



## Department of Economics and Finance

### ECON\*3620 International Trade Winter 2014



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Instructor: Dr. Patrick Martin  
MacKinnon 739

Ext. 53537

Office Hours: Monday – 10:00- 11:30 pm  
Thursday – 2:00-3:30 pm

It is your responsibility as a student to be aware of and to abide by the University's policies regarding academic misconduct, e-mail communication, maintaining copies of out-of class assignments, what to do when you cannot meet a course requirement and the drop date for this semester. To better understand these policies, visit:

[https://dev.web.uoguelph.ca/economics\\_d7/important-notice-about-students-responsibilities-and-university-policies](https://dev.web.uoguelph.ca/economics_d7/important-notice-about-students-responsibilities-and-university-policies)

### Course Outline

**N.B. - In order to sign up for this course you must not have a conflict with the final exam time. If you do have a conflict resolve it if you wish to remain in the course. Do not make any travel plans or appointments that conflict with the final exam.**

#### Course Objective:

The purpose of this course is to provide the student with an understanding of the basic economic concepts underlying the analysis of international trade. Basic modelling skills using analytical techniques will be taught and applied to topics such as tariffs and quotas, trade as a determinant of economic growth, customs unions, industrial policy, trade and the environment, and the pattern and magnitude of trade flows themselves. The analytical framework will be essentially static in nature, with the more complex subject of trade and dynamics being only briefly discussed. I will also expect that students will, at the conclusion of the semester, have a basic knowledge of the composition and volume of trade between Canada and her trading partners. The subject of international finance is covered in ECON\*3860 and not in this course.

I feel that it is important that you be able to articulate your understanding of the concepts presented in class by explaining them in class. Although I have not allocated a portion of the grade in class participation, I will expect that students come to class prepared to discuss the reading assigned for that week.

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### Prerequisites:

The only prerequisite listed in the undergraduate calendar is ECON\*2310 and so the course will be taught at the level of intermediate microeconomics. I will only use calculus on rare occasions when it provides an alternative explanation for those students who have had some calculus (perhaps in ECON\*2770). There will not be any calculus required on the exams or assignments.

We will make extensive use of some of the material covered in ECON\*2310. In particular, the topics of perfect and monopolistic competition, general equilibrium, comparative and absolute advantage, the analysis of consumer choice using indifference curve and budget set analysis, and consumer and producer surplus, will be used and should be reviewed if necessary.

### Text:

The required textbook is *International Economics: Theory and Policy, 9th edition*, by Paul Krugman, Maurice Obstfeld, and Marc Melitz. The textbook is bundled with MyEconLab software that provides problems from each of the chapters. You can also purchase an electronic version of the textbook bundled with the MyEconLab software rather than the hardcover textbook at a discount. You may use the 8<sup>th</sup> edition of the text if available, the 9<sup>th</sup> edition has a substantial revision however, but I and my TA will not support the textbook (you will be responsible for making sure recommended textbook problems, chapter readings, etc. are the same or are different. I will attempt to get a copy of the text put on reserve to help you find what the differences are between the 8<sup>th</sup> edition and the 9<sup>th</sup> edition.)

### Assessment:

Students will have their performance in the class evaluated using four assignments, two quizzes, a midterm, and a final exam. The assignments will be due several days before the two quizzes and the midterm. Dates will be provided in class. The weights of the coursework will not be changed during the semester.

<b>Homework Assignments (2) – due week 6 and week 9</b>	<b>20%</b>
<b>Midterm Exam: (location and time TBA)</b>	<b>25%</b>
<b>---Chapters 2-6</b>	
<b>Group Presentations (Weeks 10 and 11 – brief reports due week 12)</b>	<b>15%</b>
<b>Final Exam: Time and Location TBA</b>	<b>40%-75%</b>
<b>---Chapters 2-12 – 75% of weight on material since the midterm</b>	

### \*N.B. VERY IMPORTANT – READ THIS

A student that receives a higher mark on their final exam compared to their term work has demonstrated an increased understanding of the course material and will be rewarded as follows. For every 1% above your average term work mark your final exam weight will be increased by 2%. For example, if your term work average going into the final exam is a 60 and you receive a 80 on the final exam, your final exam will be worth 60%. In this case your final mark would be 72 rather than the 68 you would receive if the final exam weight were 45%. The final exam weight will be capped at 75%. **THIS OFFER IS ONLY AVAILABLE TO STUDENTS COMPLETING ALL THE TERM WORK** (unless documentation for

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**missed term work is provided to myself - students missing either assignment, presentation, or midterm cannot avail themselves of this grading scheme). Everyone should complete the homework assignments as they provide important practice for the Midterm and Final Exam.**

If the midterm is missed the midterm may be rescheduled for health or compassionate reasons (with documentation) *only if* a suitable arrangement can be made being myself and the student (you should let me as soon as possible if you will be missing, or have missed, the midterm, so that the probability of a suitable arrangement for a make up midterm is increased.) If you cannot take the makeup exam the weight will be shifted to the final exam (a mark will be entered for the midterm you miss that adjusts for any differences in difficulty between the final and the missed exam. For example, if you receive the class mean on the final you will receive the class mean on the exam you missed. In this way students are not advantaged or disadvantaged when the weight of a missed exam is put on the final. The weights of the midterm and final will not be changed during the semester.

If you do not turn in an assignment you will receive a zero (both assignments will be posted at least three weeks before they are due so that they should be able to be completed in time). The weight will not be placed on the final, except in cases of illness or another compassionate reason, so it is imperative that you complete them on time. I will only allow assignments to be turned in after due date in exceptional circumstances (a prolonged illness or sudden death in the family for instance - having work in other courses is NOT an exceptional circumstance – I expect that to be the case). Given the class size a TA is not assigned to this course and the grading of the assignments will focus only on several sections (determined by myself). A detailed answer key will be posted – typically at the end of the day in which the assignment is due.

Presentations will be approximately 15 minutes in less (3 per class section) and groups will consist of 3 to 4 students. They will be given in class during weeks 10 and 11 (we will have 18 slots available). The presentations will consist of an analysis of trade data that you will collect from sites such as the World Trade Organization, the United Nations, and the International Monetary Fund. I will give you given guidelines for the presentations. You will be expected to pick a research question (such as “Do countries with a large percentage of exports accounted for by natural resources (oil or minerals), grow faster or slower than those without substantial natural resource exports?” or “Do developing countries with a low tariff barriers to imported goods grow faster or slower than those with substantial trade barriers?” You will use Microsoft Excel for the statistical analysis (scatter plots and OLS regressions will typically be used by the groups). Students will prepare a brief write up of their presentation that will be due the last week of class. Students will be able to work with me during office hours to help prepare their presentations and to get help in accessing data (not really that tough) which is a worthwhile endeavour in its own right. All students are expected to participate in a presentation – if you do not participate in some way (there will be a participation evaluation form completed by all members of the group) you will receive a zero for this part of the course. Presentation topics will be due before the February study break. More details will be given during the semester.

In addition to the graded assignments your textbook purchase includes access to MyEconLab which is an online testing/study site that you may benefit from. These may be useful in preparing for the graded assignments and examinations. I will not be monitoring or using your performance on MyEconLab work in determining your course mark. **I strongly urge you to work with other students in completing the assignments but make sure that the write up of the assignment is in your own words – be very careful not to**

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**copy another students write up of a problem as that would constitute academic misconduct and expose you to the penalties discussed in the undergraduate calendar.**

### **Website:**

The course will have a Courselink site. You can sign in to the Courselink page by going to the web address <http://courselink.uoguelph.ca/> and clicking on the login logo. Extensive course notes, old exams, and other material will be placed on the course website.

### **Readings:**

The majority of the readings will be taken from the textbook. We will be reading all of Chapters 1 - 12 (Parts I and II). The second half of the book is concerned with international finance (Parts III and IV) and will not be assigned in this course.

My lectures will closely follow the text and I anticipate that we will complete most of Parts I and II (Chapters 1-10 and perhaps parts of Chapters 11). I will additionally be discussing the relationship between trade and the environment, trade and economic development, and the two most important trade treaties Canada has signed, the FTA and NAFTA, and discuss their impact on the Canadian economy. The lectures should be self contained but I may put additional readings on reserve or links to web based readings when we cover material not in the text. I will also bring in, from time to time, international trade statistics so that you have some idea of trade flows and their composition from selected countries. I will also discuss, in more detail than in the textbook, international organizations such as the World Trade Organization (WTO), the World Bank, and the International Monetary Fund (IMF) and their role in international trade.

### **Contact Information:**

If you have a general economics question please post it in the discussion section of Courselink site which will be monitored by the teaching assistant for the course. Hopefully either a fellow student or either myself or the TA will answer you in a reasonable period of time. For any course administrative matters, please email me (email below). Please look at your course notes, course outline, or course webpages before emailing to make sure you question hasn't been answered already elsewhere.

My preference if you need to talk with me is that you do so before or after class or during scheduled office hours. If you cannot make my office hours I will try to find time during the week to see you. If I am in my office and you drop by with a question I will usually be able to answer short questions. My email address is [pmartin@uoguelph.ca](mailto:pmartin@uoguelph.ca). I would ask that you communicate with me via email *only* concerning course administrative matters that HAVE NOT ALREADY BEEN ANSWERED DURING THE LECTURE (e.g. Use email to let me know you have missed an exam due to illness, you are having difficulties accessing information on the course homepage, or pointing out problems or errors on the course homepage – answer keys for example). Answering substantive economic questions using email where mathematics or figures may be needed is extremely tedious so keep this in mind when emailing economic questions to the Courselink discussion site or to me. The TA's and myself can be much more

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helpful if you see us in person or give us a call about economic questions. The TA will have office hours for roughly one hour a week (TBA) (and more during the week of exams.)

**CourseEvaluation:**

You will be asked to complete an evaluation of this course at some time during the last two weeks of the semester. I have asked that this evaluation be conducted in class. The Department of Economics policy regarding the conduct and use of these evaluations will be found at:

<https://www.uoguelph.ca/economics/course-evaluation>

**The Department of Economics and Finance *Learning Objectives (skills and knowledge competencies) for this course:***

**Skills:**

- 1) ***Written Communication:*** Students will provide a brief write up of their group presentation which will require a description of their research question, a statement of what they expected to find and their **reasoning** for that expectation, and a critical discussion of the results.
- 2) ***Numerical Problem Solving:*** Students will learn to **evaluate** the solution (wages, utility, gains from trade, production, exports and imports) for the two country, two good, one factor Ricardian model, **solve** for the equilibrium in the imperfect competition model of trade, **determine** gains and losses for trade policy, and **calculate** the prices charged at home and abroad in a price discrimination model of trade. This will be assessed on the assignments, the midterm exam (short answers) and the final exam (multiple choice (MC) and problems)
- 3) ***Analytical Problem Solving:*** Much of the course uses graphical **analysis to demonstrate and interpret** various economic models. In particular the student will become familiar for the Heckscher Ohlin and Standard model of trade that allows them to evaluate trade policy, economic growth, and income transfers, using relative demand and relative supply curve analysis. Graphical and algebraic models will be used to determine both partial and general equilibrium analyses of trade policy. This will be tested on the assignments and exams.
- 4) ***Problem solving in a Real World Context:*** Students will **apply** the content of the course to historical and current events when they write opinion pieces in PEAR. The short answer questions will be applicable to current macro problems.
- 5) ***Group Work:*** 2 to three students will present a 15 minute presentation on a topic related to trade and economic growth.
- 6) ***Professional and ethical awareness and conduct.*** There will be no extensions on homework assignments in order to develop **time management** skills.

**Knowledge:**

- 1) ***Microeconomic Modeling:*** The Gravity, Ricardian, Specific Factor, Heckscher Ohlin, Standard, Intertemporal, and Imperfect Competition models of trade will all be discussed and evaluated using assignments and exams during the semester.
- 2) ***Statistical and Econometric Methodology*** :OLS regressions (MS Excel) will be used to analyze how economic growth relates to trade characteristics and policy.
- 3) ***Understanding of Specific Markets:*** General equilibrium modeling is an important part of this course that augments their knowledge of partial equilibrium markets in most of their other coursework. Both algebraic (Ricardian model) and graphical (HO model in particular) treatments of the topic are given. Assignments and exams using problems and MC questions test knowledge.
- 4) ***Historical context:*** The development of the present day international trade regime (the WTO in particular) will be presented and the various international trade treaties

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that Canada has signed (and is currently negotiating) will be discussed. This knowledge will be tested on the final exam.

5) ***Economic Policy and Regulation***: The role of trade policy (tariffs, subsidies, industrial policy, voluntary export restraints, and foreign aid) will be analyzed using graphical and algebraic models. Assignments/exams using problems and MC questions are the evaluation tools.