

AED Economics/International Studies 540
World Economy and Business
Fall 2009

Instructor:

Professor Ian Sheldon
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Teaching Assistant:

TBA

Office Hours: Dr. Sheldon will announce office hours the first week of class. Students are encouraged to set up a separate appointment with Dr. Sheldon if they cannot meet during that time. The teaching assistant will schedule regular office hours and you are encouraged to "drop in" during those hours. Feel free to communicate with Dr. Sheldon by phone or e-mail.

Course Objectives: The key objective of this class is to understand the interaction between the world economy and business. This involves understanding what is meant by globalization, and how national markets have become more integrated through trade in goods, movements of capital and labor migration. While economics has traditionally focused on countries as the relevant concept for international trade, this class will focus on firms as a key agent in global markets, examining the reasons why some choose to export while others invest in foreign markets, how and why firms influence trade policy, and how trade policies such as multilateral and regional trade agreements affect firms. The course will also focus on how key global macroeconomic factors such as exchange rates impact on international business decision-making.

Course Information:

Credit Hours: 5

Prerequisites: ECON 200; ECON 201; AEDE 200, or permission from the instructor.

Reading Materials: No specific book will be assigned for this class. A course reading packet will be available with readings below. Most assigned readings are also available on-line, and students are encouraged to obtain them by searching on their own.

Grading and Course Evaluation:

Grading: The course grade will be determined as follows:

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| Midterm Exam I (4 th week) | 30% |
| Midterm Exam II (7 th week) | 30% |
| Final Exam | 30% |
| Homework Assignments | 10% |

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|---------------------|----------------|----------------|----------------|
| <i>Final Grade:</i> | A 95.0 - 100 | B- 80.0 - 83.0 | D+ 67.0 - 70.0 |
| | A- 90.0 - 95.0 | C+ 77.0 - 80.0 | D 60.0 - 67.0 |
| | B+ 87.0 - 90.0 | C 73.0 - 77.0 | E < 60.0 |
| | B 83.0 - 87.0 | C- 70.0 - 73.0 | |

There may be a curve to the final course grade depending on the overall performance of the class.

Homework Assignments: Several assignments will be assigned during the quarter. These will be due one week after the homework is assigned. No late assignments will be accepted after 5.00 pm of the due date.

Examinations: These will consist of both short-answer questions and objective (multiple-choice, true/false, definitions) questions.

Academic Misconduct: Each student is responsible for his/her own work on examinations and homework assignments. Plagiarism and other forms of cheating will not be tolerated. University rules provide for severe penalties for academic misconduct, ranging from course failure to dismissal from the University. The Code of Student Conduct is available at the Office of Student Affairs' web-site: http://studentaffairs.osu.edu/pdfs/csc_12-31-07.pdf

Student Disabilities: Any student who feels s/he may need an accommodation based on the impact of disability should contact me privately to discuss their specific needs.

Topics and Readings:

1. **What is globalization?** Integration of markets through trade, movements of capital and labor migration

Reading:

Bhagwati, J. 2004. *In Defense of Globalization*, Oxford University Press.

2. **Why do countries trade?** Technological and resource endowment explanations for trade and its impact on firms, workers and consumers

Reading:

Appleyard, D.R., D.A. Field, and S.L. Cobb. 2008. *International Economics*, McGraw-Hill Irwin, Chapters 2-8.

Irwin, D.A. 2002. *Free Trade under Fire*, Princeton University Press, Chapters 2-3.

Scheve, K.F. and M.J. Slaughter. 2007. "A New Deal for Globalization," *Foreign Affairs*, July/August.

- 3. Exports or foreign direct investment?** Analysis of why some firms choose to export while others invest in foreign markets

Reading:

Appleyard, D.R., D.A. Field, and S.L. Cobb. 2008. *International Economics*, McGraw-Hill Irwin, Chapter 12.

Bernard, A.B., J.B. Jensen, S.J. Redding, and P.K. Schott. 2007. "Firms in International Trade," *Journal of Economic Perspectives*, 21: 105-130.

- 4. Why outsourcing?** Discussion of why firms increasingly purchase key inputs offshore

Reading:

Baldwin, R.E. 2006. "Globalization: The Great Unbundling(s)," Graduate Institute of International Studies, Geneva. Available at:
http://hei.unige.ch/~baldwin/PapersBooks/Unbundling_Baldwin_06-09-20.pdf

Blinder, A.S. 2006. "Offshoring: The Next Industrial Revolution?" *Foreign Affairs*, March/April.

The Economist. 2007. "The great unbundling: Does economics need a new theory of offshoring?" January 18. Available at:
http://www.economist.com/finance/displaystory.cfm?story_id=E1_RVVJSVR

Leamer, E.E. 2007. "A Flat World, a Level Playing Field, a Small World After All, or None of the Above? A Review of Thomas L. Friedman's *The World is Flat*," *Journal of Economic Literature*, 45: 83-126.

Examination I: Covers Topics 1-4

- 5. How do policies affect trade?** Effects of tariffs, import quotas and export subsidies on firms

Reading:

Appleyard, D.R., D.A. Field, and S.L. Cobb. 2008. *International Economics*, McGraw-Hill Irwin, Chapters 13-15.

6. **What is the political economy of trade policy?** Reasons for trade policies being implemented by governments, and how firms affect such policy choices

Reading:

Appleyard, D.R., D.A. Field, and S.L. Cobb. 2008. *International Economics*, McGraw-Hill Irwin, Chapter 16.

Grossman, G.M. and E. Helpman. 2002. *Interest Groups and Trade Policy*, Princeton University Press.

7. **Multilateralism or regionalism?** Trade liberalization through the World Trade Organization (WTO) versus regional free trade agreements such as the North American Free Trade Agreement (NAFTA), and how firms are affected

Reading:

Appleyard, D.R., D.A. Field, and S.L. Cobb. 2008. *International Economics*, McGraw-Hill Irwin, Chapter 17.

Baldwin, R.E. 2006. "Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade," *The World Economy*, 29: 1451-1518.

The Economist. 1998. "Aphabetti spaghetti: Are regional trade agreements a good idea?" October 1. Available at:

http://www.economist.com/surveys/displaystory.cfm?story_id=E1_GDVTJJ

Examination II: Covers Topics 5-7

8. **How are trade disputes resolved?** Reasons for trade disputes and their resolution through the WTO, and how it affects international business strategy

Reading:

Bagwell, K. and Staiger, R.W. 2001. "The WTO as a Mechanism for Securing Market Access Property Rights: Implications for Global Labor and Environmental Issues," *Journal of Economic Perspectives*, 15: 69-88.

Collier, P. 2006. "Why the WTO is Deadlocked: And What Can Be Done About It?" *The World Economy*, 29: 1423-1449.

Krugman, P. 1997. "What Should Trade Negotiators Negotiate About?" *Journal of Economic Literature*, 35: 113-120.

9. **What is the effect of exchange rates on trade?** Discussion of how exchange rates are determined and their impact on firms and trade

Reading:

Pugel, T.A. 2007. *International Economics*, McGraw-Hill Irwin, Chapters 16-20.

Krugman, P. 2007. "Will there be a dollar crisis?" *Economic Policy*, 51: 435-467.

Frankel, J.A. and Wei, S.J. 2007. "Assessing China's Exchange Rate Regime," *Economic Policy*, 51: 575-627.

10. **Why do countries run a trade surplus/trade deficit?** Trade imbalances and macroeconomic policies, and their effect on firms and trade

Reading:

Pugel, T.A. 2007. *International Economics*, McGraw-Hill Irwin, Chapters 22-25.

Bernanke, B.S. 2005. "The Global Saving Glut and the U.S. Current Account Deficit," The Sandridge Lecture, April 14. Available at:
<http://www.federalreserve.gov/boarddocs/speeches/2005/200503102/default.htm>

The Economist. 2006. "America's dark materials." January 19.

Hausmann, R. and F. Sturzenegger. 2005. "U.S. and Global Imbalances: Can Dark Matter Prevent a Big Bang?" Available at:
http://www.cid.harvard.edu/cidpublications/darkmatter_051130.pdf

Final Examination: Covers Topics 8-10