

Course Code	EEC 5204	Semester	II
Course Title	INTERNATIONAL ECONOMICS: THEORY AND POLICY		
Credits	4	Type	Core

Course Description

This course deals with the theoretical and empirical aspects of international trade and finance. The topics covered include Hecksher-Ohlin, factor price equalisation theorem, monopolistic competition in international trade, theory of immiserising growth, forms of economic integration as well as fundamentals of international finance. The course shall expose the students into the fundamentals of international economics and prepare them with key **skills** to evaluate movement of world trade and exchange rate

Course Outcome

Upon completion of this course, the students are expected to:

- Critically evaluate the contributions of various theories in explaining the patterns, directions, and gains from international trade.
- Assess the controversies related to the political economy and welfare effects of trade policy.
- Describe the role of world trading system and critically analyse the issues related to the WTO negotiations and the regional trading arrangements.
- Analyse the recent developments in the field of international economics.
- Equip students with **skills** to analyse direction of global trade

Course Structure

Module 1: Classical Trade Theory

Pure theory of International Trade- Theories of Absolute advantage and comparative advantage – Opportunity cost approach- Specific factor model-Specific factors and income distribution – Heckscher-Ohlin model - Factor price equalisation theorem – Rybisinski theorem – Empirical testing of H.O theorem- Leontief Paradox – Factor intensity reversal- Theory of immiserising growth- Demand and supply- offer curves-terms of trade.

Module 2: Modern Trade Theory

Monopolistic competition and international trade – Technology differences and trade- Trade based on product differentiation- Intra industry trade –Imitation gap and product cycle models- empirical test of intra industry trade.

Module 3: Trade Barriers

The case for free trade and protection – Trade restriction – Tariff and non-tariff barriers- Effects of trade – Partial Equilibrium Analysis- Effective Rate of Protection –General Equilibrium Analysis- Small

Country and Large Country Cases - Optimum Tariff - Stolper-Samuelson Theorem-Metzler Paradox – Lerner Symmetry Theorem

Module 4: Balance of Payments

Anatomy of Balance of payments (BoP)- Function of Foreign Exchange Markets- Hedging, Speculation, Interest arbitrage, Exchange rate determination- Purchasing power parity theory- Fixed and flexible exchange rates – Foreign Exchange Management - BoP disequilibrium- Adjustment mechanism-Automatic mechanism-Price and income adjustments under fixed and flexible exchange rate system- Policy measures- Devaluation- Revaluation- Elasticity approach- J curve effect- Absorption approach- Monetary approach and devaluation.

Module 5: World Trading System

Forms of economic integration- Free Trade Agreement (FTA), Common Market, Economic Union, Trade creating and trade diverting custom union – The working of integration in the present world- European Union- ASEAN-UNCTAD-WTO emerging issues- WTO rounds- SAARC- Role of trade in emerging less developed countries.

Testing & Evaluation

Continuous evaluation consisting of Quiz, Presentation, Assignment, Midterm exam and final End semester examination.

References

- Dominick Salvatore (2011), International Economics.
- Paul Krugman and Maurice Obstfeld (2003), International Economics: Theory and Policy.
- Bo Sodersten, Geoffrey Reed (2011), International Economics.
- Peter Dicken (2007), Global shift: Mapping the changing contours of the world economy.
- Jagdish Bhawati, V N Balasubramanyam (1988), Writings on International economics.
- David Greenaway (1983), International Trade Policy.
- T N Srinivasan (1999), Developing countries in the world trading system.
- Michael W.Klein (2009), Exchange Rate Regimes in the Modern Era.
- C P Kindleberger (1976), International Economics.