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## EC 351 - International Economics

### Summer School 2015

**Course Organisation:** The course starts on Monday, 6 July 2015, and runs for three weeks. On each teaching day there is a three hour lecture and a one and a half hour class. The material covered in the first part of the course (international trade) will be examined in the mid-term exam. The material covered in the second half of the course (international macroeconomics) will be examined in the final exam. The exact time and location of the exams will be announced by the Summer School Office. Your final grade for the course is the average of the grade on the mid-term and final exams.

**Course Content:** This course provides an analysis of the economic relationships between countries, covering both trade and monetary issues. The first half of the course deals with international trade theory and policy. It focusses on a number of classic questions such as: Why do countries trade with each other? What are the effects of trade on welfare and the income distribution? What are the effects of various barriers to trade and economic integration? We will also look at recent work on the role of firm heterogeneity in international trade and the links between globalisation and inequality.

The second half of the course considers international macroeconomic issues. This part of the course starts by laying out the balance of payments accounts and open economy income identities. The course then focuses on some of the key questions in open economy macroeconomics such as: How are nominal exchange rates determined? What does it mean for a currency to be over- or undervalued? Why do countries run large current account surpluses or deficits? What are the benefits of fixed exchange rates or a common currency? Why do some fixed exchange rate regimes end in a currency crisis?

The material covered is not mathematically complex, but it is taught in a formal and rigorous manner, which assumes a good familiarity with basic economic concepts. The level of teaching is similar to that of the upper-undergraduate level International Economics course taught at the LSE during the regular School year.

**Main Textbook:** The main text for the course is Paul Krugman, Maurice Obstfeld and Marc Melitz *International Economics: Theory and Policy* 10th Edition), Pearson Education. The 9th and earlier editions of this textbook cover very similar material. Note that the chapter numbering in earlier editions is different from the 10th and 9th edition. The textbook will be complemented with other readings for some of the topics that we cover.

## **Part 1: International Trade**

### **(1) Introduction and Patterns of Trade**

\*Krugman, Obstfeld & Melitz: chapters 1 and 2

\*Krugman, Paul (1993) "What do Undergrads Need to Know about Trade?" *American Economic Review* 83 (2): 23-26.

Feenstra, Robert C. (1998) "The Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, 12(4), 31-50.

Leamer, Ed (2007) "A Flat World, a Level Playing Field, a Small World after All, or None of the above? A Review of Thomas L. Friedman's 'The World is Flat'," *Journal of Economic Literature*, (45)1, 83-126.

### **(2) The Ricardian Model**

\*Krugman, Obstfeld & Melitz: chapter 3.

\*Krugman, Paul "Ricardo's Difficult Idea" available online at:  
<http://web.mit.edu/krugman/www/ricardo.htm>

### **(3) The Specific Factors Model**

\*Krugman, Obstfeld & Melitz: chapter 4.

### **(4) The Heckscher-Ohlin Model**

\*Krugman, Obstfeld & Melitz: chapter 5.

### **(5) Increasing Returns to Scale and Monopolistic Competition**

\*Krugman, Obstfeld & Melitz: chapter 8.

\*Krugman, Paul (1979) "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics*, 9, 469-79.

### **(6) The Effects of Trade Policy**

\*Krugman, Obstfeld & Melitz: chapter 9.

### **(7) Trade and Heterogeneous Firms**

\*Krugman, Obstfeld & Melitz: chapter 8.

\*Bernard, Andrew, Bradford Jensen, Steve Redding and Peter Schott (2007) "Firms in International Trade," *Journal of Economic Perspectives*, 21(3), 105-130.

Bernard, Andrew and Bradford Jensen (1999) "Exceptional Exporter Performance: Cause, Effect, or Both?" *Journal of International Economics*, 47(1), 1-25.

### **(8) Trade and Inequality**

Topalova, Petia (2010) "Factor Immobility and Regional Impacts of Trade Liberalization: Evidence on Poverty from India," *American Economic Journal: Applied Economics*, 2(4), 1-41.

Autor, David, David Dorn and Gordon Hanson (2013) "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review* 103(6): 2121-68.

## **Part 2: International Macroeconomics**

### **(1) The Balance of Payments and Open Economy Income Identities**

\*Krugman, Obstfeld & Melitz: chapter 13.

### **(2) The Inter-Temporal Model of the Current Account**

\*Krugman, Obstfeld & Melitz: chapter 6 pages 157-160 and appendix to chapter 6.

Feldstein, Martin and Charles Horioka (1980) "Domestic Saving and International Capital Flows," *The Economic Journal*, 90, 314-329.

### **(3) Asset Markets and the Nominal Exchange Rate**

\*Krugman, Obstfeld & Melitz: chapters 14 and 15.

### **(4) Price Levels and the Exchange Rate in the Long Run**

\*Krugman, Obstfeld & Melitz: chapter 16.

### **(5) Output and Exchange Rates in the Short Run**

\*Krugman, Obstfeld & Melitz: chapter 17.

Krugman, Obstfeld & Melitz: online appendix for chapter 17.

### **(6) Fixed Exchange Rates and Currency Crisis**

\*Krugman, Obstfeld & Melitz: chapters 18 and 19.

Krugman, Paul (1979) "A Model of Balance-of-Payments Crises," *Journal of Money, Credit and Banking*, 11, 311-325.

### **(7) Optimum Currency Areas**

\*Krugman, Obstfeld & Melitz: chapter 20

\*Mundell, Robert (1961) "The Theory of Optimum Currency Areas," *American Economic Review*, 51, 717-725.

\*Lane, Philip R. (2012) "The European Sovereign Debt Crisis," *Journal of Economic Perspectives*, 26(3), 49-68.

Ardagna, Silvia, and Francesco Caselli (2014) "The Political Economy of the Greek Debt Crisis: A Tale of Two Bailouts," *American Economic Journal: Macroeconomics*, 6(4): 291-323.

Bunnermeier, Markus K. (2009) "Deciphering the Liquidity and Credit Crunch 2007-2008," *Journal of Economic Perspectives*, 23(1), 77-100.

Note that readings with a \* are required readings for the course. Other material is optional background reading.