

EC 403: International Trade, Finance and Development

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Room # 310, 325 Contact Hours: Monday to Friday 11.00 to 12.15,

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1 Course Description This course is designed to provide a basic introduction to theories of international trade, balance of payments adjustment and capital flows. It will also give an indication of the historical evolution of trade and finance patterns, the important international institutions and major processes in the current international economy, and the issues of policy concern for developing countries such as India..

2 Evaluation Method Two examination: one mid-semester and one end-semester.

3 Main References Please see attached course outline

4 Topics

Part A – International Trade

- Theories of international trade:** Why do countries trade, what determines the patterns of trade, what are the gains and implications of trade?
 - Ricardian comparative advantage and other classical models
 - Heckscher-Ohlin-Samuelson factor endowment based models
 - Linder's demand similarity hypothesis
 - Imperfect competition models, models relating to intra-industry trade, and theories of strategic trade policy
- The context of international trade:** The historical evolution of trading patterns and the current institutional context of trade.
 - The emergence of the international division of labour in the mid 20th century
 - Trade patterns of the past two decades
 - GATT and the WTO
 - Preferential trade agreements
 - International investment and trade
- Trade policies for development:** The theoretical and empirical basis for trade and industrialisation policies of developing countries, and the current constraints.
 - Trade and growth
 - Theories of tariff protection, infant industry protection and dynamic comparative advantage
 - The experience of developing countries with trade openness
 - Current constraints and emerging issues for developing countries in the period of globalisation

Part B: International finance

- Open economy macroeconomics:** The implications of openness for macro-economic performance and policy.

- Approaches to balance of payments adjustment: the Keynesian (elasticities and absorption) and Monetarist (stock and portfolio choice) approaches
 - Implications of capital flows, Mundell-Fleming and subsequent models
 - Theories of exchange rate determination and the evidence: Purchasing Power Parity, asset market model, etc.
5. **The historical and institutional context** within which international financial flows occur.
- The Gold Standard regime – Theoretical explanations and actual patterns
 - The interwar period of international financial instability
 - The Bretton Woods regime
 - Post-Bretton Woods arrangements, including the current role of the IMF and World Bank, and the current structure of international financial markets
6. **Financial liberalisation** and its effects, financial policies for developing countries
- Imperfections in international financial markets
 - The elements of financial liberalisation
 - Crises in emerging and developed markets
 - Monetary integration and its consequences
 - Issues in international financial architecture
 - The development project in a world of mobile finance