

National and Kapodistrian University of Athens
Department of Economics
INTERNATIONAL ECONOMICS:
Theory and Policy
N. Kosteletou

Academic Year 2024-25

1st lecture

Introduction

Today's plan

- We shall provide an overview of the subject and a guide to the organization of the course.
- Course logistics
- What International economics is about?
- Why we study International Trade?
- Gravity model

Course logistics

- Prerequisites of the course: Principles of Economics and Principles of Macroeconomics, and Microeconomics.
- Grading scale: 0-10
- Two instructors:
- George Chortareas, Professor
- Nikolina Kosteletou, Emerita Professor

Two main subfields of international economics

- *Theory of trade (real side of transactions)*
Kosteletou
- *International finance (or international
macroeconomics, or international monetary
economics...)*
Chortareas

Recommended textbook: Paul Krugman, Maurice Obstfeld, and Melitz, *International Economics*, 12th edition, Pearson. (KOM)

• **Course Outline:**

1. *International Economics, Globalization and Global Markets*, Krugman, P., M. Obstfeld, M. J. Melitz, (Pearson 2023) (KOM) “*International Economics, Theory and Policy*”, Chapters 1, 2.
2. Classical Trade Theory and the Theory of Comparative Advantage: from A. Smith to Ricardo, KOM, Chapter 3.
3. The Neoclassical Trade Model: The Heckscher - Ohlin Theorem of Comparative Advantage, KOM, Chapter 5.
4. Trade, Growth and Welfare: the standard trade model, KOM, Chapter 6.
5. External Economies of Scale and the International Location of Production, the multinational company, exports, and outsourcing, KOM, Chapter 7,8.
6. Instruments of Trade Policy: tariffs, quotas, and their effects, *KOM, Chapter 9*.
7. The Political Economy of Trade: free trade or protection? KOM, Chapter 10.
8. Exchange rates and the foreign exchange market. KOM, Chapter 14 or Feenstra, R.S., A.M. Taylor, (FT) “*International Economics, Macmillan*”, 5th edition, 2021, Chapter 13.
9. Prices and exchange rates in the long run. KOM, Chapter 16 or FT Chapter 14.
10. Money, Interest rates and Exchange rates. KOM, Chapter 15 or FT Chapter 15.
11. National Accounts and the Balance of Payments. KOM, Chapter 13 or FT Chapter 16.

Erasmus-Civis Program 2024-25: International Economics, Theory and Policy

	October	Topics	Instructor
Tuesday	8	Introduction-Gravity model	Kosteletou
Tuesday	15	Ricardo theory of comparative advantage	Kosteletou
Tuesday	22	Neoclassical Approach: The Heckscher-Ohlin model	Kosteletou
Tuesday	16	The Standard Model of Trade and Growth	Kosteletou
	November		
Tuesday	5	Economies of scale, external economies	Kosteletou
Tuesday	12	Instruments of policy	Kosteletou
Tuesday	19	Political Economy of Trade	Kosteletou
Tuesday	26	mid-term exam	Kosteletou
Friday	29	Exchange rates and the foreign exchange market	Chortareas
	December		
	13	Prices and Exchange rates	Chortareas
Friday	20	Money, Interest rates and Exchange rates	Chortareas
	January		
	10	National Accounts and the Balance of Payments	Chortareas
Friday	17		Chortareas
Friday	24	Final Exam	

Why we study the theory of international Economics

- To improve our understanding of many key events that shape our domestic and international environment, such as
- Large current account deficits or surpluses – external imbalances
- Fluctuations of the dollar and the euro
- Crises (Latin American debt crisis of the 1980s, Mexican crisis of 1994, financial crisis of East Asia of 1997, economic crisis of 2008-09 (bust in the American housing market))
- EMU
- Globalization
- War between Russia and Ukraine-energy crisis
- Effects of war between Israelis and Palestinians.
- Rising wave of protectionism

The World Today

- **Are international transactions different from those made within a country?**
- transactions between citizens of the same country and between citizens of different countries.
- **Sovereign state** (country, borders, government, policies...)
- **Volume of international transactions has increased.**
- **Questions:**
- **What kind of forces are behind the tendency of growing volume of international trade?**
- **How does international trade affect the development and **policy** of a state?**

International Transactions Today

- Thousands of goods, services and financial transactions
- we need models (theories) to discuss the questions of the international trade
- old economic field (D. Hume, A. Smith, D. Ricardo..)
- Separate topic of economic science

During the semester we will discuss:

- What is international economics about?
- causes of trade: traditional approaches, comparative advantage and the pattern of trade
- the benefits of trade
- other causes of trade, recent approaches
- government policy and
- international financial issues (capital flows)
- exchange rates, prices, interest rates
- balance of payments (exchange rate)

What is international trade about;

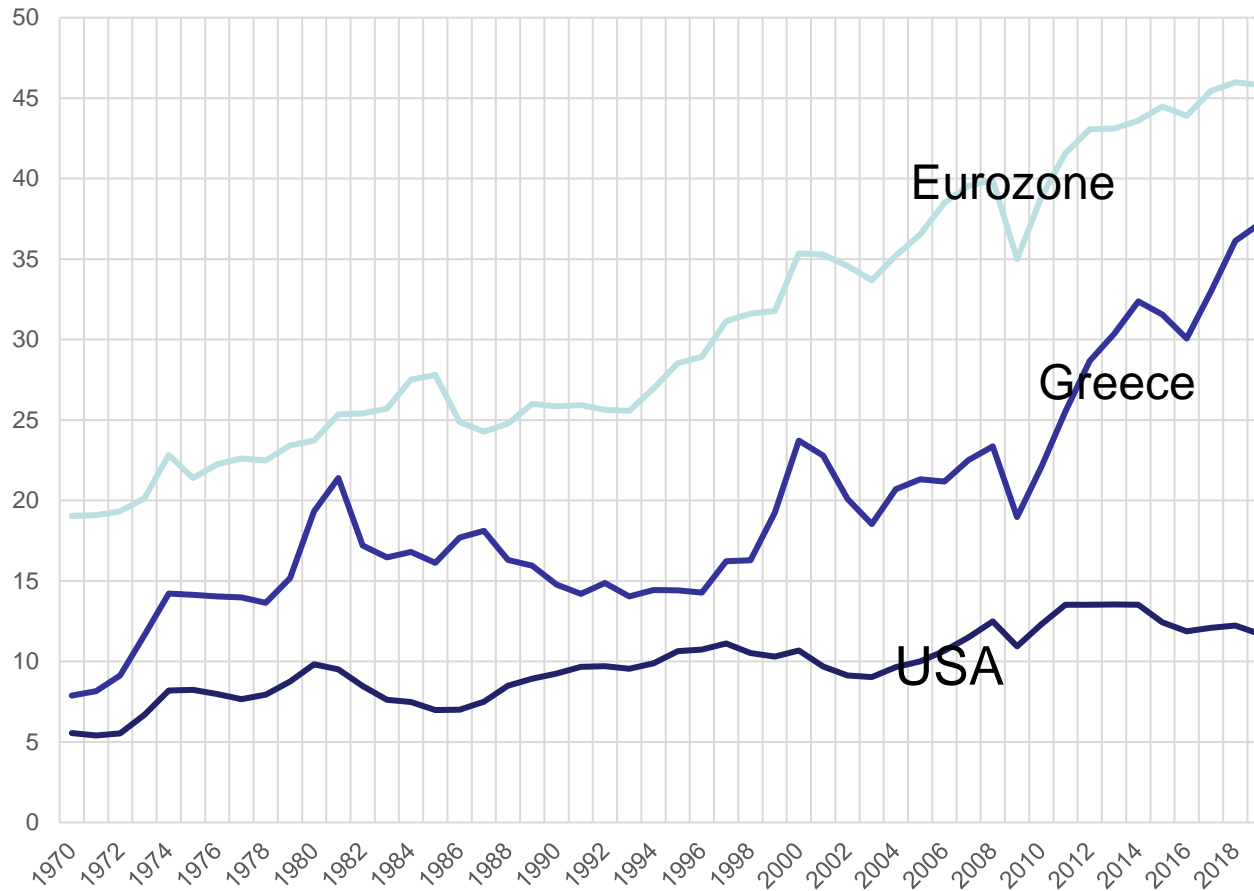
- International economics studies the interaction among countries through trade flows of goods, services and capital.
- The international economy has a long history, but the study of international economic relations was never as important as it is today.
- National economies are closely linked to each other through international trade of goods and services, international money flows and international investment.

Figure 3: Ratio of world exports of goods and commercial services to GDP, 1980-2010
(Index, 2000 = 100)



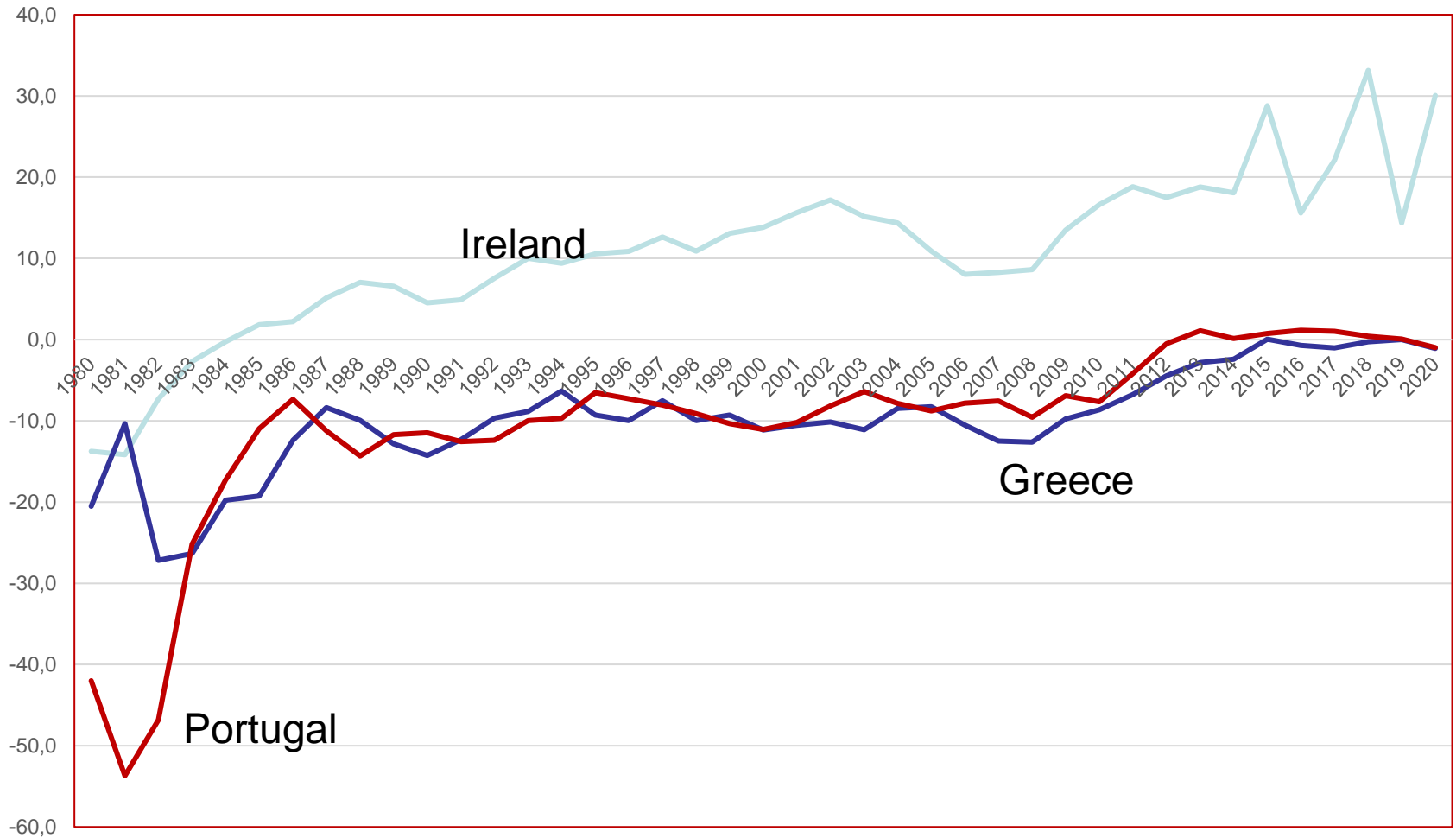
Source: IMF for world GDP, WTO Secretariat for world trade in goods and commercial services.

Exports of Goods and Services(%GDP)



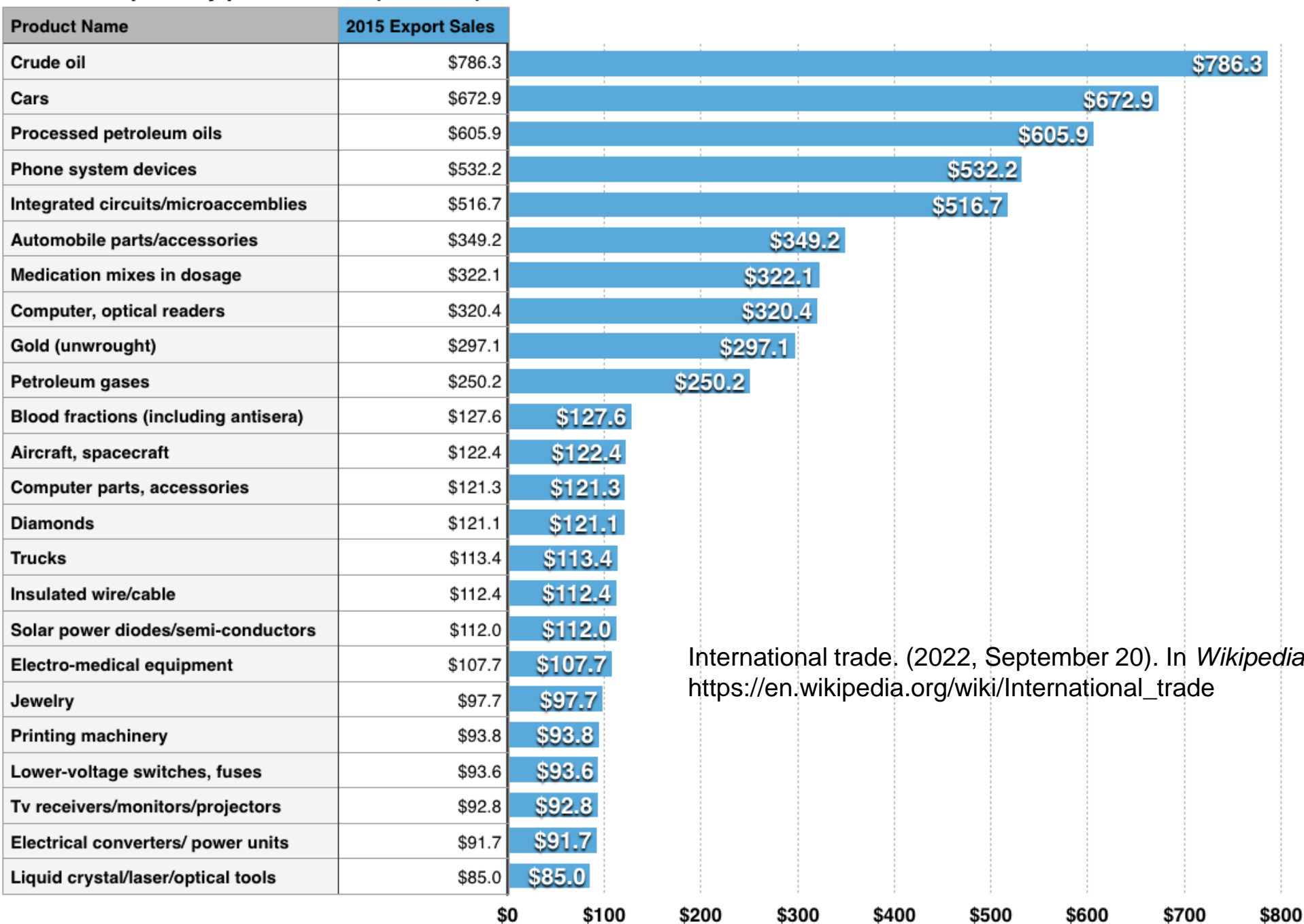
Source: AMECO data base, European Commission

NET Exports of Goods and Services (% of GDP)

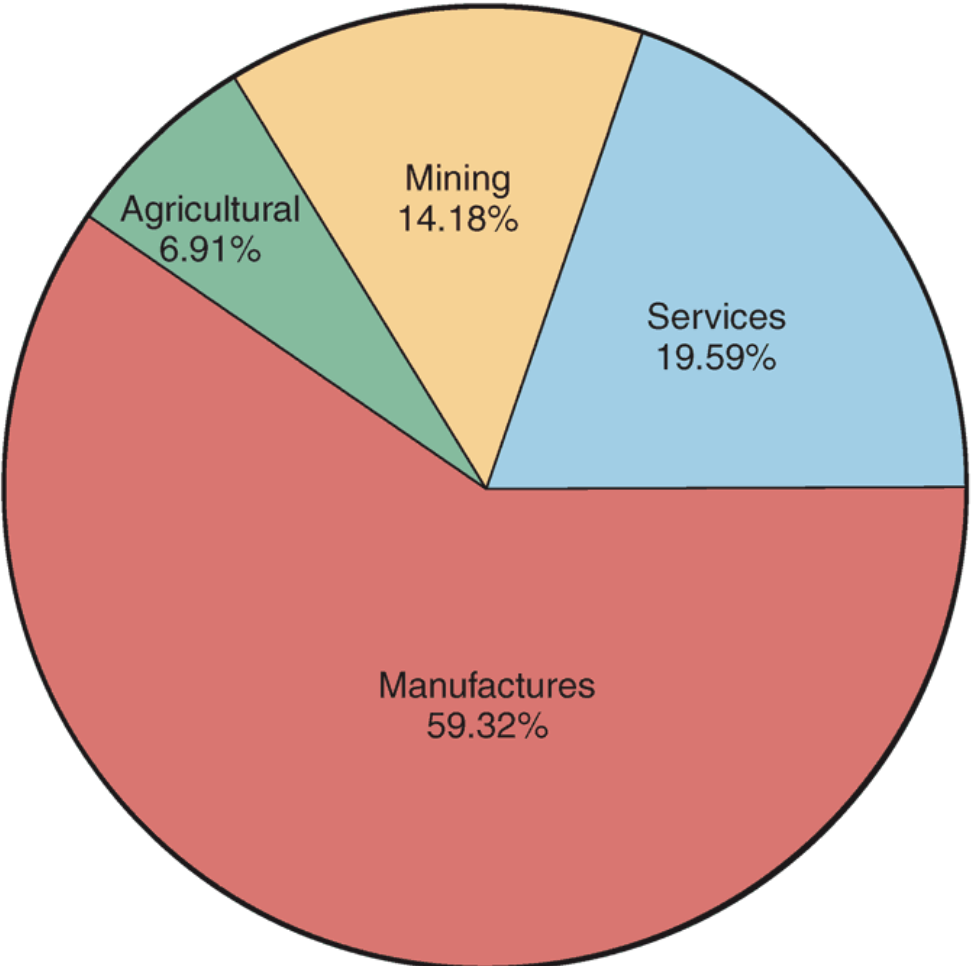


Source: AMECO data base, European Commission

Global exports by product 2015 (\$Billions)



The composition of world trade 2005



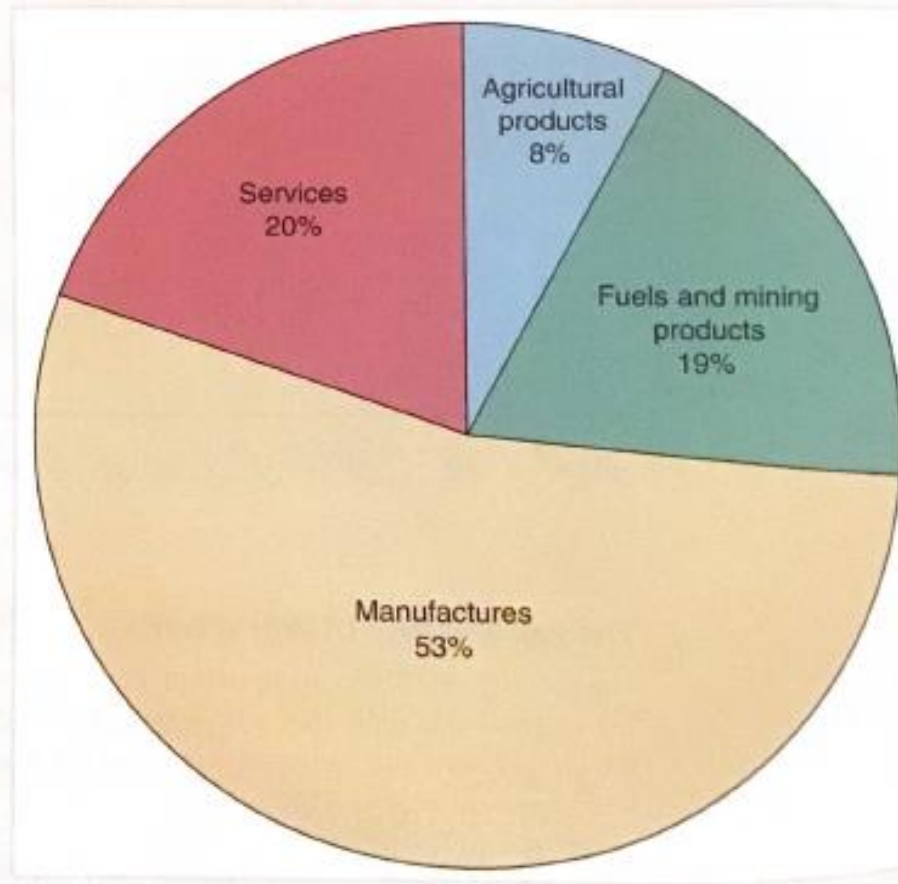
Source: World Trade Organization

FIGURE 2-6

The Composition of World Trade, 2011

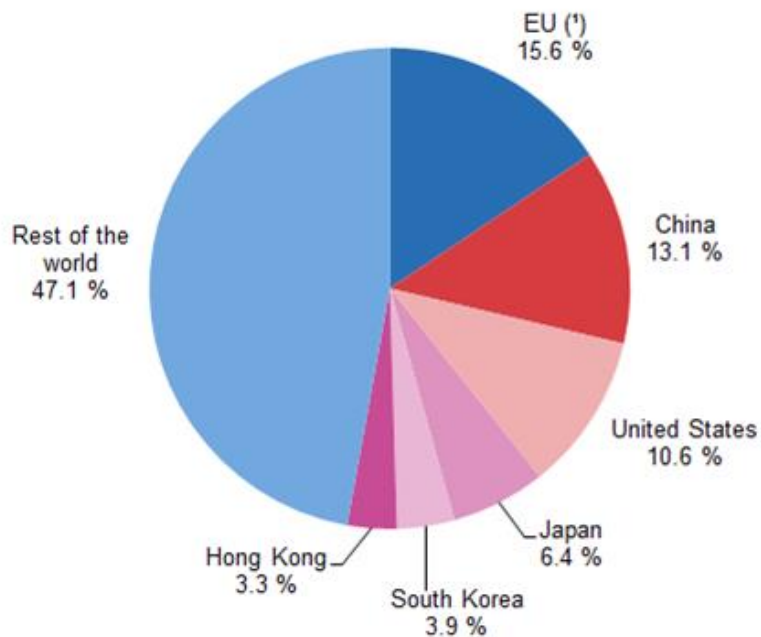
Most world trade is in manufactured goods, but minerals—mainly oil—remain important.

Source: World Trade Organization.

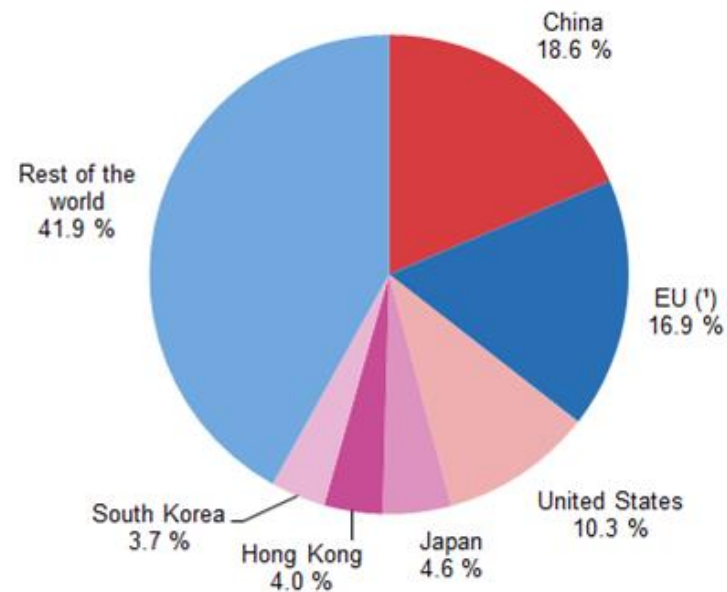


Exports of goods, selected countries, 2010 and 2020

(share of world exports) 2010



2020



Note: the figure shows the top six countries/geographic aggregates with the highest values for exports of goods in 2017. The total value of exports for the world excludes intra-EU trade.

(*) Extra-EU trade.

Source: Eurostat (online data code: ext_it_introle), United Nations (Comtrade) and International Monetary Fund (Direction of Trade Statistics)

Highlights (EU exports of goods)

The EU accounted for 16.9 % of world exports and 15.1 % of world imports in goods in 2020.

The EU was the world's leading exporter of food, drinks and tobacco as well as of chemical products in 2020 but was highly dependent upon imports of mineral fuels.

In 2020, the United States remained the principal destination for goods exported from the EU and China the main source of goods imported into the EU.

Topics of International Economics: (themes that recur throughout the study of international economics)

- The pattern of trade (theories, models)
- Gains from trade
- How much trade (the volume of trade)
- Policies
- The balance of payments
- Monetary issues
- Mobility of labor
- The international capital market