**Econ 385-001 International Trade and Policy Fall 2016**

MWF: 11:30 AM – 12:20 PM

Planetary Hall B224

Instructor: James Caton

Office Hours: Wed 12:30-1:30 PM Mason Hall, Econ Dept.

Email: [jcaton@gmu.edu](mailto:jcaton@gmu.edu)

Website: <http://economics.gmu.edu/people/jcaton>

**Required Texts:**

Ridley, M. 2010. *The Rational Optimist: How Prosperity Evolves*

Irwin, D. 2015. *Free Trade Under Fire (Fourth Edition)*

Findlay, R. and O’Rourke, K. 2007. *Power and Plenty:* *Trade, War, and the Global Economy in the Second Millennium.* Princeton, NJ: Princeton University Press.

Other Reading Provided Online

**Online Material:**

Material from the syllabus and other content can be found online at <internationaltrade.learnppe.org/textbook/international-trade-policy>

**Course Prerequisites**:

Principles of Economics (Econ 103 and 104) or equivalent.

**Grading:**

Classroom Participation: 10%

Respond to Reading Questions: 15%

Critical Thinking Write-ups 25%

Midterm: 20%

Final: 30%

Extra Credit: 10%

Be aware that there will be no special extra credit offered to help students to raise their grade. Only extra credit offered in this syllabus will be available during the semester.

**Grades Scored Between Grade**

97% and Higher A+

94% and Less Than 97% A

90% and Less Than 94% A-

87% and Less Than 90% B+

84% and Less Than 87% B

80% and Less Than 84% B-

77% and Less Than 80% C+

74% and Less Than 77% C

70% and Less Than 74% C-

60% and Less Than 70% D

Less Than 60% F

**Critical Thinking Write-ups:**

Students must respond to the critical thinking question for the week. Responses should be **one (1)** page typed (double-spaced). These are to be submitted on the PPE Network by the beginning of class each Friday or whichever day is the last day that we meet during the week. Response should be thoughtful and reflect understanding of the course material. Critical thinking write-up is not due for the first day of class.

**Respond to Reading Questions:**

Students must sign up to respond to questions from other students for **one (1)** reading. Students must sign up for this by the second meeting of class. *Students may choose to sign up for an additional reading to earn up to 5% extra credit.*

**Exams:**

Students will complete a midterm and a final exam. These exams must be taken at the scheduled time. Exceptions may be made in the case of an emergency – for example, a medical emergency or death in the family – and will be dealt with on a case by case basis.

**Final Exam Date: 12/16 at 10:30 AM - 1:15 PM**

**Extra Credit:**

Any time during the semester, students can bring in a 1 to 2 page write-up that relates a current event to the material discussed in class. This should include either an attached article or link to short video of 3 minutes or less that conveys the topic of interest. The student will be responsible for explaining the material from his or her write-up to the class in approximately two minutes. One write-up may be turned in for a maximum of 5% of the overall course grade. The student must notify the professor at least 24 hours prior to the date that he or she expects to present. Write-ups must be double-spaced in 12 point Times New Roman font.

Students may also present **one (1)** additional reading for the class for a maximum of 5%.

**Course Objective and Overview:**

This course is designed to guide students toward a deep, fundamental understanding of International Trade. Students will learn to employ tools that will help them to both understand issues in International Trade from the news and history, as well as apply them to understand the likely outcomes of a variety of macroeconomic and trade policies. During this course, students will be exposed to conflicting perspectives. It is the student’s job to evaluate and work through these conflicts both outside and inside of the classroom. This course is intended to aid each student in growing his or her knowledge and familiarity with the language and logic of the economic way of thinking.

**Attendance**

It is expected that each student will attend class regularly and participate in discussions. There will be no regular attendance as a substantial portion of each student’s grade will be dependent upon their regular contribution to discourse in the classroom.

**Communication**

Whenever necessary, I will email the class with announcements via blackboard. This requires that each student regularly check his or her Mason email account. It is the student’s responsibility to activate the Mason email account and employ it in communicating with their department and university administration whenever necessary.

**Honor Code:**

Students are expected to understand and comply with George Mason University’s Honor Code. Students may neither give nor receive help from other students or from sources not specifically condoned by the instructor during the exam. Students are obligated to report any violations observed.

**Students with Disabilities:**

If you are a student with a disability and you need academic accommodations, please see me and contact the [Office of Disability Services](http://ods.gmu.edu/) at 703-993-2474 or <http://ods.gmu.edu>. All academic accommodations must be arranged through that office.

**Lecture Structure:**

**Reading (5-10 minutes)**

* + Clarifying questions (answered by students who signed up for the reading)

**Lecture (35-40 minutes)**

**Final Thoughts / Looking Ahead (5 minutes)**

**Week 1 – Complexity and Auto-poetic Order**

**Monday 8/29: Human Perception, Action, and Interaction**

“I Pencil” by Leonard Read

“I Pencil” (video): <https://www.youtube.com/watch?v=IYO3tOqDISE>

“Be Suspicious of Stories” (video): <http://www.ted.com/talks/tyler_cowen_be_suspicious_of_stories>

*The Rational Optimist: Chapter 1* by Matt Ridley

**Wednesday 8/31: Prices**

*Economics in One Lesson*: “How the Price System Works” by Henry Hazlitt: <https://mises.org/library/economics-one-lesson>

“’I Pencil’, Complexity, and Economic Coordination”: <http://moneymarketsandmisperceptions.blogspot.com/2015/01/i-pencil-complexity-and-economic.html>

**Friday 9/2: Human Action**

*Human Action:* “A First Analysis of the Category of Human Action” by Ludwig von Mises (92-98): <http://lf-oll.s3.amazonaws.com/titles/1893/3843.01_LFeBk.pdf>

“Economic Action: Subjectivity, Value, and the Price System”: <http://moneymarketsandmisperceptions.blogspot.com/2015/01/economic-action-subjectivity-value-and.html>

**Critical Thinking:**

According to Ludwig von Mises, what is the fundamental axiom of human action? Is Ludwig von Mises claiming that humans maximize utility? Where does choice fit into Mises exposition?

**Week 2 – The Objects of Economic Analysis (I)**

**Monday 9/5 (No Class):**

**Wednesday 9/7: Economic Goods and Scarcity**

“The General Theory of the Good” in *Principles of Economics*, by Carl Menger (51-76) <http://mises.org/sites/default/files/Principles%20of%20Economics_5.pdf>

Scarcity in Economic – Definition: <https://www.youtube.com/watch?v=-A916v81lYQ>

“Formulating a Framework for Economic Analysis (with Agent-based Modeling in Mind)”: <http://moneymarketsandmisperceptions.blogspot.com/search?updated-max=2015-02-08T18:08:00-08:00&max-results=7&start=7&by-date=false>

**Friday 9/9: Prices and Information**

“The Use of Knowledge in Society” by F. A. Hayek <http://www.kysq.org/docs/Hayek_45.pdf>

What Do Prices “Know” That You Don’t?: <https://www.youtube.com/watch?v=WPy-QKXofQs>

“Prices, Information, and Coordination of Disparate Agents”: <http://moneymarketsandmisperceptions.blogspot.com/2015/01/prices-information-and-coordination-of.html>

**Critical Thinking:**

What is the significance of price in economic coordination? Adam Smith coined the term, *Invisible Hand* (Google it). What role might prices play in promoting patterns of behavior that cohere to Smith’s observation?

**Week 3 – The Objects of Economic Analysis (II)**

**Monday 9/12: The Entrepreneur and the Economy**

“The Entrepreneur” by Gustav Cassel (167-184) <https://mises.org/sites/default/files/The%20Theory%20of%20Social%20Economy_3.pdf>

“The Instability of Capitalism” by Joseph Schumpeter: <http://www.jstor.org/stable/2224315>

“The Role of the Entrepreneur: Coordination and Innovation”: <http://moneymarketsandmisperceptions.blogspot.com/2015/02/the-role-of-entrepreneur-coordination.html>

**Wednesday 9/14: The Market Discovery Process**

“Entrepreneurial Discovery and the Competitive Market Process” by Isreal Kirzner (63-74): <http://econfaculty.gmu.edu/pboettke/summer/summer%20docs/kirzner1997.pdf>

“Competition as Discovery Process” by F. A. Hayek: <https://mises.org/sites/default/files/qjae5_3_3.pdf>

**Friday 9/16: Action under Uncertainty**

“Uncertainty, Evolution, and Economic Theory” by Armen Alchian: <http://institutoamagi.org/download/Alchain-Armen-Uncertainty-Evolution-and-Economic-Theory.pdf>

“Types of Entrepreneurial Action and Overcoming Difficulty: Trade Facilitation, Innovation, and Political Entrepreneurship”: <http://moneymarketsandmisperceptions.blogspot.com/2015/02/types-of-entrepreneurial-action-and.html>

Additional Reading:

“Hayek, Auto-poetic Social Order, and Critical Realism”:

<http://moneymarketsandmisperceptions.blogspot.com/2014_10_01_archive.html>

**Critical Thinking:**

Define entrepreneurship in light of the readings. What are some of the roles that the entrepreneur plays in the economic system? Is there a primary role that most broadly describes entrepreneurial action?

**Week 4 – Money and Banking**

**Monday 9/19: The Origins and Evolution of Money**

“The Theory of Money” by Carl Menger\*

“Why Not Print More Money” (video): <https://www.youtube.com/watch?v=ZkyBnaYCUhw>

“The Emergence and Functions of Money”: <http://moneymarketsandmisperceptions.blogspot.com/2015/02/the-emergence-and-functions-of-money.html>

**Wednesday 9/21: Money and the State**

“An Evolutionary Theory of the State Monopoly over Money” by David Glasner

“The Emergence of the State Monopoly over Money”: <http://moneymarketsandmisperceptions.blogspot.com/2015/02/the-emergence-of-state-monopoly-over.html>

**Friday 9/23: Banking**

“Money and Credit: Origins, Instruments, and Dynamics”: <http://moneymarketsandmisperceptions.blogspot.com/2015/03/money-and-credit-origins-instruments.html>

“The Equation of Exchange, Its Versions, and Its Elements”: <http://moneymarketsandmisperceptions.blogspot.com/2015/02/the-equation-of-exchange-its-versions.html>

“Intuitive Sums: Making the Equation of Exchange Easy to Interpret”: <http://moneymarketsandmisperceptions.blogspot.com/2015/02/intuitive-sums-making-equation-of.html>

“Central Banking: The Basics”: <http://moneymarketsandmisperceptions.blogspot.com/2015/03/central-banking-basics.html>

**Critical Thinking:**

***Choose one (1)***

1. Describe the basic process of monetary evolution outlined by Menger. Do you think this story is realistic? Extend this story to the evolution of banking. How did the state come to involve itself in the monetary system? What are some motivations for state involvement?
2. How do economic agents decide whether to save their wealth in the form of outside money (i.e., gold), inside money (savings and checkings accounts), stocks and bonds, assets, etc…? How do these choice affect the overall money supply (MT), and therefore, the money multiplier? What part of the money stock does the Fed directly control? Which part does it not directly control?

**Week 5: Division of Labor**

**Monday 9/26: Introduction to International Trade**

“A Brief History of International Trade Policy” by Douglas Irwin: <http://www.econlib.org/library/Columns/Irwintrade.html>

*Free Trade Under Fire*: Chapter 1 by Douglas Irwin

**Wednesday 9/28: Comparative Advantage**

“Comparative Advantage”: <http://www.econlib.org/library/Topics/Details/comparativeadvantage.html>

“Comparative Advantage” (video):<http://www.mruniversity.com/courses/development-economics/comparative-advantage>

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***Homework:***

1. Answer the questions from the assigned video.
2. Answer the same questions again, but this time **Mexico only has 12 units** of labor total.

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**Friday 9/30: Gains from Trade**

*The Rational Optimist*: Chapter 2 by Matt Ridley

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In Class: Trading Game

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**Critical Thinking:**

What is the division of labor? Why would someone choose to specialize in a particular activity?

**Week 6: Trade and Welfare**

**Monday 10/3: How Good is Trade Anyway?**

*Free Trade Under Fire*: Chapter 2 by Douglas Irwin

Development and Trade: Empirical Evidence (video): <http://www.mruniversity.com/courses/development-economics/development-and-trade-empirical-evidence>

**Wednesday 10/5: Trade and Trust**

*The Rational Optimist*: Chapters 3, 4 by Matt Ridley

“Monetary Calculation and the Extension of Social Cooperation Into Anonymity” by Steve Horwitz, <http://myslu.stlawu.edu/~shorwitz/Papers/Calculation%20Anonymity.pdf>

**Friday 10/7: Trade, Jobs, and Income Distribution**

*Free Trade Under Fire*: Chapter 4 by Douglas Irwin

**Critical Thinking:**

Does voluntary exchange make participants better off or worse off? How does exchange affect social organization compared to a society of individuals who are self-sufficient? Are there any cases where trade should be restricted? If not, why not?

**Week 7: Dealing with Anarchy**

**Monday 10/10: Anarchy**

“Assume Anarchy” by Raghuram Rajan: <http://www.imf.org/external/pubs/ft/fandd/2004/09/pdf/straight.pdf>

*The Rational Optimist*: Chapter 5 by Matt Ridley

**Wednesday 10/12: International Anarchy**

“The Spontaneous Evolution of Commercial Law” by Bruce Benson:<http://myweb.fsu.edu/bbenson/SEJ1989.pdf>

“Countries as Agents in a Global-Scale Computational Model” by Harold Walbert, James Caton, Julia Norgaard

**Friday 10/14: Midterm**

**Critical Thinking:**

What is anarchy? What are some possible outcomes in a world where law is yet to be established? How might problems that arise from the use of force under anarchic conditions be resolved?

**Week 8: Balance of Trade**

**Monday 10/17: Balance of Payments**

“Balance of Payments” by Herbert Stein <http://www.econlib.org/library/Enc/BalanceofPayments.html>

“Balance of Payments” (video): <http://www.mruniversity.com/courses/international-finance/balance-payments>

**Wednesday 10/19: Trade “Imbalances”**

“Trade Imbalances” (video): <http://www.mruniversity.com/courses/international-finance/trade-imbalances>

“Dark Matter Hypothesis” (video): <http://www.mruniversity.com/courses/international-finance/dark-matter>

**Friday 10/21: Mercantilism**

“Mercantilism” <http://www.econlib.org/library/Enc/Mercantilism.html>

“Introduction to Mercantilism” (video): <http://www.mruniversity.com/courses/great-economists-classical-economics-and-its-forerunners/introduction-mercantilism>

“Adam Smith, Book 4, Ch.1, Mercantile System” (video): <http://www.mruniversity.com/courses/great-economists-classical-economics-and-its-forerunners/adam-smith-book-4-ch-1-mercantile>

**Critical Thinking:**

What is a trade deficit? Is a trade deficit an inherent *bad*? Why might a region experience a trade deficit? What does a trade deficit tend to mean about the perceived ability of those in that region to repay their debts?

**Week 9 Protectionism I**

**Monday 10/24: Public Choice**

“Public Choice” by William Shugart: <http://www.econlib.org/library/Enc/PublicChoice.html>

“The People’s Romance” by Daniel Klein: <http://www.independent.org/pdf/tir/tir_10_1_1_klein.pdf>

**Wednesday 10/26: Trade Restrictions**

“Protectionism” by Jagdish Bhagwati: <http://www.econlib.org/library/Enc/Protectionism.html>

Trade and Tariff History (video): <http://www.mruniversity.com/courses/international-trade/trade-and-tariff-history>

**Friday 10/28: Political Economy of Trade Restrictions**

*Free Trade Under Fire:* Chapter 3 by Douglas Irwin:

“The Political Economy of Tariffs” (video): <http://www.mruniversity.com/courses/international-trade/political-economy-tariffs>

**Critical Thinking:**

What are some justification you have heard for promoting trade barriers? Do you think these are legitimate? Why or why not? What are the effects that result from the implementation of trade barriers?

**Week 10: Protectionism II**

**Monday 10/31: Empirical Evidence**

“Trade Protection and the U.S. Economy: Examining the Evidence” by Robert Krol <http://object.cato.org/sites/cato.org/files/pubs/pdf/tbp-028.pdf>

**Wednesday 11/2: Smoot Hawley Tariff and the Great Depression**

“The Smoot-Hawley Tariff and the Great Depression” by Ted Phalan, Dima Yazigi, and Thomas Rustici: <https://fee.org/articles/the-smoot-hawley-tariff-and-the-great-depression/>

“Rustici on Smoot Hawley and the Great Depression” (podcast): <http://www.econtalk.org/archives/2010/01/rustici_on_smoo.html>

**Friday 11/4: Dumping**

“Dumping” (Wikipedia): <https://en.wikipedia.org/wiki/Dumping_(pricing_policy)>

*Free Trade Under Fire*: Chapter 5 by Douglas Irwin

**Critical Thinking:**

Did the Smoot Hawley Tariff prolong the Great Depression significantly? Why or why not? What sort of effects did the tariff have on the flow of goods and currency between the United States and other nations? Could the tariff have had an economic effect before it was passed and implemented? Why or why not?

**Week 11: Foreign Exchange**

**Monday 11/7: Interest Rates and Exchange Rates**

“The Nature and Role of the Interest Rate”: <http://moneymarketsandmisperceptions.blogspot.com/2015/03/the-nature-and-role-of-interest-rates.html>

“Real Exchange Rates” (video): <http://www.mruniversity.com/courses/international-finance/real-exchange-rates>

“Real and Nominal Interest Rates” (video): <http://www.mruniversity.com/courses/international-finance/real-and-nominal-exchange-rates>

**Wednesday 11/9: Foreign Exchange**

Foreign Exchange: <http://www.econlib.org/library/Enc/ForeignExchange.html>

“Are Devaluations Contractionary” (video): <http://www.mruniversity.com/courses/international-finance/are-devaluations-contractionary>

**Friday 11/11: Exchange Rate Dynamics**

“Speculative Attacks” (video): <http://www.mruniversity.com/courses/international-finance/speculative-attacks>

“Long Swings in Exchange Rates” (video): <http://www.mruniversity.com/courses/international-finance/long-swings-exchange-rates>

**Critical Thinking:**

How do investors typically react to a devaluation in a currency? Should they be allowed to do so? What might happen if a nation passed a law that prevented currency speculation by investors?

**Week 12: Gold and Depression**

**Monday 11/14: Money and Depression**

Say’s Principle and Macroeconomic Analysis: <http://moneymarketsandmisperceptions.blogspot.com/2015/03/says-principle-and-macroeconomic.html>

“A Cash-Balance Interpretation of Depression” by Leland Yeager: <http://www.jstor.org/stable/1054532>

**Wednesday 11/16: Prices and the Gold Standard**

“The Yellow Brick Road to Ruin” by James Caton

“Debt, Deflation, and the Great Depression, and the Gold Standard” by David Glasner and Ronald Batchelder: <https://www.researchgate.net/profile/Ronald_Batchelder/publication/4934873_Debt_Deflation_the_Great_Depression/links/55ba198f08aed621de0ab421.pdf>

**Friday 11/18: Gold and the Great Depression**

“Did France Cause the Great Depression” by Douglas Irwin: <http://www.nber.org/papers/w16350.pdf>

**Critical Thinking:**

What was the relationship between gold and the Great Depression? Were the problems that resulted from the gold standard unavoidable as long as gold served as the sole medium of exchange? How did central bank management of the gold standard affect its operation and world trade more generally?

**Week 13: Immigration and Labor**

**Monday 11/21:**

“Basic Facts About Migration” (video): <http://www.mruniversity.com/courses/development-economics/basic-facts-about-migration>

“Wage Gains from Immigration” (video): <http://www.mruniversity.com/courses/development-economics/wage-gains-immigration>

“Remittances” (video): <http://www.mruniversity.com/courses/development-economics/remittances>

“Is There a Brain Drain?” (video): <http://www.mruniversity.com/courses/development-economics/there-brain-drain>

“Why Should We Restrict Immigration” by Bryan Caplan: <http://cafehayek.com/wp-content/uploads/2012/01/Bryan-Caplan-asks-why-should-we-restrict-immigration..pdf>

**Wednesday 11/23: No Class**

**Friday 11/25: No Class**

**Critical Thinking:**

Is everybody benefited by immigration? Justify your answer in terms of the short-run and the long-run? What are some non-economic justifications for promoting immigration? For limiting it? What do you think is the appropriate policy in light of the facts?

**Week 14 Globalization I**

**Monday 11/28 Early Globalization:**

*Power and* Plenty: Chapter 7 by Ronald Findlay and Kevin O’Rourke

**Wednesday 11/30 Remission in Trade:**

*Power and Plenty*:Chapter 8 by Ronald Findlay and Kevin O’Rourke

**Friday 12/2 Globalization after World War II:**

*Power and Plenty*:Chapter 9 by Ronald Findlay and Kevin O’Rourke

**Critical Thinking:**

What is the relationship between ideology and free trade? What about the relationship between war and free trade? Why did the level of trade shrink for a substantial period during the 20th century? Has the expansion of trade in the last fifty years been beneficial or harmful? Should trade expansion continue? Why or why not?

**Week 15 Globalization II**

**Monday 12/5: Globalization and Development:**

Development: *Free Trade Under Fire*: Chapter 6 by Douglas Irwin

“The Unacknowledged Success of Neoliberalism” by Scott Sumner: <http://www.econlib.org/library/Columns/y2010/Sumnerneoliberalism.html>

**Wednesday 12/7: International Organizations**

*Free Trade Under Fire*: Chapter 7 by Douglas Irwin

**Friday 12/9:**

Review

**Critical Thinking:**

**No Response Due**