

International Economics

[CRN: 23943]

Course Outline and Reading List

I ***Introduction***

This is a course in international trade covering a wide-ranging set of issues related to globalization. In addition to presenting various theories of international trade, it also deals with a number of the externalities associated with regional and global trade including (1) the transmission of infectious disease; (2) the diffusion of religions, culture more generally and technology; (3) the military and geopolitical concomitants of trade; (4) international migration; and (5) capital mobility.

Topics to be covered include: basic theories of trade including comparative advantage, Ricardian trade theory and Heckscher-Ohlin theory; alternative theories of trade including vent-for-surplus and the new economic geography gravity model; the evolution of globalization from 1000 to 1850 that emphasizes the interaction of technology, geopolitics and political economy; and the main global and regional institutions shaping post-1950 global and regional trade and capital movements; and the relationship between trade and economic development.

My office hours are 11:30 am to 12:20 pm on Tuesday and Friday. My office is 378 Business and Economics Building, on the third floor. I will meet with students outside of these hours but only by appointment (please see me at the end of lecture for an appointment). Because I find it difficult to fully answer questions posed to me in e-mail, I discourage students from making enquiries or asking informational questions through e-mail. Moreover, I cannot guarantee that I will answer e-mail on short notice.

A copy of this course outline will be posted to my personal homepage www.carlmosk.com.

II ***Administrative Matters***

It should be stressed that performance in this course depends upon your ability to read and write. For this reason, you should complete Economics 225 (Writing for Economists) before you enroll in this course.

Grading is based upon numerical scores on a midterm and on a final. The midterm score is weighted by .4, and the final score is weighted by .6, the two scores added together to yield a total numerical score out of 100. The midterm is tentatively scheduled for ***Tuesday, February 7.***

In assigning letter grades I employ the schedule for the Department of Economics, namely:

90 and up: A+	85-89: A	80-84: A-
75-79: B+	70-74: B	65-69: B-
60-64: C+	55-59: C	50-54: D
0-49: E or F		

Students are expected to take examinations at the scheduled time and places. The only exceptions are for authorized medical excuses.

Students should make note of the following policy adopted by the Department of Economics:

Plagiarism and Cheating: The standards and reputation of a University are the shared responsibility of its faculty and students. Students are expected to observe the same standards of scholarly integrity as their academic and professional counterparts. Plagiarism and cheating are considered to be serious breach of academic integrity and shall be dealt with as such by the Department of Economics.

Please see the University Calendar for examples of plagiarism.

Students should also be aware of the following University policy:

The University of Victoria is committed to promoting, providing and protecting a positive and safe learning and working environment for all its members.

Students are advised not to make travel plans until after the examination timetable has been finalized. Students who wish to finalize their travel plans at an earlier date should book flights that depart after the examination period (see the University Calendar.) There will be no special accommodation if travel plans conflict with the examination.

[III] Readings

The required readings are drawn from four sources: three books available for purchase at the University Bookstore; and a Coursepack that is available for purchase at the University Bookstore.

The two books to be purchased are as follows:

Ronald Findlay and Keven O'Rourke, *Power and Plenty: Trade, War, and the World Economy in the Second Millenium* (Princeton: Princeton University Press, 2007: ISBN 9780691143279)

Carl Mosk, *Japanese Economic Development: Markets, Norms, Structures* (New York: Routledge, 2008: ISBN 978-0-415-77158-0)

Kenneth Pomeranz and Steven Topik, *The World That Trade Created: Society, Culture and the World Economy, 1400 to the Present (second edition)* (Armonk, New York: M.E. Sharpe, 2006: ISBN 0-7656-1709-9)

The readings in the Coursepack/Reader provide a combination of graphical figures, tables, and text overheads displayed in class as overheads and some readings. The table of contents for the Coursepack/Reader is as follows:

I Trade Theory

- I.A Background: Markets, Prices and Market equilibrium (1); From Adam Smith's "The Wealth of Nations" (2)
- I.B Welfare Gains from Trade (1), Ricardian Comparative Advantage (2) and Heckscher-Ohlin Theory (3)
- I.C Alternative Theories of Trade: Vent for Surplus Theory (1), Product Cycle Theory (2), Monopolistic Competition and the Gravity Model (3), Prebisch-Singer Theory (4), Hobson-Leninist Theory (5), Arthur Lewis Theory of the International Economy (6)

II Evolution of Globalization and International Trade, 1000-1950

- II.A Maddison's Estimates of Population, Income per Capita and Trade, 1000-1998
- II.B The Evolution of Agrarian Economies up to 1000, Merchant Guilds, and Externalities Associated with Trade
- II.C Economic Consequences of the Mongol Invasion
- II.D Malthusian Economics and Population Theory
- II.E European Expansion and Mercantilism
- II.F Breaking Out of the Malthusian Trap: Positive Feedback, Structural Shift, Norms, Technology, Institutions, Land and Natural Resources, and Exogenous Events
- II.G Trade and Migration, 1820-1950
- II.H The Keynesian Aggregate Demand Model and the Solow Growth Model

III Globalization and Trade After 1950

- III.A The Emergence of the Post-World War II Global Institutions and Development and Trade
- III.B Global and Regional Trade Institutions
- III.C Trade and Development

[IV] *Outline of the Topics Covered in the Course*

I Theory

I.A Welfare Gains from Trade, Ricardian Comparative Advantage and Heckscher-Ohlin Theory

- Reading: Section I in the Coursepack; Chapter 1 in Mosk; Preface and Introduction in Findlay and O'Rourke; and Introduction and Part 3 (3.1-3.8) in Pomeranz and Topik.
- Topics: (1) Welfare gains from trade; (2) Ricardian comparative advantage; and (3) Heckscher-Ohlin Theory.

I.B Alternative theories of trade

- Reading: Section I in Coursepack and Chapter 2 in Mosk.
- Topics: (1) Vent for surplus theory; (2) product cycle theory; (3) monopolistic competition and the gravity model; (4) Prebisch-Singer theory; (5) Hobson-Leninist theory; and (6) Arthur Lewis theory of international migration and the terms of trade.

II Evolution of Globalization and International Trade, 1000-1950

II.A The evolution of agrarian economies up to 1000

The transition from hunting and gathering to settled agriculture (Diamond and Boserup's theories noted). Discussion includes implications of the shift to settled agriculture with domesticated plants and animals for: population growth; infectious disease; political organization; emergence of elite groups with capacity to purchase luxuries; specialization and division of labor (emergence of merchants specializing in trade); creation of currencies; and the demand for writing systems. We also discuss the reasons for the concentration of the world's populations and trade in the Eurasian land mass.

Reading: Chapter 2 in Findlay and O'Rourke; Part 1 (1.1-1.13) in Pomeranz and Topik; and Section II in Coursepack.

II.B Merchant guilds

In this section we discuss theories concerning the behavior of merchants as economic actors carrying on trade in various regions of the Eurasian land mass during the Middle Ages, namely:

- Merchant guilds and urban centers in Western Europe
- Merchant guilds in the Mediterranean Sea, North Africa and the Middle East
- Merchants and the caste system in India
- Merchants and the tribute trade system in China
- Merchant guilds and merchant houses in Japan

Reading: Chapter 2 in Mosk and Section II in Coursepack.

II.C The Black Death and the Diffusion of Technologies

In this section we discuss externalities associated with trade including the diffusion of technologies and disease. Specifically we touch on Japan in the Chinese cultural area, the tribute trade system and the diffusion of Chinese characters and Buddhism to Japan; the diffusion of Indian-Arabic numbering systems, the spread of Islam and trade in the Indian Ocean and the Arabian Sea; and the Malthusian model and the spread of the Black Death to Europe.

Reading: Chapter 3 in Findlay and O'Rourke; Part 4 (4.1-4.15) in Pomeranz and Topik; and Section II in Coursepack.

II.D The Political Economy of the Age of Exploration

In this section we discuss the “rise of the West” and a host of related issues: Why not China (or India)? Why Spain and Portugal first in Europe? Why did Spain and Portugal decline in the face of Dutch, French and British competition?

Readings: Chapter 4 in Findlay and O'Rourke; Part 5 (5.1-5.11) in Pomeranz and Topik; and Part II of Coursepack.

II.E Mercantilism and Atlantic Economy

In this section we discuss mercantilism as theory and practice with particular applications to the Dutch VOC, the East India Company, the slave trade and the establishment of colonies in the New World. Analysis focuses on the relationship between merchant houses and the state in England and Holland, and the role of military confrontation in shaping this relationship.

Readings: Chapter 5 in Findlay and O'Rourke and Section II in the Coursepack.

II.F Trade and the Industrial Revolution

In this section we discuss the Williams thesis regarding the relationship between the Atlantic economy and the industrial revolution, the diffusion of slavery in the Americas and the dichotomy apparent in frontier areas split between slavery/serfdom and comparative freedom. The nature of the industrial revolution and various theories of the Industrial Revolution (breaking out of the Malthusian trap) is also discussed and related to changes in global trade patterns.

Readings: Chapter 6 in Findlay and O'Rourke; Parts 6 and 7 (6.1-6.16 and 7.1-7.12) in Pomeranz and Topik; and Section II in the Coursepack.

II.G The Expansion of International Trade and Migration, 1820-1914

The influence of technological progress in transport and communications associated with the first and second industrial revolutions on global trade and global migration is discussed. The nature of the international economic order is also discussed, specifically British leadership and the importance of the gold standard interpreted in terms of the IS/LM model and the macroeconomic balance equation.

Reading: Chapter 7 in Findlay and O'Rourke; Chapter 3 in Mosk; and Section II in the Coursepack.

II.H The Breakdown in the International Economic Order, 1919-1950

Discussion includes the international power equation, theories of regional and global hegemony and global public goods. We place IS/LM into the context of the breakdown in the international economic order and we discuss the trilemma. We also put Japan's Greater East Asian Co-Prosperty Sphere into historical perspective and relate it to the development of the theory of the flying geese pattern (the product cycle).

Reading: Chapter 8 in Findlay and O'Rourke; Chapters 4-6 in Mosk; and Section II in the Coursepack.

III Globalization and Trade After 1950

III.A Global and Regional Institutions

We discuss global and regional institutions promoted global integration in terms of the evolution of the markets, geopolitics and international law. Topics include

discussion of the GATT/WTO, the European Union (EU) the North American Free Trade Agreement (NAFTA) and the debate over the role of preferential trade agreements (PTAs) and regional trade agreements (RTAs) in promoting or hindering trade negotiations in the WTO.

Readings: Chapters 9-10 in Findlay and O'Rourke; Chapters 7-9 in Mosk; Epilogue in Pomeranz and Topik; and Readings by Stiglitz and Shulka in Section III of the Coursepack

III.B Trade and Development

In this section we discuss the contrast between Latin America and East Asia in terms of trade and industrial policy, industrial structure, and orientation towards international markets.

Reading: Section III in the Coursepack

III.C Capital Market Integration

In this section we discuss global capital market integration and their relationship to asset bubbles.

Reading: Chapters 10-12 in Mosk.

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