Preliminary Syllabus

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 2018

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:
Instructor: Prof. Edwin LAI, Department of Economics
Office: LSK Room 6079; Office Hours:
Office Phone: 2358-7611; E-mail: elai@ust.hk

Tutorial classroom and time:
Teaching Assistants:
Office:
E-mail:

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.

**Teaching Approach**

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

<table>
<thead>
<tr>
<th>Teaching and Learning Activities</th>
<th>Roles in the Course</th>
<th>Course Learning Outcome addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lectures with in-class discussions</td>
<td>Explain key concepts and models to students</td>
<td>1, 2, 3</td>
</tr>
<tr>
<td>Tutorials</td>
<td>Review basic model and concepts, practice problem-solving, explain answers to homework and exams</td>
<td>1, 2, 3</td>
</tr>
<tr>
<td>Homework assignments and quizzes</td>
<td>Practice problem solving, apply models to analyze international economic issues</td>
<td>2, 3</td>
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**Reading Material**

**Required textbook:**

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):**

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

<table>
<thead>
<tr>
<th>Assessment Activities</th>
<th>Weighting</th>
<th>Relevant information</th>
<th>Course learning outcomes assessed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final Examination (closed book)</td>
<td>40%</td>
<td>Date: TBA</td>
<td>1, 2</td>
</tr>
<tr>
<td>Mid-term exam 1 (closed book)</td>
<td>22.5%</td>
<td>Date: TBA</td>
<td>1, 2</td>
</tr>
<tr>
<td>Mid-term exam 2 (closed book)</td>
<td>22.5%</td>
<td>Date: TBA</td>
<td>1, 2</td>
</tr>
<tr>
<td>Homework assignments (about five to six)</td>
<td>10%</td>
<td>Need to submit, and credits will be given if seriously attempted</td>
<td>1, 2, 3</td>
</tr>
<tr>
<td>Participation</td>
<td>5%</td>
<td>Attendance, asking and answering questions in class and tutorial</td>
<td>1, 2, 3</td>
</tr>
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The earlier part of the course will be tested in two mid-term examinations. The mid-terms are in-class, and each lasts for one hour and twenty minutes. The dates of the mid-terms are listed in the above table. You must take them on those dates. No make-up mid-term exams would be provided. Any excuse of absence from the mid-term exams due to conflicts with other activities will not be accepted. 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. 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”.

Plagiarism and cheating

Plagiarism and cheating in exams, tests and assignments 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.
Reading List

A. International Trade

I. Introduction
KO Chapter 1

KO Chapter 2

II. Theories of Comparative Advantage

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