INTERNATIONAL ECONOMICS

COURSE OUTLINE

(Revised: February, 2017)
SUMMARY OF MAJOR TOPICS

ECON 651: INTERNATIONAL ECONOMICS I (60 HOURS)

(INTERNATIONAL TRADE)

1. International Trade Theory (18 Hours)
   1.1 Comparative Advantage Theories
   1.2 The New Trade Theories

2. Trade Policy (17 Hours)
   2.1 Tariff and Non-Tariff Barriers to Trade; Effects on Trade, Production, Consumption and Economic Welfare (Under Perfect and Imperfect Market Structures)
   2.2 Product and Factor Market Distortions and Trade Policy
   2.3 Trade Liberalization and Economic Integration

3. Trade, Growth and Development (15 Hours)
   3.1 Trade and Growth Models
   3.2 Import Substitution Versus Export Promotion Strategy of Industrialization
   3.3 Trade and Immiserizing Growth
   3.4 Factor Mobility and the Rybczynski Theorem
   3.5 A Comparative Analysis of Trade, Growth and Development in Emerging and African Countries
   3.6 Trade and Poverty
   3.7 Trade and Informal Sector
   3.8 Trade and Climate Change
   3.9 Aid for Trade

4. International Trade Institutions (10 Hours)
   4.1 Political Economy of Trade Policy
   4.2 The Structure and Organization of GATT/ WTO
   4.3 Regional and Multilateral Trade Negotiations (Special and Differential Treatment for the Least-Developed and Developing Countries; Lome Convention; and EPAs)

ECON 652: INTERNATIONAL ECONOMICS II (60 HOURS)

(INTERNATIONAL FINANCE)

5. International Finance Theory (30 Hours)
   5.1 Open Economy Models
   5.2 Balance of Payments
   5.3 Exchange Rate Economics
6. **Regional and International Financial Arrangements (15 Hours)**
   6.1 Optimum Currency Areas (Theory and Practice: CFA; WAEMU; CMA; And EMU)
   6.2 International Financial Architecture: (IMF, World Bank, African Development Bank); International Payments System; International Coordination; Structure and Composition; Financial Reforms; and International Financial Regulations

7. **International Financial Policies (15 Hours)**
   7.1 International Capital Flows
   7.2 Global Financial Crisis and Policies
   7.3 Foreign Aid and Foreign Debt
   7.4 Trade Finance

**DETAILED OUTLINE AND READING LIST**

1. **Introduction**
   This outline and associated readings are developed for a PhD - level course in International Economics which is one of the electives offered under AERC’s Collaborative PhD Degree Programme in Economics. In view of the intended use of the course, both the outline of issues and topics slated for discussion and the associated readings pay considerable attention to the contemporary concerns of Africa.

2. **Pre-requisites**
   The student must have a background in International Economics at least at the undergraduate level. In addition, the student must have covered the following core courses: Microeconomics, Macroeconomics and Quantitative Methods.

3. **Course Objectives**
   The course seeks to sharpen and reinforce the expertise of the student with respect to the economic theories, models and methodologies used for the analysis of key international trade and finance issues in the context of varying institutional arrangements and settings. This course is aimed at providing students with an in-depth and rigorous analysis of advanced international economics by relating the topics to the conditions in Africa. The course has the following specific objectives, which seek to:

   (i) Familiarize the student with important facts on the global economy and international economic institutions;

   (ii) Acquaint the student with the analytical tools that economists use to investigate international economic interactions;
(iii) Develop an understanding of the mechanisms of international trade and finance, and the way in which participation in the international economy affects consumers, businesses, economic policy and the economy in general;

(iv) Explore the implications of the theories on African economies; and

(v) Equip students with the skills to develop alternative theoretical and empirical approaches applicable to African economies.

4. Learning Outcomes

On completing this course the student should be expected to have:

(a) Profound knowledge and understanding of the theories, empirical and policy issues relating to international trade and finance; and

(b) Professional skills in research, consultancy, policy analysis and advice.

5. Course Structure and Duration

The course comprises two parts: Part I - International Trade (Semester 1); and Part II - International Finance (Semester 2). Delivery of the course will take the form of:

• Lectures and class presentations;
• Seminars;
• Term papers; and
• Tutorials.

6. Mode of Assessment and Grading

Students will be assessed both by continuous assessment and final exam. The weighting will be as follows:

• Continuous assessment (take home assignments, sit-in tests, term paper and presentations) 40%; and
• Final Examination 60%.

7. Main Textbooks

The course outline specified for each module is broad. The suggested reading list includes textbooks, surveys and seminal articles. The instructor will thus have the necessary flexibility to update both in the teaching process.


8. Other Recommended Books


SEMESTER I

ECON 651: INTERNATIONAL ECONOMICS I (60 HOURS)
(INTERNATIONAL TRADE)

1.0 INTERNATIONAL TRADE THEORY (18 HOURS)

This section provides a broad overview of theories and empirical evidence on the microeconomic aspects of international economics. It covers the following: Comparative Advantage Theories and the New Trade Theories.

1.1 Comparative Advantage Theories

1.1.1 Ricardian Model
1.1.2 HOS Model of Trade:
   • HO Theorem
   • Factor Price Equalization Theorem
   • Stolper-Samuelson Theorem
   • The Rybczynski Theorem
1.1.3 Specific Factors and Trade (1x2x3) Model
1.1.4 International Factor Mobility
1.1.5 Non-homothetic Preferences in International Trade
1.1.6 Laboratory Experiments in Trade
1.1.7 Empirical Tests and Applications to Africa

Core Readings
1. Feenstra, R.C. (2016), Chapter 1, 2
2. Bowen et al. (2012), Chapter 3, & 4

Additional Readings


### 1.2 The New Trade Theories

1.2.1 Intra-Industry Trade Models
1.2.2 Product Differentiation and Monopolistic Competition
1.2.3 Increasing Returns and Economies of Scale
1.2.4 Trade and Multinational Corporations
1.2.5 Gravity Models and Linder’s Hypothesis
1.2.6 Task Trade, Offshoring and Outsourcing
1.2.7 Trade Intermediaries

#### Core Readings

1. Feenstra, R. C. (2016), Chapters, 5 & 6
2. Bowen *et al.* (2012), Chapter 8

#### Additional Readings


2.0 TRADE POLICY (17 HOURS)

2.1 Tariffs and Non-Tariff Barriers to Trade:
   2.1.1 Under Perfect Competition
   2.1.2 Under Imperfect Competition

2.2 Product and Factor Market Distortions and Trade Policy

2.3 Trade Liberalization and Economic Integration

Core Readings
1. Feenstra, R. C. (2016), Chapter 6 - 8
2. Bowen et al. (2012), Chapter 5, 10 & 12

Additional Readings


### 3.0 TRADE, GROWTH AND DEVELOPMENT (15 HOURS)

- 3.1 Trade and Growth Models
- 3.2 Trade and Immiserizing Growth
- 3.3 Factor Mobility and The Rybczynski Theorem
- 3.4 A Comparative Analysis of Trade, Growth and Development in Emerging and African Countries
- 3.5 Trade and Poverty
- 3.6 Trade and Informal Sector
- 3.7 Trade and Climate Change
- 3.8 Aid for Trade
Core Readings:
1. Feenstra, R. C. (2016), Chapter 11
2. Bowen et al. (2012), Chapter 6 & 14

Additional Readings


### 4.0 INTERNATIONAL TRADE INSTITUTIONS (10 HOURS)

4.1 Political Economy of Trade Policy  
4.2 The Structure and Organization of GATT/ WTO  
4.3 Regional and Multilateral Trade Negotiations (Special and Differential Treatment for the Least-Developed and Developing Countries; Lome Convention; and EPAs)

**Core Readings**

1. Feenstra, R. C. (2016), Chapter 9  

**Additional Readings**

12. WTO Annual Reports
SEMESTER II

ECON 652: INTERNATIONAL ECONOMICS II (60 HOURS)

INTERNATIONAL FINANCE

This section reviews the basic theory underlying international monetary transactions with particular focus on the balance of payments; foreign exchange markets; exchange rate regimes; international macroeconomic policy coordination; international finance markets; global capital flows and economic growth; determination of real exchange rates; international debt; global financial crisis; macroeconomic stabilization under different fiscal, monetary and exchange rate policy rules; trade financing; monetary integration; and international payments system.

5.0 INTERNATIONAL FINANCE THEORY (30 HOURS)

5.1 Open Economy Models

Core Readings

Additional Readings
5.2 Balance of Payments

5.2.1 Balance of Payments Adjustment Models

- Elasticity Approach
- The Absorption Approach
- Monetary Approach
- Current and Capital Account Convertibility

Core Readings
2. Nelson, Mark (2001), Chapter 3 & 11
3. Montiel Peter J. (2009), Chapter 2
4. Pikoulakis, Emmanuel (1995), Chapter 1

Additional Readings

5.3 Exchange Rate Economics

5.3.1 The Foreign Exchange Market: Fixed, Flexible and Managed Float Exchange Rates
5.3.2 Spot, Forward, Futures and Option Exchange Rate Markets
5.3.3 Exchange Rate Determination: Monetary Approach, Portfolio Balance Approach
5.3.4 Empirical Validity of Exchange Rate Determination Approaches
5.3.5 Foreign Exchange Risks and Their Management

Core Readings
4. Pikoulakis, Emmanuel (1995), Chapters 2, 3 & 4

Additional Readings


6.0 REGIONAL AND INTERNATIONAL FINANCIAL ARRANGEMENTS (15 HOURS)

6.1 Optimum Currency Areas (Theory and Practice: CFA; WAEMU; CMA; And EMU)


Core Readings


Additional Readings


37. Mburu, Tom (2005), “A Political and Economic Assessment of the Feasibility and Desirability of an East African Monetary Union,” Claremont Graduate University, California, USA.


### 7.0 INTERNATIONAL FINANCIAL POLICIES (15 HOURS)

- 7.1 International Capital Flows
- 7.2 Global Financial Crisis and Policies
- 7.3 Foreign Aid and Foreign Debt
- 7.4 Trade Finance

**Core Readings**

**Additional Readings**


