International Economics

New Economic School, Spring 2015

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Course information

Course Website: my.nes.ru

Instructor's Office Hours: Monday, 15:00-16:30, Thursday, 13:00-14:30, and by appointment

Instructor's Office: Shabolovka 28, bld. 2, room #315

Class Time: Monday: 13:40-15:00, Thursday: 10:30-11:50

Room Number: ЭКОН314, 219

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Course Description

What is the impact of the "Rise of China" on both developed and other developing countries? Given the dramatic rise of export-oriented East Asia in the past 60 years, what is the relationship between trade and growth? Are there trade policies that governments can put in place to promote economic development? What was the role of trade in the Industrial Revolution? What theories can explain the observed pattern of international trade between countries? Does trading with low wage countries necessarily lead to rising inequality?

In this class, we will learn economic theories in the context of economic history to shed light on these key questions for trade policy. Trade played a major role in the original Industrial Revolution which began in Britain circa 1780, and has also played an essential role in the dramatic rise of the Asian Tigers and China more recently, and thus much of the class will be devoted to debating the role of trade policy for economic development.

Course Requirements, Grading, and Attendance Policies

The course will consist of three tests and several short writing assignments, problem sets, and data exercises. The course grade will be determined 60% from the tests (the top two out of three will be

chosen), 20% from the papers (5 short papers), and 5% for class participation (I will occasionally take attendence) and 5% problem sets (there will be 6 problem sets). (Note: This only adds up to 90%. Thus I will rescale everything so it adds up to 100% with each category having exactly the same relative proportion.) It is expected that students attend class having read the materials assigned for that class, and that students participate in the class discussion. There will be no make-up for the tests. Instead, if one test is missed for any reason, then the grades will be determined from other parts of the course (and thus, one test can be skipped, although it is in the interests of the students to take all three). If two tests are missed, then a passing grade cannot be given for the course. Failure to attend class regularly or to turn in assignments could result in a failing grade.

Course Materials

This course is based around the Feenstra and Taylor textbook, and a book by Krugman, and some additional readings.

Required Textbooks and Materials

Feenstra, Robert and Alan M. Taylor, International Economics, 3rd edition, New York: McGraw-Hill, 2014. (hereafter referred to as FT)

Paul Krugman, "Geography and Trade", Gaston Eyskens Lectures, The MIT Press; 1st edition (November 13, 1992).

Campbell, Douglas, “The 9 Wonders of World Economic History,” New Economic School mimeo (draft versions will be provided on my.nes).

Course Contents and Readings

Note: Only starred readings are required. Readings without a * are merely background readings listed for those who happen to be interested in learning more about certain topics (and they are typically brilliant), but reading them would likely not be a productive way to prepare for the tests. By contrast, the readings with * will be explicitly covered on the tests. The dates are approximate, and significant changes to the schedule are expected. Note: I am writing a book, so when time allows I may give you (very rough) drafts of certain chapters to read.

1. Introduction, 1/19

*Clark, Greg, Chapter 1 of Farewell to Alms (on my.nes)

FT Chapter 1 (may be helpful to learn some vocabulary, but this chapter will not be explicitly tested on the tests. It is dry, and some of the material in this chapter is misleading.)

*Campbell, Douglas, Chapter 1: Introduction (on my.nes).

2. The Malthusian Model, 1/22-1/26

*Clark, Greg, Chapter 2 of Farewell to Alms: The Logic of the Malthusian Economy (on my.nes)

*Clark, Greg, Chapter 3: Malthusian Era Living Standards (on my.nes)

*Jared Diamond, The Worst Mistake in the History of the Human Race

3. The Kamarck-Crosby-Diamond-Sachs Theory of Development (1st Geographic Theory of Development), 1/29-2/2

*Crosby, Alfred, Ecological Imperialism: The Overseas Migration of Western Europeans as a Biological Phenomenon (this short article is also uploaded to my.nes).

*Diamond, Jared, Chapter 10 of Guns, Germs, and Steel (uploaded to my.nes).

Nunn and Qian, (2010) The Columbian Exchange: A History of Disease, Food, and Ideas

Crosby, Alfred, 1972, The Columbian Exchange: Biological and Cultural Consequences of 1492. Greenwood Press; Crosby, Alfred, 1986, Ecological Imperialism: The Biological Expansion of Europe, 900-1900. Cambridge University Press.

Kamarck, Andrew M. Tropics and Economic Development: A Provocative View into the Poverty of Nations. Johns Hopkins University, 1976.

Diamond, Jared, 1992, The Third Chimpanzee.

Diamond, Jared, 1997, Guns, Germs, and Steel.

Sachs, Jeffrey, 2001, Tropical Underdevelopment.

Darwin's Nightmare 2/5-2/9

We will watch the film Darwin's Nightmare in Class. On 2/9 Maria will also teach about Stata to help with Homework #2. Everything else will be pushed back.

4. Theories of the Industrial Revolution (IR); Institutions; Trade and the IR, 2/5-2/9

*Clark, Gregory, Malawi vs. Sweden. (also uploaded to my.nes).

*Krugman, Paul, Mongols of the Sea: Amateur Historical Speculation.

*Clark, Greg, Chapter 8: Institutions (on my.nes)

*Clark, Greg, Chapter 9: The Emergence of Modern Man (on my.nes)

*Clark, Greg, The Industrial Revolution (on my.nes)

Kremer, Michael, Population Growth and Technological Change: One Million B.C. to 1990

5. Trade and Technology: The Ricardian Model, 2/12

FT Chapter 2; Berkeley Notes on the Ricardian Model

6. British Free Trade & the Malthus-Ricardo Debate: The Specific-Factors Model, 2/16

FT Chapter 3 ; Lecture Slides on Specific Factors Model

First Test, 3/2: Note, The dates on everything after this is tentative, since we have once class to make up.

7.a The First Wave of Globalization & the Heckscher-Ohlin Model, 3/5

FT Chapter 4

Feenstra, Chapter 1, Notes on Two Sector Models (on mynes)

7.b. Industrial Policy in the First Wave of Globalization, 3/5

Irwin, Douglas, Historical Aspects of U.S. Trade Policy

*Irwin, Douglas, EH.net, Book Review: Kicking Away the Ladder: Development Strategy in Historical Perspective

*Chang, Hajoon, Kicking Away the Ladder

March 9th, no class

8. The First Wave of Globalization: Capital Flows, 3/12

*Crafts and Venables, Globalization in History: A Geographic Perspective

9. The Gold Standard, the Trilemma, and the Interwar Collapse of World Trade, 3/12

*John Maynard Keynes, Chapters 1, 2, and 3 The Economic Consequences of the Peace

10. A Cross of Gold: The Great Depression as International Financial Crisis, 3/19

*Paul Krugman, "Introduction" to John Maynard Keynes, The General Theory of Employment, Interest and Money *John Maynard Keynes (1932), "The World's Economic Outlook," Atlantic

John Maynard Keynes (1936) A General Theory of Employment, Interest, and Money

*Wikipedia: The Treasury View

*Bernanke, Ben and Harold James, The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison

*Greg Mankiw "2008 = 1929?" (notes on deflation in an IS-LM framework)

*Eichengreen, B. (1995), "Golden Fetters" (Only the introduction is required; see course webpage)

Eichengreen, B. (1992), "The Origins and Nature of the Great Slump Revisited." Economic History Review 459(2), 212-239; Eichengreen, B., Still Unfettered After all These Years

Eichengreen, B. and Jeffrey Sachs Exchange Rates and Economic Recovery in the 1930s

Eichengreen, B. and Peter Temin The Gold Standard and the Great Depression

Irwin, Doug Did France Cause the Great Depression?

March 23-29, No class (consultation week)

11. The Great Depression, the Theory: Open-Economy IS-LM, 4/3

*FT Chapter 19

*Paul Krugman, There's Something About Macro

*Paul Krugman, Babysitting the Economy

*Paul Krugman, The World's Smallest Macro Model

*IS-LM-BP notes

IS-LM-FX notes

*Bryan Caplan channeling Truman Bewley, "Why Wages Don't Fall During a Recession? Q&A with Me Channeling Truman Bewley."

12. Bretton Woods I: A New International Monetary System; Balassa-Samuelson, 4/6

Handout from Obstfeld-Rogoff on the Balassa-Samuelson Model

4/9 – **No Class**

13. New Explanations for International Trade: Increasing Returns to Scale and Monopolistic Competition; The Gravity Equation, 4/13-4/16

FT Chapter 6

Krugman, Geography and Trade. (couldn't find online, so no longer required).

*Krugman, The New Economic Geography, Now Middle-Aged

15. The Second Geographic Theory of Economic Development: New Trade Theory, 4/16

*Economist Trucking in Cameroon: The Road to Hell is Unpaved

*The Russia Left Behind: A Journey Through a Heartland on the Road to Ruin

*Hauling New Treasure Along the Silk Road

16. Import Tariffs and Quotas under Perfect/Imperfect Competition, 4/20

FT Chapter 7, 8 ;

18. The Asian Tigers & the Rise of China vs. development in Latin America (Import Substitution vs. Export Promotion), 4/23

*Robinson, (2009) Industrial Policy and Development: A Political Economy Perspective

*Stiglitz, Joseph, Some Lessons from the Asian Miracle

19. Exchange Rates: (a) The Monetary Approach in the Long Run & Asset Approach in Short Run, 4/27

FT Chapter 14, 15

2nd Test, 4/30

May 1-11, Spring Break

21. The IMF, the Latin American Debt Crisis, the Asian Financial Crisis, +Transition Economies, 5/14

FT Chapter 20

*Krugman, Paul, Analytical Afterthoughts on the Asian Crisis

*Krugman, Paul, Nobel Lecture

*Stiglitz, Joseph, Globalization and Its Discontents, Chapter 4 "The East Asian Crisis: How IMF Policies Brought the World to the Verge of a Global Meltdown", (see my.nes).

*Stiglitz, Joseph, Globalization and Its Discontents, Chapters 5 and 6 "Who Lost Russia?", (see my.nes).
Blustein, Paul, "The Chastening".
*Rogoff, Kenneth, An Open Letter to Joseph Stiglitz *Rogoff, Kenneth, The IMF Strikes Back

23. Japan's Liquidity Trap, 5/21

Krugman, Paul, 1998, "It's Back – Japan's Slump and the Return of the Liquidity Trap," Brookings Papers on Economic Activity. (Only need to read 137-151 & the "Banking Problems" section from p. 174-177. The discussion at the end featuring many other prominent economists is recommended but not required)
Bernanke, Ben S. "Japanese Monetary Policy: A Case of Self-Induced Paralysis?." Japan's Financial Crisis and Its Parallels to US Experience (2000): 149-166.
Obstfeld, Maurice, 2009, "Time of Troubles: The Yen and Japan's Economy 1985-2008"

24. Bretton Woods II, the Great Reserve Accumulation, and the Impact of the Rise of China, 5/25

Campbell, "Relative Prices, Hysteresis, and the Decline of American Manufacturing," 2014.
Autor, Dorn, and Hanson, "The China Syndrome: The Local Labor Market Effects of the Rise of China," (AER) 2013.
*Campbell, Douglas L. "Relative Prices, Hysteresis, and the Decline of American Manufacturing"
*Campbell, Douglas L. Guest Contribution: "The Cause of Secular Stagnation? Relative Prices, Trade, and the People's Republic of China"
Campbell, 2014, "On the Causes of Secular Stagnation: China, Relative Prices, and the Collapse of Manufacturing." VoxEU. Apr. 15, 2014.
Acemoglu et al. (2014) "Import Competition and the Great Employment Sag of the 2000s" ; VoxEU Ebook, "Secular stagnation: Facts, causes, and cures"
*Ben Bernanke, blog post, "Why are interest rates so low, Part 2: Secular Stagnation"
*Ben Bernanke, blog post, "Why are interest rates so low, Part 3: The Global Savings Glut"
*Paul Krugman, "Liquidity Traps: Local and Global"

25. The Great Recession and the ZLB, 5/28

FT Chapter 22, Part 4
*David Keohone, Negative Rates and Gesell Taxes: How Low Are We Talking Here *Delong, Brad, "Matt Yglesias vs. Robert Barro" ; Barro, Robert, "How to Really Save the Economy" ; *Mulligan, Casey, "Are Employers Unwilling to Hire, or Are Some Workers Unwilling to Work?" ; *Krugman, Paul, A Dark Age

of Macroeconomics (also read links) ;

*Krugman, Paul, A Note on the Ricardian Equivalence Argument Against Stimulus ; Goldfarb, Zachary, "Geithner Finds His Footing"; Cato letter to Obama. ; Center for Budget Priorities and Policies, "States Continue to Feel Recession's Impact"

*Reinhart, Carmen M. and Kenneth S. Rogoff, "Growth in a Time of Debt", 2010, NBER Working Paper No. 15639.

Herndon, Thomas, Michael Ash and Robert Pollin, "Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff", 2013, working paper.

26. A Cross of Euros: The Euro in Crisis, 6/1

FT Chapter 21

Eichengreen, Barry, and Peter Temin, Fetters of Gold and Paper

Krugman Blog Posts: The Economic Consequences of Mr. Trichet, The Madness of Jean-Claude Trichet, What's the matter with Europe?, Meanwhile, in the Role Model, The Asian Crisis vs. the Euro Crisis, Neo Calvinists and the Euro Crisis ; Origins of the Euro Crisis

27. Кризис наш: The Ruble Crisis, 6/1

*Paul Krugman Notes on Russian Debt *Paul Krugman Russia 2015 Venezuela 1983

Third Test, 6/4

Academic Integrity Policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.