

Spring 2010  
NBA 5240, Credit: 3 (not open for audit)  
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## **Macroeconomics and International Trade**

**Mon & Wed 16.25 – 17.40; Room: Sage B05**  
**Office Hour: Tue: 14.00 – 17.00, and by appointment**  
**Office: 213 West Sibley Hall (255-4271)**

### **Purpose of the Course**

The purpose of the course is to provide students with knowledge of macroeconomics and international trade linked with business decisions and other important issues in the business world, e.g., what causes growth, recession, unemployment, and inflation (or deflation), why and how exchange rate and stock market crises come about, why countries trade, what do budget deficits and trade deficits mean for export-import businesses, and what macro policies can be anticipated in a booming economy and in a crisis, etc. The outline of the course is designed to help students understand and able to use the relevant analytical tools in order to comprehend better the above questions/issues. Practical questions will be raised for all topics, each reflects the link between macroeconomic-cum-trade policies and the role and response of the business sector.

### **Evaluation**

Evaluation is based on: (1) students' participation in class debates and discussions: 10%; (2) a set of home-works: 25%; (3) a mid-term exam: 25% and (4) a final exam: 40%. It should be cautioned that macroeconomics is cumulative; each topic is related to, or built upon, what was discussed before. Hence, it is important to keep up with the topics by attending every class meeting and actively discussing the materials in class. The use of laptop computer during the class meeting is not allowed.

### **Schedule and Reading Materials**

The main textbook is *Macroeconomics* by Oliver Blanchard (Prentice Hall). For international trade we will use *International Economics: Theory and Policy* by Paul Krugman & Maurice Obstfeld (Addison & Wesley). The book by Andrew B. Abel and Ben S. Bernanke *Macroeconomics* (Addison Wesley) is occasionally used for additional materials. It does not matter what edition of these books you read.

All course materials would be available on the Blackboard:  
<http://blackboard.cornell.edu/>. Students should enroll and regularly check the course website on the Blackboard for announcements and lecture notes, which will be available before class.

For homework and exercise, students should use economic and trade data of selected countries. The following sources are recommended: *World Economic Outlook* (WEO), published annually by the IMF; and *International Financial Statistics* (IFS), published quarterly also by the IMF. While IFS contains macroeconomic and financial data of all countries, WEO contains both data series and macroeconomic analysis of different groups of countries. For U.S data, students can also look at the website of the Bureau of Economic Analysis: <http://www.bea.doc.gov/>.

The following are topics to be discussed week-by-week (notes: OB for Oliver Blanchard third edition; KO for Krugman & Obstfeld fifth edition; and AB for Abel & Bernanke fifth edition). The first 10-15 minutes of each class meeting we will discuss the most recent relevant macroeconomic news taken from various media to train students how to interpret such news in a more analytical way.

### **Part 1. Open Macroeconomics**

**Week 1:** (OB: Ch 1-5; AB: Ch 1 & Ch 2)

- Macroeconomics and its relevance to the business sector
- National income accounting, balance-of-payment, government budget
- Concepts of goods market and financial market (aggregate demand): interest rate determination

**Week 2:** (OB, Ch 19; AB: Ch 5.2)

- Aggregate demand relations in an open economy
- Exchange rate and interest rate interactions: uncovered interest parity
- Twin deficit and its repercussions on business activities

**Week 3:** (OB: Ch 6-7; AB: Ch 3.2-3.5, Ch 7 & Ch 9)

- Labor markets and aggregate supply: price determination
- Short-run and medium-run effects of anticipated monetary and fiscal policies

**Week 4:** (OB: Ch 8-9; AB: Ch 3.6 and Ch 12.1)

- Interactions among output-unemployment-prices
- Inflation and the role of expectation

**Week 5:** (OB: Ch 10-13; AB: Ch 3.1, Ch 6)

- Saving, investment, technology, and steady state: a long-run analysis
- Endogenous growth model, total factor productivity (TFP) and the link with unemployment and wages
- Anticipated policies and business response

## **MIDTERM EXAM**

### **Part 2. Macroeconomics of Finance & Policy**

**Week 6:** (OB, Ch 20-21, AB: Ch 13.2-13.4)

- Exchange rates regimes and common currency area
- Implications on financial market and vulnerability

**Week 7:** (OB, Ch 14-17; AB: Ch 4, Ch 10.3 & Ch 15)

- Real versus nominal interest rate
- Bonds market and stock market
- Incorporating agents' expectations in aggregate demand analysis
- Fiscal and monetary policy, and the business response

**Week 8:** (OB, Ch 24-26; AB: Ch 12.3, 14 & 15; KO, Ch 6)

- Limitations and ineffectiveness of government policies
- Role of uncertainty and credibility, and implications of time consistency

## **SPRING RECESS**

**Week 9:** (AB: Ch 5.1, Ch 13.1; OB, Ch 18.1 & Ch 18.2)

- Nominal versus real exchange rates and exchange rate model
- Capital flows, macroeconomic consequences, and corporate sector's financing
- Balance-sheet effects and the repercussions on business decision on investment

### **Part 3. International Trade**

**Week 10:** (KO: Ch 4-6)

- Basic theories and concepts of international trade
- Terms of trade and the role of exchange rates
- Increasing returns and monopolistic competition
- Changing patterns of trade: intra-industry and its implications on trading activities

**Week 11:** (KO: Ch 8, Ch 11, Ch 20)

- Instruments of trade policy
- The Case of India & China
- Optimum currency area,
- Balance of payment
- Free trade area

### **Part 4. Contemporary Macroeconomic Issues and Development**

**Week 12:** (OB, Ch 22-23; AB: Ch 8.2, Ch 11.4 & Ch 13.5)

- Great Depression
- Liquidity trap, deflation and Japanese recession

**Week 13:**

- Yen-carry trade
- Effects of the recent oil price fluctuation

**Week 14:**

- Financial crisis and risks of deflation
- Global imbalances
- Summary and the need for "New" Macroeconomics

## FINAL EXAM

All students must take the midterm exam and final exam as scheduled. There will be no make-up exams! **Those who anticipate having a time conflict with that schedule should not take the class!** Each student is expected to abide by the Cornell University Code of Academic Integrity. Any work submitted by a student in this course for academic credit will be the student's own work. "In compliance with the Cornell University policy and equal access laws, I am available to discuss appropriate academic accommodations that may be required for students with disabilities. Requests for academic accommodations are to be made during the first three weeks of the semester, except for unusual circumstances, so arrangements can be made."