AFRICAN ECONOMIC RESEARCH CONSORTIUM

COLLABORATIVE MASTERS DEGREE PROGRAMME (CMAP) IN ECONOMICS FOR SUB-SAHARAN AFRICA (EXCEPT NIGERIA)

JOINT FACILITY FOR ELECTIVES

INTERNATIONAL ECONOMICS

COURSE OUTLINE

(Revised: February, 2017)
## TOPICS TO BE COVERED

### SEMESTER I: INTERNATIONAL TRADE

| I. Perfect Competition Models of Trade     | 18 Hours |
| II. New Trade Theories                     | 10 Hours |
| III. International Trade Policy            | 17 Hours |
| IV. Trade Policy and Economic Development  | 15 Hours |
| Total                                      | 60 Hours |

### SEMESTER II: INTERNATIONAL FINANCE

| V. Foreign Exchange Markets and International Parity Conditions | 5 Hours |
| VI. Models of Balance of Payments Adjustment                  | 16 Hours |
| VII. Theories and Models of Exchange Rate Determination        | 16 Hours |
| VIII. Open Economy Macroeconomics - Fiscal and Monetary Policy under Different Exchange Rate Regimes | 10 Hours |
| IX. International Payments System                             | 6 Hours |
| X. International Capital Movements                             | 7 Hours |
| Total                                                          | 60 Hours |

## 1. Introduction

The course comprises two parts: Part I (Semester 1) covers International Trade; and Part II (Semester 2) covers International Finance.

## 2. Course Objectives

This course is aimed at providing students with an in-depth analysis of international economics by relating the topics to the conditions in Africa. The course has the following objectives:

- Acquaint the students with analytical tools that economists use to analyze international economic interactions.
- Apply theories to Africa and other developing countries.
- Familiarize the students with important facts on the global economy and international economic institutions.

## 3. Pre-requisites

The pre-requisites for this course are the core courses: Microeconomics, Macroeconomics and Quantitative Methods.

## 4. Course Assessment

In each semester, students will be assessed based on:

- Continuous assessment consisting of at least one in-class test (20%), and take home assignment (group assignment and presentation) (20%).
- A final written examination accounting for 60% of the overall course grade.
5. SEMESTER I: INTERNATIONAL TRADE (60 HOURS)

5.1 READINGS

Basic References


http://spot.colorado.edu/~markusen/textbook.html


Supplementary References


Khan, M.S. and Iqbal, Z. (1997), (Eds.) *Trade Reform and Regional Integration in Africa*, IMF Institute, Washington, DC.


General Introductory Texts


Version, Wiley.


**Major Website Resources**

(a) Joint World Bank and International Monetary Fund External Libraries (JOLIS)
   http://jolis.wworldbankimflib.org/external.htm

(b) WEbEC WWW-Resources in Economics
   http://wwhelsinki.fi/WebEc/WebEc.html

(c) Social Science Research Network eLibrary,
   http://ww.ssrn.com/

(d) Eldis Trade Policy Resource Guide
   http://www.eldis.org/trade/index.htm

(e) SMART MODELS (UNCTAD)

(f) Gravity Database
   (http://www.cepii.fr/)

(g) Direction of Trade Statistics (IMF)

### 5.2 COURSE OUTLINE

**I. Perfect Competition Models of Trade (18 hours)**

1.1 Mercantilist and Classical Models of Trade

1.2 Neoclassical Models
   - HOS Model of Trade:
     - HO Theorem
     - Factor Price Equalization Theorem
     - Stolper-Samuelson Theorem
     - The Rybczynski Theorem
   - Specific Factors and Trade (1x2x3) Model

1.3 Empirical Evidence & Applications to Africa.

**Basic References**

Bowen, Hollander & Viaene (2012), Ch. 3 and 4.

**Supplementary References**


II. New Trade Theories (10 hours)

2.1 Imperfect Competition Models of Trade and Increasing Returns to Scale

2.2 Tastes, Per capita Income and Technological Change
   - Taste Differences and International Trade
   - Linder Hypothesis
   - Intra-Industry Trade
   - Product Cycle
   - Technology Gap
   - Taste Similarities
   - Neo-factor Proportions Theory

2.3 Gravity Model (Including Geographical Models)

2.4 Empirical Evidence & Applications to Africa

Basic References

Bowen, Hollander & Viaene (2012), Ch. 8.

Markusen, Melvin, Kaempfer & Maskus (1995), Ch. 11, 12, 13 and 14.

Supplementary References


### III. International Trade Policy (17 hours)

3.1 Instruments of Intervention, their Effects and Measurement
   - Tariff and Non-Tariff Barriers

3.2 Strategic Trade Policy

3.3 Political Economy of Trade Policy

3.4 Economic Integration
   - Prospects of Regional Integration in Africa
   - Constraints, Conflicts, and Challenges of Regional Integration in Africa

3.5 International Trade Institutions and Agreements
   - GATT, WTO, UNCTAD, EPAs (Including Issues in Globalization)
   - GATS, TRIPS.

3.6 Empirical Evidence & Applications to Africa

**Basic References**

Bowen, Hollander & Viaene (2012), Ch. 5 and 12.
Markusen, Melvin, Kaempfer & Maskus (1995), Ch. 15, 16, 17, 18, 19 and 20.
Vousden (1990), Ch. 2, 4, 5, and 8.

**Supplementary References**


IV. Trade Policy and Economic Development (15 hours)

- 4.1 Trade, Growth and Poverty
- 4.2 Trade Strategy and Industrialization
- 4.3 Trade Reforms and Adjustment
- 4.4 Structure of African Trade
  - Trade with Asia (China & India)
  - Trade with the West
  - Intra-Africa Trade
- 4.5 Trade and Climate Change
- 4.6 Aid for Trade
- 4.7 Empirical Issues of Trade in Africa

Basic References


Supplementary References


Khan and Iqbal (see articles by Ndulu and Ndungo, Elbadawi and Mwega, Oyejide, and Rodrik).


6. SEMESTER II: INTERNATIONAL FINANCE

6.1 READINGS

Basic References


Supplementary References


General Introductory Texts

Major Website Resources

(a) Joint World Bank and International Monetary Fund External Libraries (JOLIS)
http://jolis.wworldbankimflib.org/external.htm

(b) WEbEC WWW-Resources in Economics
http://wwhelsinki.fi/WebEc/WebEc.html

(c) Social Science Research Network eLibrary
http://ww.ssrn.com/

(d) Eldis Trade Policy Resource Guide
http://www.eldis.org/trade/index.htm

(e) International Financial Statistics (IFS) imf.org/en/data


6.2 COURSE OUTLINE

V. Foreign Exchange Markets and International Parity Conditions (5 hours)

5.1 Different Exchange Rate Systems
5.2 Foreign Exchange Markets
5.3 The Linkage Between Domestic and Foreign Prices
   • Covered Interest Rate Parity (CIP)
   • Uncovered Interest Rate Parity (UIP)
   • Purchasing Power Parity (PPP)
5.4 Empirical Evidence & Applications to Africa

Basic References

Gandolfo (2016), Ch. 1, 2, & 3.
Hallwood and MacDonald (2000), Ch. 2 & 7.

Supplementary References


VI. Models of Balance of Payments Adjustment (16 hours)

6.1 Balance of Payments Accounting
6.2 Balance of Payments Adjustments
  • The Specie Flow Mechanism
  • Elasticity Approach
  • The Absorption Approach
  • Monetary Approach
6.3 Transmission of Disturbances, Exchange Rate Pass-through and the Open Economy Multiplier
6.4 Empirical Evidence & Applications to Africa

Basic References
Gandolfo (2016), Ch. 4, 6,7 & 8
Hallwood and MacDonald (2000), Ch. 4.
Pilbeam (2013)

Supplementary References


### VII. Theories and Models of Exchange Rate Determination (16 hours)

7.1 The Flow Approach to Foreign Exchange Rate Determination
7.2 Purchasing Power Parity and the Real Exchange Rate
7.3 The Portfolio Balance Approach to Exchange Rate Determination
7.4 The Monetary Approach to Exchange Rate Determination
7.5 The Exchange Rate as an Asset Price - Rational Expectations
7.6 Excess Volatility in Exchange Markets, Speculation and Bubbles
7.7 Empirical Evidence & Applications to Africa

#### Basic References

Gandolfo (2016), Ch. 11, 12 &14.

Hallwood and MacDonald (2000), Ch. 9-12


#### Supplementary References


XIII. Fiscal and Monetary Policy under Different Exchange Rate Regimes (10 hours)

8.1 Internal and External balance (The Swan Model)
8.2 Extensions and Limitations of the Mundell-Fleming Model
8.3 Theory of Optimum Currency Area
   • Incomplete monetary unions
8.4 Central Bank Intervention in Foreign Exchange Markets
   • Intervention Under Fixed and Flexible Exchange Rates
   • International Macroeconomic Policy Coordination
8.5 Empirical Evidence & Applications to Africa

Basic References

Pilbeam (2013),
Gandolfo (2016), Ch. 9 &10
Supplementary References


IX. International Payments System (6 hours)

9.1 Goals and Objectives

9.2 Evolution of International Payments System
- The Gold Standard
- The Bretton Woods System
- The Non-System/Managed Float
- The Current System

9.3 International Financial Institutions and Africa

Basic References

Hallwood and MacDonald (2000), Ch 16-17.

**Supplementary References**


African Union (2009), *The Lake Kivu Consensus*.

**X. International Capital Movements (7 hours)**

10.1 Private Short and Long Term Capital Flows
10.2 Foreign Direct Investment (FDI)
10.3 Bilateral and Multilateral Capital Flows
10.4 Capital Flight
10.5 The International Debt Problem
10.6 Impact of Capital Controls and Capital Account Liberalization
10.7 Global Financial/Economic Crises; Causes, Effects and Remedies
10.8 Empirical Evidence & Applications to Africa

**Basic References**

Gandolfo (2002), Ch. 15
Hallwood and MacDonald (2000), Ch. 19 & 23.

**Supplementary References**


World Bank (1997), *Private Capital Inflows to developing Countries - the road to financial integration* (New York: oxford), Ch. 1, 2 & 4.