

**ECON 4384 Globalization: Trade, Investment and Exchange Rate**  
**Hong Kong University of Science and Technology**  
**School of Business and Management**  
**Department of Economics**  
**Spring Semester 2017**

Pre-requisites: (ECON 2103 or ECON 2113 or ECON 2913 or ECON 3113) and (ECON 2123 or ECON 3123)

Exclusions: ECON 4354, ECON 4364, ECON 4374, ECON 399H, SOSC 200D, SOSC 200E

Lecture Classroom and time: LSK 1027; Tu, Th 9:00-10:20

Instructor: Prof. Edwin LAI, Department of Economics

Office: LSK Room 6079; Office Hours: TBA

Office Phone: 2358-7611; E-mail: [elai@ust.hk](mailto:elai@ust.hk)

Tutorial classroom and time: LSK 1032; Mo 12:00-12:50

Teaching Assistants: TBA

Office: TBA

Office hours: TBA

E-mail: TBA

### **Course Description**

In this course, we will examine the causes and consequences of globalization from an economic perspective. Therefore, it is basically a course in international economics, emphasizing how the world is integrated through trade and macroeconomic linkages. The course consists of two parts. **Part I** is concerned with trade and direct investment linkage. It discusses the patterns of international trade, why nations trade, what they trade, and the consequences of trade. Then, we go on to analyze the determinants and the implementations of different trade and direct investment policies, the motives for countries to restrict international trade, and the welfare implications of those trade policies. **Part II** focuses on macroeconomic linkage, which covers the analysis of the interrelationship among output, interest rate, exchange rate, inflation, trade balance, macroeconomic policies, as well as the international monetary system.

International economic models will be introduced to analyze the issues whenever necessary, but with more focus on economic reasoning and intuition rather than technicalities. Real world issues and policies pertaining to globalization will be discussed throughout the course, including the effects of trade on economic growth and income inequality, multinationals, foreign direct investment, WTO, IMF, macroeconomic policies, different exchange rate regimes and many others. There will also be regional case studies on China, Hong Kong and other Asian economies.

### **Course objectives**

This course will help you understand issues in international trade and international macroeconomic linkages among countries. The first set of issues constitutes the topic of international trade and foreign direct investment, which includes topics such as the sources of gains from trade, the determinants of pattern of trade, the causes and consequences of setting up of trade barriers by governments, and the economic analysis of trade policies. The second set of issues, generally of a macroeconomic nature, is concerned with international monetary/financial linkages. We shall discuss balance of payments, foreign exchange markets, money market and the adjustment of exchange rates, interest rates and outputs in an open economy.

### **Learning outcomes**

At the end of this course, students are expected to be able to

1. Understand national income accounting, balance of payments, the different exchange rate regimes, international monetary system, International Monetary Fund, the gains from trade and direct investment, comparative advantage and trade, economies of scale and trade, trade policy, free trade agreements, World Trade Organization. Understand the causes and consequences of trade, direct investment, trade protection and trade agreements.
2. Analyze gains from trade, the determinants of comparative advantage, how comparative advantage determines trade pattern and production pattern, how trade affects factor returns, the welfare implications of trade protection.
3. Analyze the short-run and long-run impacts of monetary and fiscal policies on price level, exchange rate, interest rate and output in an open economy under flexible and fixed exchange rate regimes, respectively.
4. Independently collect data and make use of the tools they learn to analyze and write about real world issues related to the above topics.

### Teaching Approach

This course is primarily delivered through lectures, tutorials, class discussion, homework and term paper.

Teaching and Learning Activities	Roles in the Course	Course Learning Outcome addressed
Lectures with in-class discussions	Explain key concepts and models to students	1, 2, 3
Tutorials	Review basic model and concepts, practice problem-solving, explain answers to homework and exams	1, 2, 3
Homework assignments and quizzes	Practice problem solving, apply models to analyze international economic issues	2, 3
Group project	Detailed analysis of international economic issues and critically evaluate policies	4

### Reading Material

#### Required textbook:

Krugman, Obstfeld and Melitz, *International Economics: Theory and Policy*, tenth edition, Pearson (abbreviated as KO)

Students are required to purchase the “value-package” which includes the textbook together with access to “MyEconLab”, the online learning system the access of which is sold together with the textbook.

Supplementary textbook (you can find it in the library):

Feenstra, Robert C. and Taylor Alan M., *International Economics*, 2<sup>nd</sup> edition, Worth Publishers (abbreviated as FT)

Supplementary reading material will be posted for students to download during the semester.

### Assessment

Assessment Activities	Weighting	Relevant information	Course learning outcomes assessed
Final Examination (closed book)	45%	Date: TBA	1,2
Mid-term exam (closed book)	20%	Date: 21 March 2017	1, 2
Group project	20%	Paper due date: 16 May 2017	3
Homework assignments (about six)	10%	Need to submit, and credits will be given if seriously attempted	1, 2
Quizzes and Participation	5%	Quizzes are graded. Asking and answering questions in class and tutorial are rewarded.	1, 2, 3

The earlier part of the course will be tested in a mid-term examination. The mid-term is in-class, and lasts for one hour and twenty minutes. The final examination is three-hour long and will cover all the material taught in the course, with an emphasis on the later part of the course. The final examination will be held during the regular examination period.

About five or six problem sets will be given. When a problem set is due and submitted, the answers will be discussed in the tutorial. No late submission will be accepted.

Student participation is taken seriously. Attendance will be taken in each class and tutorial. As attendance in the tutorial will count toward your participation, we shall circulate an attendance sheet and ask you to sign it. Please do not sign up for others. We will find it out. If you sign up for another person, both of you will be penalized.

Students are expected to have read the relevant material before coming to class/tutorial, and to come prepared with questions. It must be emphasized that participation is not simply being there. Those who do not participate actively may be given “cold calls”.

### Group project and paper

Students are requested to freely form groups of four. Each group is required to lead a class discussion on a selected topic. The discussion will consist of 25 minutes of presentation by the group followed by 10-15 minutes class discussion, to be led by the group. All students in the class must come prepared by reading and thinking about the topic beforehand, and come up with their own questions. The leading group must email their presentation material (e.g. slides, reference books or articles) one week before the date of the discussion to the TA, who will then make them available to all students. The participation of each group in all discussions is taken into account in the evaluation of the group's overall performance, in addition to its own presentation and paper. The leading group must have

thoroughly researched the topic, have gotten the important points written down, and be prepared to answer any questions from the rest of the class.

Each group is required to evaluate the performance of other groups. After the class discussion, the leading group should write a report of 3000-3500 words on the topic of the discussion they have led. The overall contribution of each member in a group will be evaluated by all other members of the same group, and this evaluation will determine the marks obtained by the members. Therefore, one member of a group may get substantially higher marks than another member of the same group if their contributions as revealed in the group evaluation differ substantially.

Each group must choose one of the following topics for its group project. The class presentation would follow the order listed below. No two groups are allowed to choose the same topic. Choice of a topic will be on a first-come-first-served basis.

- The global value chain and how it affects world trade and welfare
- The effects of globalization on developing countries
- The effects of globalization on developed countries
- The implications of the recent trend towards signing bilateral and regional trade agreements rather than global (multilateral) trade agreements
- The prospects of the World Trade Organization and global (multilateral) trade liberalization
- Is it in the best interest of developed countries to erect trade barriers against less developed countries in order to prevent domestic job losses? If not, what is the best alternative?
- What are the benefits and problems of financial globalization in the recent one or two decades? What measures do you suggest to remedy the problems and enhance the benefits?
- What are the prospects of the European Union and of the eurozone?
- What make the US dollar a dominant international currency in the world? What are the problems with the current International Monetary System (IMS), and what remedies do you suggest?

The group project paper is due on 16 May 2017 (Tu) at 5:00pm in the drop box of ECON 4374 at the Department of Economics -- no late papers will be accepted. The paper should have no less than 3000 words and no more than 3500 words, plus any graphs, tables, references, or footnotes. The paper should be in Times New Roman 12-point fonts, single-spacing, with one inch margin on all sides. Please carry out a word count and indicate the number of words in your essay at the end of the Conclusion section.

When writing the paper, bring in the theory whenever possible, and support your arguments with graphs, tables, data and/or calculation where appropriate. The paper should include a short introductory section containing a brief description of the issue and relevant background material, a main section presenting the analysis, and a brief concluding section summing up the main points of the paper. Any footnotes, references, graphs, and tables should follow the concluding section in that order. The weights to be allocated to different aspects of the paper are:

\*Economic knowledge 33%: Application of the economics that you have learned

\*Exposition and logical coherence 33%: Clarity of exposition or presentation of the argument (e.g. motivation, presentation of data/evidence/facts, consideration of both sides of the debate, citing what others have written about the subject, how you draw the conclusion).

\*Critical thinking and originality 33%: e.g. able to provide new angles to look at the question and argue your case.

Tips for writing a good project paper: 1. Motivate why your topic is important. 2. State relevant facts or data. 3. Try to apply the economic theory you learned in class or economics you learned elsewhere as far as possible. 4. Consider thoroughly and critically the arguments on both sides of the debate, then draw your own conclusion. Explain carefully how you arrive at your conclusion.

I would post a number of relevant articles or their links on the web. Another good place to look for relevant articles would be the papers cited at the end of the relevant chapters in the textbook.

You are required in turn in a soft copy (in MS Word or Scientific Word format, not PDF) as well as a hard copy of the paper.

### **Satisfying Econ 4670/367 requirement**

The project paper in this course **cannot** be used to satisfy the Econ 4670/367 writing requirement.

### **Plagiarism and cheating**

Plagiarism and cheating are serious offences. The university takes these cases seriously. If you are found guilty, you can be failed for the class and even expelled from the university.

If there is evidence that you copy problem set answers from each other or some leaked answer key, that is considered cheating.

When writing a project paper, you have to write in your own words. This is required even if you are summarizing the work of others. If you lift large number of phrases, sentences or paragraphs from other's work, and put them in your paper, it is treated as plagiarism even if you cite where they come from. If you just make minor changes to the sentences, it is still plagiarism. Summarizing must be in your own words.

We have software to check if you have copied fully or partially the paper(s) of other people, including those of past students in this course, published papers, or papers found online.

**On the cover page of the paper, please print "I/we understand that sanctions and severe penalty can be imposed, if I am/we are found to have violated the University's regulations governing academic integrity, including plagiarism." Then each person sign underneath the statement with the name stated next to the signature.**

## **Reading List**

### A. International Trade

#### I. Introduction

KO Chapter 1

Who Trades What with Whom? An Overview.

KO Chapter 2

#### II. Theories of Comparative Advantage

1. The Ricardian Model: The 2-Good Model and the Many-Goods Model.

KO Chapter 3

Recommended: Feenstra and Taylor Ch. 2

2. The Heckscher-Ohlin Model

KO Chapters 5

Recommended: Feenstra and Taylor Ch. 3, 4

3. The Standard Trade Model

KO Chapter 6

#### III. Alternative Explanations of International Trade

Increasing Returns, Imperfect Competition and the Firm

KO Chapter 7, 8

Recommended: Feenstra and Taylor Ch. 6

IV. Trade Protection and the Economics of Trade Agreements

KO Chapters 9, 10

Recommended: Feenstra and Taylor Ch. 8, 9, 10, 11

V. Trade Policy in Developing Countries (self-reading)

KO Chapter 11

VI. Controversies concerning free trade (self-reading)

KO Chapter 12

### B. International Macroeconomics

I. The Balance of Payments

KO Chapter 13

Recommended: Feenstra and Taylor Ch. 16

II Models of the Foreign Exchange Market

KO Chapter 14

Recommended: Feenstra and Taylor Ch. 13

III. International macroeconomics and policy

KO Chapters 15-18

Recommended: Feenstra and Taylor Ch. 14, 15

IV. International Monetary System, Financial Globalization, etc. (self-reading)

KO Chapters 19-22

## Econ4384 Spring 2017 Schedule

<u>Session</u>	<u>Month</u>	<u>Day of month</u>	<u>Day of week</u>	<u>Chapter</u>
1	Feb	2	Th	1, 2, 3
2		7	Tu	3
3		9	Th	3
4		14	Tu	5
5		16	Th	5
6		21	Tu	6
7		23	Th	6
8		28	Tu	7
9	Mar	2	Th	8
10		7	Tu	9
11		9	Th	9
12		14	Tu	10
13		16	Th	13
14		21	Tu	MT
15		23	Th	13, 14
16		28	Tu	14
17		30	Th	15
18	Apr	6	Th	15, 16
19		11	Tu	16
20		20	Th	17
21		25	Tu	17, 18
22		27	Th	18
23	May	2	Tu	Presentation
24		4	Th	Presentation
25		9	Tu	Presentation
Self-reading				4, 11, 12, 19-22

MT: Ch 1-3, 5-10

Final: heavier weight on Ch 13-18 but includes all chapters (with excluded parts listed below)

Ch 8: omit sections “The Theory of Imperfect Competition”, “Monopolistic Competition and Trade” and “Firm Responses to Trade: Winners, Losers, and Industry Performance” **only**

Ch 16: omit subsections “On-going Inflation, Interest Parity and PPP” and “The Fisher Effect”, and sections “International Interest Rate Differences and the Real Exchange Rate” and “Real Interest Parity” **only**

Ch 17: omit from section “Inflation Bias and Other Problems of Policy Formulation” **onwards**

Ch 18: omit texts in section “Managed Floating and Sterilized Intervention” **only**

Ch 4, 11, 12, 19-22: relevant to the course, but for self-reading (will not be covered by exam)