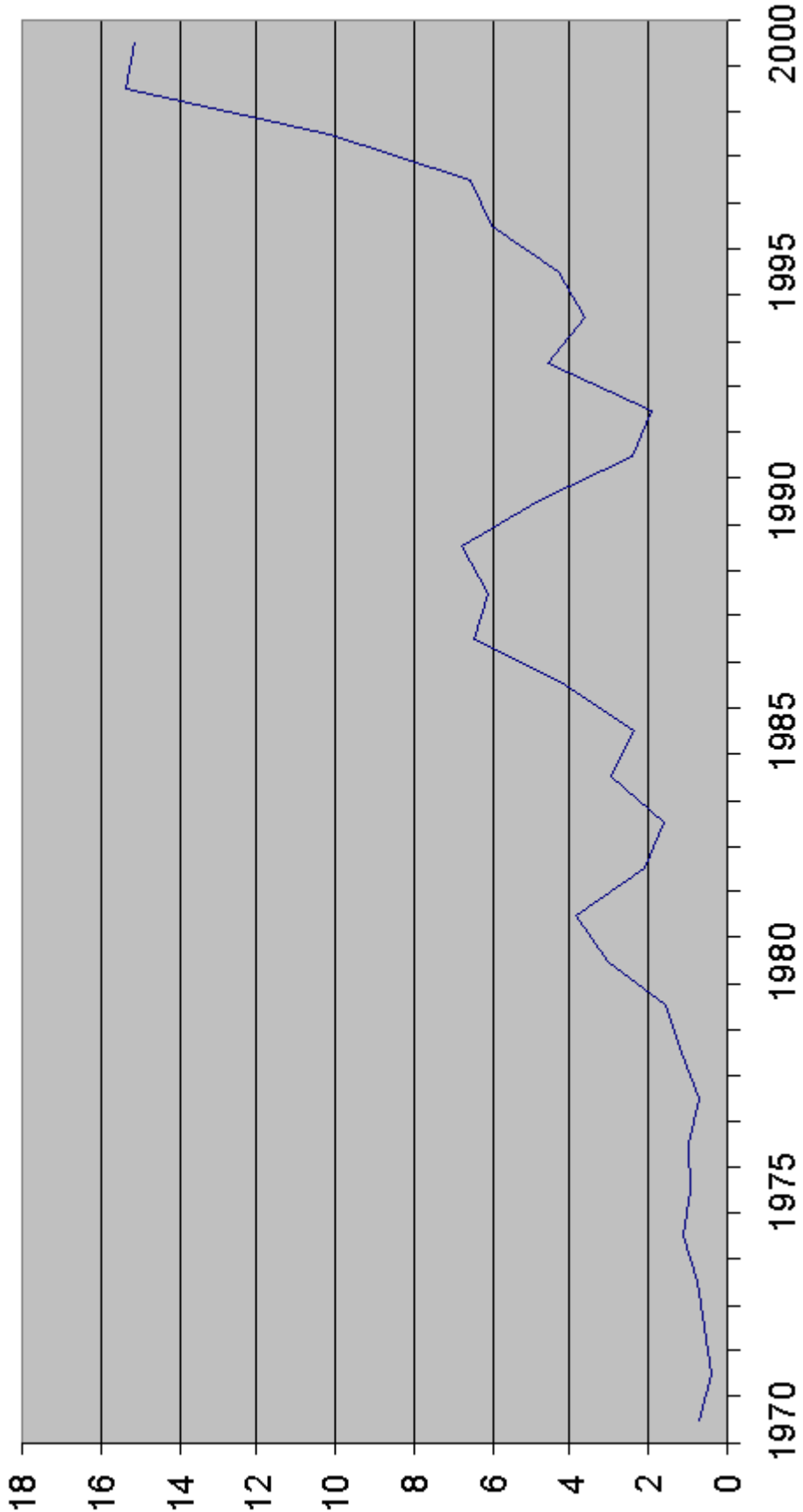
# US Exports plus Imports as a % of GNI



# Daily Turnover in Foreign Exchange Markets



**Foreign direct investment (FDI) into the US as a % of total US investment**



## Point 3: Why is Inter-Dependence Rising?

- Technological Progress: *Drastic Decline in Transportation & Communication Costs over the last century.*
- Rising Standards of Living: *Demand for different types & varieties of goods. Example: Availability of Apples year round in grocery stores possible only due to trade.*
- Awareness of Benefits of trade- *If some good cheaper in other country then better to Import rather than produce at home.*
- Entry of Developing Countries into World Economy- *Russia, China, India, Brazil represent large proportion of World population.*

## Point 4: Consequence of Dependence- Effect on Domestic Policy & Politics

- Microeconomic Policy Example:

*Rise in US Taxes => Firms can shift to Europe or Canada => Essentially “domestic” policy has international consequences.*

*Other examples- Environmental Policy, Anti-trust legislation, Copyright & Patent issues.*

- Macroeconomic Policy (Rate of Interest, Inflation, Exchange rate)

- *Trade affects Aggregate Demand & Supply => affects Prices & Inflation.*

- *Foreign transactions (see graph) affect Money Supply=> affect ROI.*

*Example: South Asian Crisis*

## Point 4: Consequence of Dependence (contd)- Rise of Global Institution

- Needed to Regulate Trade & Finance
- Notion of institutions in economics
  - rules devised by humans
  - enforced or implemented by organizations

### Global institutions

- *to resolve Trade Disputes between countries*  
*e.g. WTO*
- *to provide Market-Supporting Arrangements*  
*e.g. courts; standards ; property rights*
- *to provide Stability in the world economy*  
*e.g. IMF; World Bank*
- *to address Externalities between nations*  
*e.g. WHO (health)*

### Regional and sectoral international institutions

- *to build regional markets*  
*e.g. NAFTA*
- *sectoral governance*  
*e.g. ICANN; IAEA*