

University of Chicago
Harris School of Public Policy Studies
International Trade, Banking and Capital Markets Public Policy 35310
Spring 2023
DRAFT March 3, 2023

Lecturer: David H. Schabes

Prerequisites: Completion of Harris core Microeconomics sequence I & II or instructor's permission

Dates: March 20, 2023 – May 18, 2023. Final Exam: Week of May 22

Time: MW 3:00 PM – 4:20 PM. Room: 0001

Office: 1307 East 60th Street, Room 3045

Office Hours: MW 1:00 PM – 2:00 PM

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TA Sessions and Office Hours: TBD

Course Description:

Over the past 50 years, the markets for goods and services have become dramatically globalized. The internationalization of financial markets and the liberalization of trade have been critical to this growth. In contrast to a few decades ago, today's companies manage global supply chains and investment capital moves quickly from market to market. During the past few years, this trend has reversed, at first slowly and today more rapidly. The proximate causes include increasing political issues surrounding trade, substantial changes in the make-up and relative earnings in some portions of the workforce in many countries, and the Russian-Ukraine war.

International Trade, Banking and Capital Markets is an introduction to the drivers of and issues behind these changes. The course assumes completion of the core Microeconomics sequence I & II. Topics covered include: economic models presenting the gains from trade as well as recent as labor migration and its impact on relative wages and employment. We will then explore recent changes such as offshoring of various intermediate goods and tasks. The course will then cover aspects of international capital markets, focusing on floating and fixed foreign exchange regimes. The growth of international banking out of trade finance and the international expansion of domestic businesses will be presented along with the issues these developments created. Finally, the impact of the growth and deregulation of international financial markets on developed and developing countries will be discussed.

Classroom Protocol

Students should expect to attend all lectures and several TA sessions over the quarter. Attendance will be taken and considered part of the course participation grade. Much of the material required to successfully complete the problem sets and final exam will be presented orally in class. The course will be difficult to complete successfully without the ability to make this commitment.

Lectures will not be offered via Zoom or recorded.

Course Goals:

The course attempts to address the following questions:

1. What is globalization?
2. Why was it viewed as so successful for 50 years?
3. Why is it now viewed as flawed?
4. How will international trade and migration change in coming years?
5. How are currencies bought and sold?
6. How do central banks manage their exchange rates?
7. Why does investment capital flow across borders?
8. What are the implications of government actions for international capital markets?

The course consists of two parts:

1. International Trade: We will discuss the major theories underlying international trade policy, immigration and offshoring. These include the Ricardian and Heckscher-Ohlin regarding goods trade. We will then look at application of these and newer theories to international migration and offshoring.
2. International Capital Markets: We will discuss the market and quoting of foreign currencies and various arbitrage opportunities that keep prices in line, for example covered interest rate parity. Long- and medium-term models of currency value will be presented. Finally, the trade-offs between fixed and floating currency rate regimes will be discussed and some applications to recent exchange rate crises will be presented.

Academic Integrity:

All University of Chicago students are expected to uphold the highest standards of academic integrity and honesty. Among other things, this means that students shall not represent another's work as their own, use un-allowed materials during exams, or otherwise gain unfair academic advantage. All students suspected of academic dishonesty will be reported to the Harris Dean of Students for investigation and adjudication. The disciplinary process can result in sanctions up to and including suspension or expulsion from the University. **In addition to disciplinary sanctions,**

I will impose a penalty of a grade of 0 on the exam or problem set in question and the student cannot earn higher than a B- in the course for students who have committed academic dishonesty. The Harris policy and procedures related to academic integrity can be found at <https://harris.uchicago.edu/gateways/current-students/policies>. The University of Chicago Policy on Academic Honesty & Plagiarism can be found at <https://studentmanual.uchicago.edu/academic-policies/academic-honesty-plagiarism/>

Grading:

There will be eight graded problem sets due approximately once a week. Problem sets must be completed by each student individually, though you may discuss the problems with your fellow students in the course. You may not consult online sources of homework answers such as CourseHero, or obtain answers from students who have previously taken the course. **Assignments must be submitted on Gradescope.**

Grading will be based on the following:

1. Final Exam 35%
2. Problem Sets 56%
3. Course Participation 9%

Problem sets must be submitted by 11:59PM on the date due. Late assignments will be subject to a minimum penalty of 50% reduction in the recorded grade. There will not be any exceptions made for assignment due dates. There will not be alternative times for exams unless approved by Student Disability Services.

The final exam, given finals week, will be comprehensive and have a 2 hour time limit. Only exceptions approved by the Dean of Students will be accepted for not taking the final exam at the scheduled time.

Students may take the course Pass/Fail subject to Harris School policy. A cumulative average of 60% is required for a Pass grade.

Finance and Policy Certificate:

This course is one of the available electives to fulfil the requirements of the Finance and Policy Certificate.

Text and Other Readings:

Feenstra, Robert C and Taylor, Alan M. *International Economics Fifth Edition*. New York: Worth Publishers, 2017.

***Financial Times* and other press and academic articles available from the UChicago Library (*Financial Times* via ProQuest).**

Radelet and Sachs. "The Onset of the East Asian Financial Crisis."

Weekly Schedule:

Date/Readings	Lecture Topics and Assignments
March 20 International Economics, Chapters 1 and 2 Chain Reaction Article The Economist 6/16/22	<i>Introduction to International Trade</i>
March 22	<i>The Ricardian Model</i>
March 27 International Economics, Chapter 3	<i>The Specific Factors Model</i>
March 29 International Economics, Chapter 4 <i>Problem Set 1 Due: International Trade and the Ricardian Model</i>	<i>Heckscher-Ohlin Model I</i>
April 3 <i>Problem Set 2 Due: Specific Factors Model</i>	<i>Heckscher-Ohlin Model II</i>
April 5 International Economics, Chapter 5	<i>Movement of Labor and Capital Between Countries I</i>
April 10 <i>Problem Set 3 Due: Heckscher-Ohlin</i>	<i>Movement of Labor and Capital Between Countries II</i>
April 12 International Economics, Chapter 6	<i>Economies of Scale and Monopolistic Competition Gravity Model</i>
April 17 International Economics, Chapter 7 <i>Problem Set 4 Due: Movement of Labor and Capital</i>	<i>Offshoring of Goods and Services I</i>
April 19	<i>Offshoring of Goods and Services II</i>

Date/Readings	Lecture Topics and Assignments
<p>April 24</p> <p>International Economics, Chapter 13</p>	<p><i>Introduction to Foreign Exchange I</i></p>
<p>April 26</p> <p><i>Problem Set 5 Due: Monopolistic Competition, Gravity Model and Offshoring</i></p>	<p><i>Introduction to Foreign Exchange II</i></p>
<p>May 1</p> <p>International Economics, Chapter 14</p>	<p><i>Exchange Rates I: Monetary Approach in the Long Run, Part I</i></p>
<p>May 3</p> <p><i>Problem Set 6 Due: Introduction to Foreign Exchange</i></p>	<p><i>Exchange Rates I: Monetary Approach in the Long Run, Part II</i></p>
<p>May 8</p> <p>International Economics, Chapter 15</p>	<p><i>Exchange Rates II: The Asset Approach in the Short Run, Part I</i></p>
<p>May 10</p> <p><i>Problem Set 7 Due: Exchange Rates I</i></p>	<p><i>Exchange Rates II: The Asset Approach in the Short Run, Part II</i></p>
<p>May 15</p> <p>International Economics, Chapter 20-1 and 2.</p> <p><i>Problem Set 8 Due: Exchange Rates II</i></p>	<p><i>Exchange Rate Pegs and International Capital Markets I</i></p>
<p>May 17</p> <p>Radelet and Sachs, Sections I through IV.</p>	<p><i>Exchange Rate Pegs and International Capital Markets II</i></p>
<p>Week of May 22</p>	<p><i>Final Exam TBD Room TBD</i></p>