

ECON 372: International Economics

Moon Oulatta, PhD

Spring, 2025

E-mail: oulat1m@cmich.edu

Office hours: **Monday-Wednesday (9:00-12:00)**

Class time: Tuesday-Thursday (11:00-12:15)

Classroom: **Moore 107**

Office: **Sloan 314**

Phone: 989-774-6460

This course offers a solid foundation in international trade theory and international monetary relations. In the first part, the course focuses on the classical model of trade, the standard theory of trade, the welfare implications of trade barriers and the role of regional trade agreements and currency areas in fostering economic integration. The second part of the course focuses on two key objectives: understanding the key components of international balance of payments, exchange rate dynamics and regimes.

Required Textbook and Materials

- **Main textbook:** International Economics, 18th Edition
Author(s): Robert J. Carbaugh (**available on blackboard**)
- **Blackboard:** I will only rely on blackboard to post material pertaining to due dates, exams, grades, problem sets, and study guides.

Course Objectives

Upon successful completion of this course, students will be able to:

1. Use the constant-cost model to explain gains from trade.
2. Rely on the Heckscher-Ohlin model demonstrate gains from trade.
3. Understand the welfare consequences of tariffs and non-tariffs policies.
4. Explain the advantages and disadvantages of free trade agreements and currency areas.
5. Estimate a simple gravity model of trade.

6. Understand the key components of international balance of payments.
7. Explain the law of one price and the purchasing power parity condition.
8. Know the underlying theories of exchange rate determination.
9. Discuss the pros and cons of exchange rate regimes.

Course Details

Lectures are held in person and attendance is mandatory. It is important to read the relevant chapters prior to attending class, particularly because the textbook material complements the lectures. Exam questions stem directly from in-class problem sets and lecture content covered in class. I do not allow makeup exams, except for these students whose cases stem from illness or injury. This class incorporates an inclusive and equitable environment, which means that students are expected to treat their peers with a high degree of professionalism, kindness, and respect. Additionally, the university's **Title IX** policy encourages access to information and resources to support anyone who has been affected by, knows of, or wants to help prevent an incident or pattern of behavior. Students may contact the Title IX coordinator (**Mary Martinez**) by phone (989-774-3253) to discuss any questions or concerns. Some students may require additional resources to ensure equal access: these students should contact the **accessibility resources center** to discuss ways in which their needs can be met. The accessibility resources center is located in **park library 120**.

Grade Distribution

- **Gravity model project (25%)**: students will form groups and estimate a simple gravity model of trade between the United States and other countries.¹
- **Problem sets (25%)**: there are two problems sets, which cover all the models discussed in class.
- **Exams (50%)**: we will have a midterm exam and a non-cumulative final exam.

Grade	Range (%)
A	94-100
A-	90-93.99
B+	85-89.99
B	80-84.99
B-	77-79.99
C+	73-76.9
C	70-72.99
C-	67-69.99
D+	63-66.99
D	60-62.99
F	0-59.99

Table 1: Grade Distribution (ECON 372)- International Economics

¹Note that this is a group project: **see blackboard for guidelines**.

Class Schedule

The following class schedule is tentative and may change if needed. The weekly topics should mainly serve as a reference for the lectures.

- 1. Comparative advantage and gains from trade: we will rely on the constant-cost model of comparative advantage to demonstrate David Ricardo's theory of trade. The required reading for this section includes:
 - Foundations of modern trade theory: comparative Advantage (**chapter 2**)
- 2. The Heckscher-Ohlin model: Ricardo's theory of trade does not address the causes of comparative advantage. Here, we will rely on the factor endowment theory to understand why countries trade and how trade impacts the distribution of income.
 - Sources of comparative advantage (**chapter 3**)
- 3. Understanding the welfare consequences of protectionism: as discussed in previous chapters, free trade based on the principles of comparative advantage and specialization leads to resource efficiency and gains from trade. However, imports upset domestic producers, given the competition from abroad. Hence the pressure from domestic producers to restrict import, forces government officials to engage in protectionism. Here, we will discuss why protectionism is viewed as necessary under certain conditions (for example, in the presence of international dumping) and analyze the impact of protectionism (for example, tariffs, quotas), including the welfare consequences. Lastly, we will also discuss alternatives to using protectionism (for example, domestic production subsidies).
 - Tariffs (**chapter 4**)
 - Nontariff trade barriers (**chapter 5**)
- 4. Trade liberalization: here, we will focus on economic integration and discuss regional trade agreements (for example, NAFTA) and currency areas (for example, the European Union). More specifically, we will examine the static and dynamic effects of lowering trade barriers among members of a trade block.
 - Regional trading arrangements (**chapter 8**)
- 5. International balance of payments: we will discuss the double-entry accounting system of international payments.
 - Balance of payments (**chapter 10**)
- 6. Foreign exchange rates: firstly, we will begin by discussing the foreign exchange market and the relationship between the spot rate and the forward rate. Then, we will examine different approaches to exchange rate determination.
 - Foreign exchange (**chapter 11**)
 - Exchange-rate determination (**chapter 12**)

- Exchange-rate adjustments and the balance of payments (**chapter 14**)
- *7. Exchange rate regimes*: here, we will discuss the main differences between a fixed exchange rate regime and a floating exchange rate regime. Lastly, we will focus on the underlying causes of historical currency crises.
 - Exchange-rate systems and currency crises (**chapter 15**)

Academic Integrity

Refer to the University's **academic policies and guidelines** for information pertaining to academic integrity and honesty policy. Students are responsible to adhere to the honor code in all academic endeavors.