

IBS-B525 International Trade Policy

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Readings: Course Packet of readings and **Russell Roberts, A Choice: A Fable of Free Trade & Protectionism**

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COURSE OBJECTIVES AND PROCEDURES:

This course focuses on current issues in international economics including currency determination, global linkages and crises and international trade. It emphasizes how to apply economic intuition, rather than complex economic models, and is designed to answer important questions that businesses face today. The central focus is to take important international economic events and analyze how they impact the international business environment. More specifically, we examine important factors that determine and affect an American company's decision to invest abroad; for instance how has America's recession impacted other countries and what are the effects of currency movements on profitability of American companies abroad? A paper is due at the end of the semester that synthesizes and analyzes the class discussions on a company's investment decision.

We begin with an examination of the financial crisis and its impact on the world economy. We investigate: Is this Time Different? The US crisis is yet another financial crisis, and it is important to understand what caused it as well as its effect on both the domestic and world economy. Why has this developed into a Global Financial crisis, and how does this affect investment and trade decisions. We then focus on contemporary problems with the World economy, particularly the growing US current account deficit and its implications. Can the US through importing continue to be the world's consumer? If not, what does this imply about exchange rates, interest rates, trade and investment? The class then explores other world vulnerabilities such as the recent oil shock, the problems with Europe and the Euro as well as the increasing reliance of the world on one or two engines of growth (the US. and China). How does one currency affect the trade, interest rates and investment of its member countries?

We also explore popular trade misconceptions, particularly causes of current account imbalances and competitiveness; for instance, are current account deficits a sign of strength or weakness. The readings shows that US current deficits, the largest in the world, are a source of concern, but do not necessarily imply harm or weakness. Does borrowing for emerging countries make them more vulnerable to speculative attacks, currency crisis and default? Are lender countries therefore safe bets? What economic signals/variables are important in determining good macroeconomic and investment health? What are factors are important in determining long-run growth and productivity? How do they affect the profitability of international investment. The readings and class discussion will demonstrate that many current books and articles exaggerate the harms of international trade and its effects on US income and employment. We further study how trade influences jobs, manufacturing, and income. Robert's book on the case for Free Trade is also discussed. Causes of the Asian crisis, the emergence of China and Globalization will round out the semester.

ASSIGNMENTS and GRADES:

There will be seven assignments worth 50% that can be worked on and handed in assigned teams. These consist of relatively brief answers (typically three paragraphs per answer) to the questions in each section. A final individual paper is worth 50% and is due at the end of April; points will be deducted if the paper is late.

COURSE OUTLINE:

The following topics will be discussed in order and last approximately one week.

• Current trends in international trade and the world economic environment

What are the prospects for the current World Economy? What are important Global indicators? Is the Financial System in Crisis? How will this change the Global outlook? Is the US economic crisis different from past crisis, and what are the implications for economic growth?

• Problems with the World Economy – US Current Account

What is the problem with the current exchange rate system? Why does the US have a large current account deficit? Is it our problem or theirs? What are the potential dangers of a large US current account? Mention the problems of too much foreign money and can we borrow forever.

• Exchange Rate Determination

Is the dollar overvalued? Discuss pros and cons? What factors are affecting the dollar? (mention Asia dollar reserves) Should we be worried about a dollar collapse? How does dollar movements affect U.S. business? What factors determine exchange rates?

• Trade Policy Misconceptions

What's wrong about popular views of trade? Do countries compete? What is the relationship between trade, jobs and the economy? Give examples of pop trade arguments and why are they incorrect. Does Third World Growth Hurt US? Discuss the illusion of conflict in international trade.

• How to Evaluate Trade Imbalances,

Are current accounts good or Bad? What drives current account imbalances? Discuss U.S. Case Study. How to Evaluate Trade imbalances?

• Trade, Jobs and Manufacturing – Should US workers worry about Free trade and outsourcing?

Briefly discuss Ricardo's case for Free Trade given in the Russell Roberts novel. Discuss the case against steel tariffs. Give some examples how protectionism hurts the economy and consumers. What is the economic case for protectionism?

• Asian Economic Miracle – Should we worry about a rising Asia? Is China to blame for the rich world's economic problems? What caused the Asian Crisis? What are potential problems with China's economy?

• Globalization Pro and Cons

What are the Pros and Cons of Globalization? How does it affect consumers? Workers? Why did Cancun fail? What is the Washington Consensus?

• International Business Competitiveness

What factors are important in affecting the macroeconomic environment? in affecting the business environment? in small businesses? In international trade? What is international competitiveness and how does a country?