

Semester VIII
ECODSC – 454
International Economics
Total Credit: 4
Teaching Hours: 45 hours

Course Description:

The objective of this course is to acquire the analytical methods needed and understanding of how and when to apply different models and approaches to world trade. This course provides an understanding of the theoretical and practical problems that arise from the economic interactions between nations. It offers explanations of the international patterns of trade and specialization. It provides an account of the sources of the gains from trade. It also offers explanations, in the monetary sphere, of the determinants of exchange rates; of the timing and causes of financial crises and an analysis of the channels of international economic interdependence.

Course Outcome:

At the end of this course, students should be able to explain specific policy issues such as protectionism; international dumping; the choice of exchange rate regime; the desirability of free capital flows.

Unit 1: Pure Theory of International Trade

Generalization of the Ricardian Model to incorporate multiple goods and factors of production, Trade Equilibrium Under Different Costs Conditions; Decomposition of Gains from Trade, Offer Curve Analysis, Derivation of Offer curve, Backward bending offer curve; Determination and Shifting of Terms of Trade.

Unit 2: Modern Theory of International Trade

Heckscher - Ohlin (H- O) Theory, Factor Reversal, Demand Reversal and Leontief Paradox., Effects of Factors Growth on Trade Position: Rybezynski Theorem; Impact of Technical Progress on Trade Position. New Trade Theories: Krugman's Model of Monopolistic Competition, Intra-Industry Trade Theory, Product Life Cycle Theory

Unit 3: Trade Multiplier and Foreign Exchange Market

Foreign Trade-Multiplier (FTM): Meaning and importance, Implications of FTM with and without foreign repercussions. Foreign Exchange Market: Spot Rate and Forward Rate; Covering Foreign Exchange Risk through Hedging. Interest Arbitrage - Covered v/s Uncovered, covered interest Arbitrage Parity, Covered Interest Arbitrage Margin; Stabilizing vs Destabilizing Speculation.

Unit 4: Exchange Rate Regime and Balance of Payment Policies

History of International Monetary System, Intervention in the Foreign Exchange Market, Balance of Payment Policies - Expenditure Reducing: Absorption approach and Expenditure Switching Policies: Elasticity Approach (Marshall-Lerner condition); Internal and External Balance and the Policy Conflict.

Unit 5: Trade Intervention and Coordination

General Equilibrium Analysis of Tariff; Stolper-Samuelson Theorem; Metzler's Paradox, Measurement of Optimum Tariff. Import Tariffs vs. Import Quota; Voluntary Export Restraints, Dumping, Trade Creating and Trade Diverting Custom Unions, Economic Integration among Asian Countries.

Suggested Readings:

1. Chacoliades, M. (1990). The Pure Theory of International Trade. New York: Harcourt Brace Jovanovich. Salvatore, Dominick. (2017). International Economics. 11th ed. Hoboken, NJ: Wiley.
2. Dunn, R.M., & Mutti, J.H. (2018). International Economics. 2nd ed. New York: Routledge.
3. Acharyya, Rajat. (2006). International Economics: An Introduction to Theory and Policy. New Delhi: Oxford University Press.
4. Krugman, Paul R., & Obstfeld, Maurice. (2018). International Economics: Theory and Policy. 10th ed. Boston: Pearson.
5. Södersten, Bo. (1997). International Economics. 3rd ed. New York: St. Martin's Press.

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