International Trade and Finance

Second year course, Fall 2019

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http://econ.sciences-po.fr/node/107

The objective of the course is to offer students an introduction to two key dimensions of globalization: international trade and international finance. The course will cover both theoretical and empirical contributions and will often refer to current policy issues in both international trade and macroeconomics. Using theoretical and empirical tools, we will consider a wide range of questions such as: what are the gains of specialization? what is the effect of trade on inequality? How does market power of firms affect international trade? What are the consequences of trade policies? How to understand international financial flows? What is the relation between exchange rates and monetary policy? How does globalization affect the conduct of macroeconomic policies? Is the euro an optimal currency area? Why so many international financial crises?

The prerequisite for this course is the core economics course in the first year. Although not very formalized (we will mostly use graphs to explain theoretical mechanisms), this course will use some basic mathematical tools that are common in any modern economic course.

Evaluation

One mid-term and one final exam (2 hours each)
Participation in class (Conférence de Méthode)

Readings
Textbook:

Additional readings and materials for the lecture are available online.

Part 1. International Trade

1) Globalization : some stylized facts, historical comparisons, gravity equations and comparative advantage (course 1 and 2)

- The measures of trade and financial globalization
- The geography of trade (the rise of China and Global value chains, the gravity equation)
- The present and the past of financial globalization
- Ricardian Theory of Comparative Advantage
2) Globalization, employment, inequality and wages (course 2)
- HOS Theory
- Trade and Inequalities
- The "China shock"

3) International trade and market power (course 3 and 4)
- Trade and Imperfect Competition
- Product Differentiation
- Market size and European integration

4). The decision to export and/or invest abroad (course 4)
- Why are exporter firms different from others?
- How does trade affect different firms differently?

5). Trade policies (course 5 and 6)
- Trade policy instruments (tariffs, quotas and regulations)
- Strategic trade policies
- The return of protectionist policies and its impact
- Multilateral trade negotiations
- Regional and bilateral trade agreements (trade creation and diversion)
- Brexit

Part 2 International finance and Macroeconomics

1) Financial Globalization, Capital Flows and the Balance of Payments
- Financial Globalization
- National Income Identities and the Balance of Payments
- Net foreign asset positions
- The « exorbitant privilege » of the dollar

2) Exchange rates and financial markets
- The exchange rate as a relative price and as a price of an asset
- The uncovered interest parity condition
• Monetary policy, interest rate and the exchange rate

Textbook: KOM : chapter 14 and 15

3) Long term exchange rate and inflation

• Purchasing Power Parity (PPP)
• Why do poorer countries have lower prices? The Balassa-Samuelson effect

Textbook: KOM : chapter 16

4) Production and exchange rate in the short run

• The Mundell-Fleming model (AA/DD version)
• Economic policy in an open economy, spillovers of fiscal and monetary policies.

Textbooks: KOM: chapter 17

5) Fixed exchange rates and the role of central bank interventions

• The loss of monetary policy autonomy under fixed exchange rates (the trilemma and its recent challenge), currency wars
• Capital controls

Textbooks KOM: chapter 18

6) The euro and currency areas

• The theory of optimal currency areas
• The European experience
• Sovereign debt crises and the euro crisis

Textbooks: KOM : chapters 20 and 22