

Yale University
Department of Economics

Econ. 476a
Miguel D. Ramirez

Summer 2010

Required Texts:

Set of **Reading Materials (RM)** prepared by the instructor and available as PDF files in the Yale Classes Server; and Douglas A. Irwin, **Free Trade Under Fire, 3rd** (paperback). New Jersey: Princeton University Press, 2009.

- **General Comments.**

The first section introduces the student to the basic trade model as well as recent and important extensions such as intra-industry trade, strategic trade, the new economic geography, and the rise of offshoring. It also examines the political economy of trade policy, beginning with a discussion of the relative benefits and costs of tariffs (quotas) and ending with a critical evaluation of more recent forms of trade protectionism such as antidumping laws and selective subsidies. Finally, it addresses issues related to trade creation and diversion resulting from the creation of regional trading blocs such as NAFTA and the EEC, as well as the proposed FTAA.

Section II delves into important and controversial questions such as whether universal labor standards belong on the international trade agenda and whether the rapid pace of international trade and finance has been responsible for the growing economic divergence and rising income and wage inequality observed both between and within countries. The third section introduces students to the workings of foreign exchange markets in highly integrated capital markets, and addresses the issue of whether exchange rate volatility has been “excessive.” In this connection, it discusses the pros and cons associated with imposing a small (Tobin) tax to reduce exchange rate volatility. Section IV turns its attention to the underlying economic and institutional causes of the Mexican, Asian, Russian, Argentinian, and U.S. economic and financial crises. It presents alternative explanations which contend that these crises, particularly the Asian crisis, could have taken place even if their currencies were not “overvalued” and their pre-crisis monetary and fiscal policies were viewed as “credible” by market participants. This section also addresses issues related to the appropriateness of lifting (or imposing) capital controls, with particular attention to the relatively successful use of (temporary) controls by Chile, China, Colombia, and Malaysia. Finally, Section V examines the viability of various proposals to reform the international financial system, as well as the underlying economic and financial factors responsible for the euro’s relatively strong performance vis-a-vis the dollar in recent years.

- **Course Requirements**

During the summer term you will be required to write three short discussion papers on dates TBA and a major term paper on a selected economic problem and/or issue pertaining to the international economy. Details on the nature and length of the term paper will be handed out in

writing later in the semester. Class participation will be encouraged via class discussion of the assigned material by selected students.

- **Course Grades**

The weights attached to the components of your final grade are as follows:

	Weights (%)	Dates
Discussion papers	40	TBA
Class participation	20	---
Term paper	40	August 6 th

My office at Yale is located at 28 Hill house, Rm. 313, and I will be available for consultation by appt. My office phone number at Yale is yet to be determined and at Trinity College it is 297-2487. I will answer email messages only if they pertain to substantive material discussed in class. One final note. Please TURN OFF your cell phones before entering class and REFRAIN from getting up in class. The e-mail address is: miguel.ramirez@trincoll.edu or miguel.ramirez@yale.edu.

- **General Schedule:** July 5th -July 9th.

I. Issues and Problems in International Trade Theory and Policy.

- Reading Materials (**RM**): Krugman; Grossman ; Tokarick; Blasquez-Lidoy et al.; Grossman and Rossi-Hansberg.
- Irwin: Chps. 1, 2, and 3.

Suggested Readings:

Krugman, P.R., and A.J. Venables. "Globalization and the Inequality of Nations," **Quarterly Journal of Economics**, Vol 110, 1995, pp. 857-880.

Krugman, P. R., "Scale Economies, Product Differentiation, and the Pattern of Trade," **American Economic Review**, December 1980, pp. 950-959.

Samuelson, Paul A., "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization," **Journal of Economic Perspectives**, Vol. 18, No. 3 (Summer 2004), pp. 135-146.

II. Globalization, Trading Blocks, and Inequality: July 12th-July 16th.

- **RM:** Venables and Feenstra; Brown; Dehejia and Samy; Burfisher; Rodriguez-Pose and Sanchez-Reaza; and Freeman.
- Irwin: Chps. 4, 5 and 6.

Suggested Readings:

Bhagwati, Jagdish, **In Defense of Globalization**. New York: Oxford University Press, 2004, Chps. 5 and 6.

Bagwell, Kyle and Robert W. Staiger. "The WTO as a Mechanism for Securing Market Access Property Rights: Implications for Global Labor and Environmental Issues," **Journal of Economic Perspectives**, Vol. 15, No. 3 (Summer 2001): 69-88.

Fisher, Stanley, "Globalization and its Challenges," **AEA Papers and Proceedings**, Vol. 92, No.2, May 2003, pp. 1-30.

Freeman, Richard B., "People Flows in Globalization," **Journal of Economic Perspectives**, Vol. 20, No. 2 (Spring 2006), pp. 145-170.

Krugman, Paul. "Growing World Trade and Consequences," **Bookings Papers on Economic Activity**, Vol. 1, 1995, pp. 327-77.

Rodrik, Dani. **Has Globalization Gone Too Far?** Washington, DC: Institute for International Economics, 1997.

Wood, Adrian. "How Trade Hurt Unskilled Workers," **Journal of Economic Perspectives**, Vol. 9, No. 3, 1995: 57-80.

III. Exchange Rate Regimes, Speculative Capital Flows, and Volatility: July 19th-July 23rd.

- **RM:** Fischer and Friedman; Calvo and Mishkin; Whitt; and Espinosa and Russell.
- Peter Isard, Chps. 1 and 2 (required background material). See reference below.

Suggested Readings:

Calvo, Guillermo A. and Frederik S. Mishkin. "The Mirage of Exchange Rate Regimes for Emerging Markets Countries," **Journal of Economic Perspectives**, Vol. 17, No. 4 (Fall 2003): 99-118.

Friedman, Milton. "The Case for Flexible Exchange Rates." In **Essays in Positive Economics**, edited by Milton Friedman. Chicago: University of Chicago Press, 1953.

Isard, Peter. **Globalization and the International Financial System**. Cambridge, MA: Cambridge University Press, 2005, Chps. 1 and 2.

Keynes, John Maynard. **The General Theory of Employment, Interest, and Money**. New York: Harcourt, Brace, Jovanovich Publishers, 1964 (originally, 1936), Chp. 12.

Tobin, James. "A Proposal for International Monetary Reform." **Eastern Economic Journal**, Vol. 4 (July-October 1978): 153-159.

IV. Financial Crises, Contagion, and Capital Controls: July 26th-July 30th.

- **RM:** Whitt; Marshall; Bird and Rajan; Kaminsky; Edwards; Prasad and Rajan; and Barlevy.

Suggested Readings:

Ffrench-Davis, Ricardo and M. Agosin, "Capital Flows in Chile: From the Tequila to the Asian Crises," **The Journal of International Development**, Vol. 11, 1999, pp. 121-139.

Morrissey, M. and D. Baker, "When Rivers Flow Upstream: International Capital Movements in the Era of Globalization," **Center for Economic Policy and Research**. Briefing Paper, March 2003, pp. 1-13.

Prasad, E.S. and R.G. Rajan. "A Pragmatic Approach to Capital Account Liberalization," **Journal of Economic Perspectives**, Vol. 22, No. 3, Summer 2008, pp. 149-172.

Williamson, John. "A Tax on Currency Transactions as an Instrument in the War on Poverty," **Cepal Review**, Vol. 89, August 2006, pp. 85-93.

V. International Institutions, Financial Integration, and the Prospects for the Euro: August 2nd-August 6th.

- **RM:** Lane; Zestos; and Prasad et al.

Suggested Readings:

DeGrauwe, Paul. **Economics of Monetary Union**, New York: Oxford University Press, 2000, chps. 5 and 7.

Feldstein, Martin. "The Political Economy of European Economic and Monetary Union," **Journal of Economic Perspectives**, Vol. 11, No. 4 (Fall 1997): 23-42.

Obstfeld, Maurice. "Europe's Gamble," **Bookings Papers on Economic Activity**, No. 2, 1997, pp. 241-300.

Stulz, Rene M., "Should We Fear Derivatives," **Journal of Economic Perspectives**, Vol. 18, No. 3 (Summer 2004), pp. 173-192.

Zestos, George K., **European Monetary Integration: The Euro**. OH: Thomson, Co., 2006.