The study of international trade lies at the very roots of economics as an academic discipline. It is also one of the least controversial fields in the subject, since there is little theoretical dispute regarding the potential gains to be had for all participants. Nevertheless, national trade policy has always been in the eye of the storm from a political economy perspective, since it can produce significant transfers of income and wealth among large sectors of the economy and population.

Unrestricted international capital flows, on the other hand, are a recent development compared with the history of trade. Yet in just a few decades they have permanently changed the global economic landscape and fundamentally altered the rules of domestic macroeconomic management. Countries that were starved of capital and shut off from lending sources today can access investors from all corners of the globe. But this comes at a price: key economic policy instruments, which in the past could be controlled internally, are now continually subject to the whims and judgements of international capital markets.

International trade and finance are the economic forces underlying globalization, whose merits and drawbacks form the topic of the debate which defines contemporary international affairs. The cross-border mobility of goods, services and factors of production, together with the international financial architecture that has evolved over time to channel these flows, are crucial elements in understanding globalization and its economic and political impact on advanced and emerging economies worldwide.

This course introduces students to the fundamental principles, policies, and practices of international trade and finance. It is designed for students who are already familiar with the ways of economic thinking and wish to develop their analytical skills and capacity for decision-making in topics of the international economy. It is a required course for students enrolled in the Master of International Affairs degree program, but is open to other graduate students and outstanding undergraduates who are interested in the subject and meet proficiency requirements.

Instructor: Prof. Kenneth Coates, kcoates51@gmail.com or kcoatesspry@albany.edu

Prerequisites: Completion or concurrent enrollment in RINT 503 Quantitative Approaches to International Affairs; completion or placing out of RINT 502 Economics for Global Affairs.

Course objectives:
By the end of this course, students should:

- Understand the theory of gains from trade and the determination of trade patterns.
- Be familiar with the main tools and practices of trade policy, their objectives and the distortions they may introduce.
- Appreciate the goals of free trade agreements and further forms of economic and financial integration.
- Develop the ability to interpret a Balance of Payments and identify macroeconomic issues that stem from its analysis.
• Understand how the free flow of capital can impact financial markets and the formation of interest and exchange rates, as well as the constraints it imposes on monetary policy.
• Become familiar with the workings of global financial markets and the need for policy coordination among countries, as well as the international financial architecture that has arisen to address issues in both these areas.

Teaching and learning modalities:

This course will be taught mainly from the SUNY Global Center in Manhattan as a combination of lectures and group discussions. Course work will include reading and problem set homework, quizzes, a team project and exams. A discussion topic shall be assigned prior to most sessions, based on the reading assignment. Students may be called upon to lead off the discussion by identifying the major issues. In addition to class discussions via Blackboard, the synchronous distance-learning tool, Zoom, shall enable members of the class to join from remote locations. At least two of the classes shall be held on the Albany campus on dates to be announced.

Timetable:

Classes will be held in Milne 215 on Thursday evenings beginning January 26, 2017 and ending May 4th. The midterm exam is scheduled for March 9th and the final exam for May 11th. The team project topic will be announced by February 16th and will be due by May 12th. Three quizzes will be administered during the last weeks of February, March and April, respectively.

Grading:
The approximate weights of the different contributors to the evaluation of a final grade shall be:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>attendance</td>
<td>12%</td>
</tr>
<tr>
<td>class participation</td>
<td>3%</td>
</tr>
<tr>
<td>scoring on quizzes (3)</td>
<td>15%</td>
</tr>
<tr>
<td>midterm exam</td>
<td>20%</td>
</tr>
<tr>
<td>team project</td>
<td>20%</td>
</tr>
<tr>
<td>final exam</td>
<td>30%</td>
</tr>
</tbody>
</table>

Grading shall be on a 0 – 100 scale with the following numerical letter grade equivalence table:

<table>
<thead>
<tr>
<th>Numerical Grade</th>
<th>Letter Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>80 and above</td>
<td>A</td>
</tr>
<tr>
<td>70-72</td>
<td>B</td>
</tr>
<tr>
<td>60-62</td>
<td>C</td>
</tr>
<tr>
<td>77-79</td>
<td>A-</td>
</tr>
<tr>
<td>67-69</td>
<td>B-</td>
</tr>
<tr>
<td>57-59</td>
<td>C-</td>
</tr>
<tr>
<td>73-76</td>
<td>B+</td>
</tr>
<tr>
<td>63-66</td>
<td>C+</td>
</tr>
<tr>
<td>and so on</td>
<td></td>
</tr>
</tbody>
</table>

Class participation implies active intervention in discussion sessions and other group activities.

Textbook:

“International Economics: Theory and Policy”, Krugman, Obstfeld & Melitz (Pearson 2014, 10th edition – Global). There are many editions of this longstanding textbook classic; be sure to get the global version of the 10th edition, it’s the cheapest one (paperback) and in strong supply. We shall refer to it as KOM. Other readings may be assigned for the different sessions.

A complementary source for readings can be found at the CORE Project (www.core-econ.org) where Chapter 16 deals with “The Nation in the World Economy”. Readings from this chapter have been assigned to different sessions.
Outline of Topics and Readings:

Jan 26
Session 1) – Introduction; recurrent themes of international economics; empirical evidence of globalization waves; trade; financial flows; migration; remittances; structural changes in the global economy.
KOM: Chapters 1&2
CORE: Chapter 16, Sections 16.1, 16.2 and 16.3

Feb 2
Session 2) – Ricardo and the classic trade model; comparative advantage; specialization; gains from trade; Heckscher-Ohlin-Samuelson 2x2x2 model; factor endowments and abundance; trade patterns; technology; distributional aspects.
KOM: Chapters 3-6
CORE: Chapter 16, Section 16.4, 16.5, 16.6

Feb 9
Session 3) – Factor mobility; direct foreign investment; outsourcing; trade-based economic growth; hyper-globalization.
KOM: Chapter 8
CORE: Chapter 16, Section 16.7, 16.8 & 16.9

Feb 16
Session 4) - Trade policy; protectionism; tariffs and other barriers; effective protection; import substitution model and economic stagnation.
KOM: Chapters 9 & 11
CORE: Chapter 16, Section 16.10

Feb 23
Session 5) – Trade liberalization; timing and sequencing issues; role of Bretton Woods institutions; bilateral trade agreements; free trade areas; customs unions; common markets; regional blocs; higher forms of integration; the European experience.
KOM: Chapter 20. Optimal Currency Areas and the European Experience
Frankel, Jeffrey A., 1997: Regional Trading Blocs in the World Economic System (Chapter 1) PIER, Washington DC.

Mar 2
Session 6) – The balance of payments; structure, definitions and uses; transactions with non-residents; external balance and the macroeconomic environment; uses and sources of funds approach; alternative interpretations of imbalances.
KOM: Chapter 13

Mar 9 Midterm
Mar 23
Session 7) – Foreign exchange markets: structure and operation; spot vs. expected rates; relationship to money market; nominal and effective exchange rates; forex asset market model; interest rate parity model.
KOM: Chapter 14

Mar 30
Session 8) – Money as a financial asset; demand for real cash balances; the relationship between money supply, interest rates and exchange rates in the short and long run;
KOM: Chapter 15

Apr 6
Session 9) – The real exchange rate; purchasing power parity and the law of one price; tradable and non-tradable goods; export competitiveness, exchange rate lag and the equilibrium real exchange rate; currency crises.
KOM: Chapter 16
Reinhart & Rogoff, “This Time is Different” Chapters 1, 3 & 12 (Princeton, 2009).

Apr 13
Session 10) – The spectrum of exchange rate regimes; exchange rate regimes in advanced and developing countries; dollarization; the impossible trinity; intervention in the forex market and impact on macroeconomic policy mix; balance of payments crises.
KOM: Chapter 18, 19 & 22

Apr 20
Session 11) – Capital flows and their evolution over time; foreign direct investment; portfolio investment; impact on exchange rates and asset prices; flight to quality;

IMF World Economic Outlook, April 2016, Chapter 2 (Washington DC)

Apr 27
Session 12) – External debt; access to external savings; uses of debt; debt profile and service; primary fiscal balance; debt sustainability; legal jurisdiction; debt workout; collective action clauses; debt currency; the case of Greece.

Reinhart & Rogoff, “This Time is Different” Chapters 2-6 (Princeton, 2009).

May 4
Session 13) – International financial architecture; The World Trade Organization; International Monetary Fund; the World Bank; regional development banks; the Basel group and regulatory convergence; financial accounting standards; the role of the Gs.

Ian Hurd “International Organizations: politics, law, practice” (Cambridge 2011)
Class notes, other readings to be provided