

ECONOMICS 3**ECO312: INTERNATIONAL TRADE THEORY AND POLICY****COURSE FORMAT AND OUTLINE 2023****GENERAL INFORMATION****Course lecturers**

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Group A

Thursdays 11:25am – 13:05am; Fridays 07:45am – 08:30am

Group B

Wednesdays 11:25am – 13:05am; Fridays 08:40am - 09:25am

Venue for All Lectures:

Arts Major

Test dates

Test 1: Week 6 Wednesday (22nd March 2023)
Test 2: Week 9 Wednesday (26th April 2023)

1 INTRODUCTION

The aim of this course is to provide an introduction to the theoretical, applied and policy aspects of international economics. There are two main branches of international economics: international trade theory and policy, and international monetary theory and policy. Traditionally, semester courses in international economics attempted to cover both of these aspects in some detail. However, as Appleyard and Field (2016) note, the rapidly expanding body of knowledge in international economics has made it increasingly difficult to cover both international trade and international monetary economics in a one-semester course. As a solution, the Economics Department at Rhodes offers the two branches of international economics in two different modules. An entire semester course (ECO312) is devoted to international trade theory and policy, while international monetary economics makes up half of the Money, Banking and International Finance course (ECO316). It is therefore possible for an Economics 3 student to be exposed to three terms of international economics by taking both ECO312 and ECO316. This is an important advantage for graduates given the increasing globalisation of the world economy.

The International Trade Theory and Policy course (ECO312) is divided into two main sections, as the name suggests. These sections are microeconomic in their focus, and it is generally assumed that the economy is in macroeconomic equilibrium (i.e. at full employment, in balance of payments equilibrium etc.). **The tools of analysis for these sections were acquired in ECO101 and ECO201. Chapter 5** of the textbook (see below) provides an invaluable review of this microeconomic toolkit.

By contrast, international monetary economics (or international finance), covered in ECO316, abstracts from microeconomic issues by aggregation, to focus on the macroeconomic problems of open economies (inflation, unemployment and balance of payments disequilibria). Indeed, in other texts, this section is often referred to as "open economy macroeconomics". Here, the appropriate tools of analysis are the macroeconomic models of Keynesian and monetary theory, introduced in first and second year macroeconomics courses.

1.2 Assumptions of prior learning

Students should have completed ECO 201 and 202, or their equivalent. It will be assumed that students are familiar with the microeconomic toolkit reviewed in **Chapter 5** of the textbook, specifically indifference curves, budget lines and consumer equilibrium; isoquants, isocosts and producer equilibrium; the Edgeworth-Box diagram and the production possibilities frontier. **Students are expected to work through Chapter 5 carefully on their own for revision purposes in the first two weeks of the course.**

Students should have quantitative skills to be able to handle some of the quantitative topics in this course. Students should also be able to work with spreadsheets. It is assumed that students can make use of web links to access necessary trade data and other information needed for some of the topics that are covered in this course.

2 OUTCOMES

On completion of ECO312, students should be able to:

- i distinguish between the classical, neoclassical and new/alternative theories of international trade;
- ii distinguish the sources of gain and the distributional consequences of trade in each case;
- iii discuss the empirical validity of these alternative theories with reference to the appropriate empirical studies;
- iv understand the instruments of trade policy available for intervention in the free flow of international trade, including their strengths, weaknesses and implications for welfare;
- v consider the implications of each theoretical approach for trade policy, particularly in the developing country context;
- vi outline the historical path which trade policy in South Africa has followed, and analyse the current debate on trade policy reform in this country in the light of the theory and the institutional arrangements governing multilateral trade relations in the world economy.

3 TEACHING METHODS

3.1 The lecture programme

The nature of the course content in ECO312, as well as the class size, means that formal lecturing is the primary method of delivery of the course material to students. However, class exercises, questions and class discussion are encouraged, and the tutorial programme allows for applied work and further discussion in a more informal small group setting. Students are

encouraged to read around the topic being covered in lectures, and **are expected to read the textbook**, preferably in advance of the lectures.

3.2 The tutorial programme

International Trade Theory and Policy tutorials will be held **every week, on Thursdays**. Tutorial groups, times and venues will be finalised by the second week of the semester. Students should ensure that they have the departmental list of tutorial dates for Environmental Economics and International Trade Theory & Policy, **as the tutorial dates for these two courses clash in some weeks**. **Attendance at all but one International Trade Theory and Policy tutorial is compulsory**, unless excused for medical or other approved reasons (see Section 7.1 below).

Students will complete mini-Tests during the tutorial periods, which will be marked and contribute towards the coursework mark. Where necessary, students should bring resource materials like spreadsheets, laptops and calculators to the tutorial in order to complete the mini-Tests. Where the students are given some work to complete before the tutorial, the student should bring such work to the tutorial together with additional resources like the textbook, notes, and slides. Please note that in such cases, the tutorial exercises need not be typed, *as long as they are neatly prepared*.

The purpose of the tutorial programme is to facilitate the application by students of the concepts introduced in the lecture programme in a small-group setting in which tutor assistance is available. The programme also helps a student to check on the correctness of their own work which they would have completed before the tutorial. Peer assistance is also strongly encouraged, and students may work on tutorial exercises in pairs, *provided their partner is in the same tutorial group*. However, where the tutorial is given as individual work (as in the case with mini-tests), each student should submit individual work. **Any plagiarised work will be awarded a mark of zero and disciplinary measures will be taken.**

Students are advised that **the best way to come to grips with the more technical aspects of the course is to keep up with the recommended readings, attend lectures, complete self-assessment exercises, and attend tutorials**. The students are advised to read in advance of the lectures where possible.

3.3 Assignments

Where assignments are set, the questions set for assignments will be applied in nature in order to give a real-world feel to a course which necessarily contains large doses of theory. Preference will be given to South Africa's trade.

IMPORTANT NOTE: *You are requested to keep a hard copy/photocopy of any assignments or tutorial exercises that you prepare, whether they are to be handed in or not. Plagiarism of tutorial exercises and assignments will be severely punished. Please read carefully the plagiarism policy available on both the Faculty and Departmental web page. The plagiarism policy is also available in the Handbook which you were issued with during your first year.*

4 COURSE OUTLINE

I INTRODUCTION TO INTERNATIONAL ECONOMICS

Compulsory reading: Appleyard and Field (Chapter 1)

Supplementary readings: Krugman & Obstfeld (Chapter 1); Winters (Chapter 1); Williamson & Milner (Chapter 1)

II INTERNATIONAL TRADE THEORY

A. Comparative Costs and International Trade: The Classical (Ricardian) Model

Compulsory reading: Appleyard and Field (Chapters 2-4)

Supplementary readings: Winters (Chapter 2); Williamson & Milner (Chapter 2); Krugman & Obstfeld (Chapter 2)

Other reading: Hughes, Neil C. "A Trade War with China." *Foreign Affairs*, vol. 84, no. 4,

B. International Trade and Factor Endowments: The Neo-Classical (Heckscher-Ohlin) Model

Compulsory reading: Appleyard and Field (Chapters 6-9) (*The revision of micro toolkit in Chapter 5*)

Supplementary readings: Winters (Chapters 3 & 4); Williamson & Milner (Chapter 3); Krugman & Obstfeld (Chapters 3 & 4).

C. Alternative/New Trade Theory

Compulsory reading: Appleyard and Field (Chapter 10)

Supplementary readings: Winters (Chapter 5); Williamson & Milner (Chapters 5 & 6); Krugman & Obstfeld (Chapter 6).

D. Economic Growth and International Trade

Compulsory reading: Appleyard and Field (Chapter 11)

Supplementary reading: Winters (Chapter 15)

III TRADE POLICY

A. The Instruments of Trade Policy

Compulsory reading: Appleyard and Field (Chapter 13)

Supplementary readings: Cassim *et al.* (Chapter 3); Winters (Chapters 8 & 9); Williamson & Milner (Chapter 8); Krugman & Obstfeld (Chapter 8)

B. The Impact of Trade Policies

Compulsory reading: Appleyard and Field (Chapter 14)

Supplementary reading: Winters (Chapters 8 & 9); Williamson & Milner (Chapters 8 & 9); Krugman & Obstfeld (Chapter 8)

C. Arguments for Interventionist Trade Policies

Compulsory reading: Appleyard and Field (Chapter 15)

Supplementary reading: Winters (Chapters 10 & 11); Krugman & Obstfeld (Chapter 9:218-229; Chapter 10:254-257; Chapter 11); Williamson & Milner (Chapter 10)

D. South Africa's Trade Policy, Trade and the WTO

Main trade databases: www.UNCTAD.org
www.trademap.org
www.dti.org

Supplementary readings: Cassim *et al.* (chs2,3 and 5); Appleyard and Field (ch 16); additional readings to be advised.

E. Economic Integration

Compulsory reading: Appleyard and Field (ch17)

Supplementary reading: Winters (ch13); Williamson & Milner (ch8:132-136); southern African readings to be advised.

F. Trade and Development

Compulsory reading: Appleyard and Field (Chapter 18)

Supplementary readings: Streak (1997); Krugman & Obstfeld (Chapter 10); Winters (Chapter 15); Williamson & Milner (Chapter 15); additional readings to be advised.

5 RESOURCES

The prescribed textbook is:

APPLEYARD, D.R., and FIELD, A.J., 2017. *International Economics (9e)*. McGraw-Hill, Boston.

NB: Earlier editions are available in Rhodes University Library. These are by Appleyard, D.R., Field, A.J., and Cobb, S.L., (various years). *International Economics* (various editions). McGraw-Hill, Boston.

In addition, students are referred to the following texts:

CASSIM, R., ONYANGO, D. and VAN SEVENTER, D.E., 2004. *The State of Trade Policy in South Africa. Trade and Industrial Policy Strategies (TIPS)*, Johannesburg. [Online]. Available <http://www.tips.org.za/research/item.asp?ID=501>

DU PLESSIS, S.P.J., SMIT, B.W. and McCARTHY, C.L., 1994. *International Economics (2e)*. Butterworths, Durban.

GREENAWAY, D. and WINTERS, L.A. (eds), 1994. *Surveys in International Trade*. Blackwell, Oxford.

HERTEL, T.W. and WINTERS, L.A. (eds), 2006. *Poverty and the WTO: Impacts of the Doha Development Agenda*. Palgrave, Basingstoke, Hampshire; World Bank, Washington, DC.

HOEKMAN, B., MATTOO, A. and ENGLISH, P. (eds), 2002. *Development, Trade, and the WTO: a Handbook*. World Bank, Washington, D.C.

HOEKMAN, B. and KOSTECKI, M., 2001. *The Political Economy of the World Trading System: the WTO and Beyond (2e)*. Oxford University Press, Oxford. [Online]. Available

<http://echea.ru.ac.za/search/ahoekman%2C+b/ahoekman+b/1,1,3,B/1856~1131834&F=&1,0,,1,0>

HUSTED, S. and MELVIN, M., 2004. *International Economics* (6e). Pearson Addison Wesley, Boston.

KRUGMAN, P. and OBSTFELD, M., 2000. *International Economics: Theory and Policy* (5e). Addison-Wesley, Reading, Massachusetts.

LEAMER, E. (ed), 2001. *International Economics*. Worth, New York.

WILLIAMSON, J. and MILNER, C., 1991. *The World Economy: A Textbook in International Economics* (2e). Harvester Wheatsheaf, New York.

WINTERS, L.A., 1991. *International Economics* (4e). Routledge, London.

NB: References in bold are referred to specifically in **Section 4** above.

Copies of those texts which are available in the library will be placed on short loan. Important additional references and readings from other texts and journals will be given in lectures. Students taking this course need to accept that at the third-year level they are expected to have **mastered the relevant quantitative skills and to read beyond the prescribed text**. There are two reasons for this. Firstly, no matter how comprehensive a single textbook is (and **the prescribed text is excellent**), there will always be a few sections that may be dealt with even more adeptly in a different text. Secondly, particularly in the case of students intending to pursue postgraduate studies, it is extremely important for students to begin to be exposed to the journal literature and the academic debates contained therein.

It should be specifically noted that an additional reading list for **Sections IIID to IIIF** above of the course will be provided. These readings should be of particular interest as they highlight current debates on globalisation, trade and development.

Useful internet sites

(i) **The course website (on RUConnected):** to be advised in the first week of term. The site should be checked regularly for announcements, updates, reminders and other postings.

(ii) **The textbook website:**

http://highered.mcgraw-hill.com/sites/0072877375/information_center_view0/

(iii) **Deardorff's Glossary of International Economics:**

<http://www-personal.umich.edu/~alandear/glossary/>

Please note that this www resource will also be useful for ECO316 Money, Banking and International Finance.

(iv) **Trade and Industrial Policy Strategies:**

<http://www.tips.org.za/>

For trade data, and periodicals and articles on trade and industrial policy in South Africa.

(v) **Trade Law Centre for Southern Africa:**

<http://www.tralac.org/>

For news, discussions and publications on trade and trade policy in southern Africa, the WTO and regional trading agreements.

(vi) **The Official Paul Krugman Webpage:**

<http://web.mit.edu/krugman/www/>

Krugman's writings up to about 2000 – very lively. More on the unofficial webpage www.pkarchive.org. His Princeton site is not being updated at present.

(vii) **Trade data**

<http://www.trademap.org>

[http://unctadstat.unctad.org/wds/Report Folders/reportFolders.aspx](http://unctadstat.unctad.org/wds/Report%20Folders/reportFolders.aspx)

(viii) **Market access**

<http://www.macmap.org/>

(ix) **Generalised Systems of Preferences**

<http://unctad.org/en/Pages/DITC/GSP/Generalized-System-of-Preferences.aspx?Pu=1,10>

(x) **Non-tariff barriers in Africa**

<http://www.tradebarriers.org/>

6 STUDENT ASSESSMENT

Outcomes	Assessment tasks
i. Distinguish between the classical, neoclassical and new/alternative theories of international trade	Tutorial exercises, Mini-tests (written during some of the tutorial sessions) , Self-Assessment exercises, Tests and Examination
ii. Distinguish the sources of gain and the distributional consequences of trade in each case	Tutorial exercises, Mini-tests (written during some of the tutorial sessions) , Tests and Examination
iii. Discuss the empirical validity of these alternative theories with reference to the appropriate empirical studies	Tutorial exercises, Mini-tests (written during some of the tutorial sessions) , Self-Assessment exercises, Tests and Examination
iv. Understand the instruments of trade policy available for intervention in the free flow of international trade, including their strengths, weaknesses and implications for welfare	Tutorial exercises, Mini-tests (written during some of the tutorial sessions) , Self-Assessment exercises, Tests and Examination
v. Consider the implications of each theoretical approach for trade policy, particularly in the developing country context	Tutorial exercises, Mini-tests (written during some of the tutorial sessions) , Self-Assessment exercises, Tests and Examination
vi. Outline the historical path which trade policy in South Africa has followed, and analyse the current debate on trade policy reform in this country in the light of the theory and the institutional arrangements governing multilateral trade relations in the world economy	Tutorial exercises, Mini-tests (written during some of the tutorial sessions) , Self-Assessment exercises, Tests and Examination
vii. Practical application of selected trade theory and policy issues	Assignments (where applicable) , Self-Assessment exercises, Tests, Examination

7 EVALUATION

Economics 3 consists of two semester courses: ECO301 and ECO302. Both of these involve two half-credit courses. International Trade Theory and Policy (ECO312) is thus a half-credit course which may be taken towards ECO301. Although students are expected to pass ECO301 and ECO302 individually, in certain circumstances aggregation between ECO301 and ECO302 may be allowed, *subject to the required sub-minima being obtained* (see handout containing general Economics 3 course information for details).

7.1 DP requirements

DP requirements **will be strictly enforced**. **Students who lose their DPs will not be allowed to write the exam.**

- i For International Trade Theory and Policy, students may miss **a maximum of one tutorial** without a Leave of Absence (LOA). Any further absences must be supported by a valid LOA which may be granted only on medical or compassionate grounds, or if a student is officially representing the University. Note that a student's physical presence at the tutorial does not automatically qualify as attendance; *there must be evidence of tutorial participation*.
- ii All tutorial exercises, Mini-Tests, Tests and Assignments must be written and handed in on time as per the deadline. **Late submissions will only be marked if accompanied with an LOA and if solutions have not already been posted on RUConnected.**
- iii **Any work which has been copied/ or plagiarised either in part or in full will be awarded a mark of zero. The candidates concerned will be referred to the Departmental Disciplinary Committee.**

7.2 Tests

Students will write two International Trade Theory and Policy tests. As noted earlier, these will be held on the dates set by The Commerce Faculty from 7.00pm to 8.30pm in the venues to be advised. A make-up Test **may be set as per the lecturer(s)' discretion.**

The tests will comprise TWO sections.

Section A: 15-20 simple questions, (e.g. multiple choice questions, true/false questions or filing-in questions) worth 15-20 marks. A correct answer will earn 1 mark; an incorrect answer will earn **-1/4 of a mark**; no answer will earn 0 marks.

Section B: Answer **only two** questions, as follows:

A ***compulsory 20-mark question***. This question may be applied or theoretical. It may be broken down into question parts.

Answer ***only one question out of two questions***. Each question is a 10-15 mark question. This question may be applied or theoretical. It may be broken down into question parts.

Test papers will be marked and returned with comments and a grade. An answer guide for applied questions will be posted on the course website. A brief discussion may be held in tutorials highlighting the major problem areas experienced by students in the test and how these can be corrected.

7.3 Assignments

One Trade theory assignments and One Trade Policy assignments **may** be written. Each of these assignments will be an applied assignment. The assignments will relate to South Africa's trade, trade policy, and how this compares with some of its trading partners. **Late submissions will only be marked if accompanied with an LOA and if solutions have not already been posted on RUConnected.**

Any work which has been copied/ or plagiarised either in part or in full will be awarded a mark of zero. The candidates concerned will be referred to the Departmental Disciplinary Committee.

NB: *Please read the plagiarism policy available on the Departmental and Faculty web page.*

7.4 Self-Assessment exercises

Weekly Self-assessment exercises will be posted on the Course Website (**on RUConnected**). These are not mandatory and serve to assist students with revising work covered during the week. These will be in the form of MCQs, True or False questions, Filling in questions or Short answer questions. Some of the questions will be based on past examination questions and past test questions. It is in the best interest of the student to engage with these questions so as to keep pace with the content covered in lectures as well as to identify areas of difficulty and seek assistance early.

7.5 The tutorial sessions, tutorial exercises and mini-tests

As noted in Section 7.1, attendance at tutorials and the completion *with satisfactory effort* of the tutorial mini-Test (or exercises) **are both course requirements**. Students who do not comply with these requirements will be refused a DP. Where work was given for students to complete before the tutorial, the tutor will check whether or not the work was completed before the tutorial commences. It is expected that students will put sufficient time and effort into working on and writing up such exercises before the tutorial. Students are expected to answer *all* the tutorial questions fully. Where discussion tutorial questions are **to be completed during the tutorial sessions**, students are encouraged to discuss the tutorial problems with each other. Where tutorial Mini-Test (or individual exercises) are to be completed during the tutorial period, students are to complete these individually. [**NB:** *Please read the plagiarism policy attached to this outline carefully.*]

7.6 The exam

Important: *Please note that the structure of the exam is in line with the structure of the tests.*

The International Trade Theory and Policy examination is a three-hour paper. The paper will be divided into three sections:

SECTION A: 30 multiple choice questions, worth 30 marks

(15 Trade theory questions and 15 Trade policy questions)

A correct answer will earn **1** mark; an incorrect answer will earn $-\frac{1}{4}$ of a mark; no answer will earn **0** marks.

SECTION B: Trade Theory

A compulsory 20-mark question. This question may be quantitative/ or applied or theoretical. It may be broken down into question parts.

A choice of one out of two 15-mark questions. This question may be applied or theoretical. It may be broken down into question parts.

SECTION C: Trade Policy

A compulsory 20-mark question. This question may be quantitative/or applied. It may be broken down into question parts.

A choice of one out of two 15-mark questions. This question may be quantitative/or applied. It may be broken down into question parts.

Students will not receive a separate mark or written feedback on the exam. However, they will be able to ascertain the grade obtained on the exam, given the overall grade they receive for the course and given their year-mark (see Section 7.7 below).

7.7 Composition of the final mark

The year-mark is a simple average of the test marks, mini-tests and assignments, while the final course mark for the International Trade Theory and Policy module will be made up as follows:

Test 1	10%
Test 2	10%
Mini-Tests/Tutorial exercises	10%
Assignments	10%
<u>Exam</u>	<u>60%</u>
<u>Course mark</u>	<u>100%</u>

While *some* of the tutorial exercises (or mini-tests) may not form part of the final mark, **their completion with satisfactory effort is a DP requirement**, and will provide essential and invaluable practice for tests and exams.

NB:

Please bring this handout along with you to lectures as we will be referring to the course structure and course outcomes regularly in class.