

**Department of Political Science
INTERNATIONAL POLITICAL ECONOMY
Prof. Chiara Franco**



Part I

1.1 General Information

- Full course title: International Political Economy
- Type of course: Compulsory
- Level of course: Master programme
- Year of study: 1st – 2nd
- Number of ECTS credits allocated: 6
- Name of lecturer(s) and office hours: Chiara Franco, on appointment by e-mail

1.2 Course aims

The aim of the course is to provide students with the basics to analyze the motivations and consequences of the international commercial opening of countries, both with respect to the role of international trade and the role of Multinational Enterprises (MNEs).

1.3 Learning outcomes

At the end of the course students will be able to:

- Critically evaluate the phenomenon of economic globalization by getting acquainted with the basic mechanisms of the global economy
- Understand and interpreting the data and the indicators measuring globalization activities of countries (trade and multinational activity)

- Understand the difference between neo-classical inter-industry and intra-industry theories of international trade
- Evaluate the welfare effects of various types of protectionist measures
- Understand the origin, structure and effects of MNEs

1.4 Course requirements

Students will be required to attend not less than 80% of classes and they are expected to be actively engaged in class discussion. Basic knowledge of economics is required.

1.5 Grading plan

The evaluation is made up of three parts:

- mid-term written exam (40%)
- final written exam (40%)
- in class students' presentations on a topic at the end of the course (20%)

Each student has to present a topic (20 minutes) chosen on a list that will be provided by the lecturer

- optional oral exam (± 3 points) only for those who get a total mark ≥ 18 in the written exam

Part II

2.1 Course content

1. Introduction to the globalization phenomenon
2. International trade theory: inter-industry trade (Ricardian model, specific factor models and Heckscher-Ohlin model, standard trade model)
3. The new trade theories: models of intra-industry trade
4. Trade policies: barriers to trade and the role of economic integration
5. Theory of foreign direct investment (FDI): the birth and development of multinational enterprises (MNEs)

2.2 Course content and readings by topics

Topic 1 - Introduction to the globalization phenomenon

Lecture 1

Definition of the term "globalization" from an economic point of view. Several dimensions of globalization. Introduction to the "history" of globalization by analyzing trend of specific variables like GDP, population growth, trade, FDI, MNEs and migration.

Lecture 2

General introduction to the data of globalization. The home firm - decision tree. A general overview of world trade: the gravity model. The changing pattern of world trade.

Lecture 3

Distinction between data about trade and multinational activity. Distinction between FDI data and sales and value-added data.

Compulsory readings

- Beugelsdijk S., Brakman S., Garretsen H., van Marrewijk C. “International Economics and Business. Nations and Firms in the Global Economy”, Second Edition, Cambridge University Press, 2013 – Chapter 1 and Chapter 2
- Krugman P.R., Obstfeld, M., Melitz M.J. “International Economics: Theory and Policy”, 11th Edition, Pearson Education, 2018 – Chapter 2

Further Readings

- Maddison A (2001) *The World Economy: A Millennial Perspective*. OECD Development Centre Studies
- Salvatore, D. (2012). Introduction to international economics. 3rd Edition Wiley-Chapter 1
- What is an American Car? *The Wall Street Journal*, 26 January 2009

Internet sources

- World Development Indicators (WDI) on-line: <http://datatopics.worldbank.org/world-development-indicators/>
- IMF Direction of Trade Statistics: <http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85>
- OECD Statistics: <https://stats.oecd.org/>

Topic 2 - International trade theory: inter-industry trade (Ricardian model, specific factor models, Heckscher-Ohlin model and standard trade model)

Lecture 1

Introduction to the concept of absolute advantage. Theoretical differences between absolute advantage and comparative advantage. Numerical examples to illustrate the concept.

Lecture 2

David Ricardo’s model of trade: the concept of comparative advantage. Explanation of the concept using the production possibility frontier in one-factor economy case. The pattern of trade and the gains from trade. Misconceptions about comparative advantage. Empirical evidence on the Ricardian model.

Lecture 3

The specific factor model: assumptions of the model and the pattern of trade within this model. Income distribution and the gains from trade. Preliminary view of the political economy of trade. The role of income distribution and the international labor mobility.

Lecture 4

Introduction to the Heckscher-Ohlin (H-O) model. Relationship between factor prices and goods prices. Effects of international trade between two-factor economies.

Lecture 5

Trade and distribution of income. Factor-price equalization. Empirical evidence on the Heckscher-Ohlin (H-O) model.

Lecture 6

A standard model of a trading economy. The effects of economic growth in a trading world economy. The case of growth of Newly Industrialized Economies.

Compulsory readings Topic 2

- Krugman P.R., Obstfeld, M., Melitz M.J. “International Economics: Theory and Policy”, 11th Edition, Pearson Education, 2018 – Chapter 3-4-5. Chapter 6 (pp.152-165)

Further Readings

- Beugelsdijk S., Brakman S., Garretsen H., van Marrewijk C. “International Economics and Business. Nations and Firms in the Global Economy”, Second Edition, Cambridge University Press, 2013 – Chapter 3
- Salvatore, D. (2012). Introduction to international economics. 3rd Edition Wiley- Chapter 2 (Sections 2.1, 2.2, 2.3) and Chapter 4 (Sections 4.1-4.2-4.3-4.4)

Internet sources

- World Import and Export Data: <https://cid.econ.ucdavis.edu/wixd.html>

Topic 3 – The new trade theories: intra-industry trade

Lecture 1

The role of economies of scale in international trade. The theory of external economies. Concept of knowledge spillovers. Measurements of the amount of intra-industry trade (Gruber-Lloyd index)

Lecture 2

The theory of imperfect competition. The case of monopoly. Monopolistic competition and trade. Trade costs and export decisions. Firm responses to trade: winners, losers and industry performance

Lecture 3

Trade costs and export decisions. The concept of dumping. Introduction to the theory of multinational firms.

Compulsory readings Topic 3

- Krugman P.R., Obstfeld, M., Melitz M.J. “International Economics: Theory and Policy”, 11th Edition, Pearson Education, 2018 – Chapter 7-8

Further readings

- Beugelsdijk S., Brakman S., Garretsen H., van Marrewijk C. “International Economics and Business. Nations and Firms in the Global Economy”, Second Edition, Cambridge University Press, 2013 – Chapter 4 (Sections 4.1-4.2-4.3-4.4-4.5-4.6)
- Bruehlhart, M. (2009) ‘An account of global intra-industry trade, 1962–2006’, *The World Economy* 32(3): 401–59.
- Ito, T., & Okubo, T. (2012). New Aspects of Intra-industry Trade in EU Countries. *The World Economy*, 35(9), 1126-1138.
- Salvatore, D. (2012). Introduction to international economics. 3rd Edition Wiley- Chapter 4 (Sections 4.6-4.7-4.8)

Topic 4 – Trade policies: barriers to trade and the role of economic integration

Lecture 1

Discussion about the historical evidence of trade restrictions. Basic tariff analysis: graphical explanation of the welfare effects of tariffs.

Lecture 2

Other instruments of trade policy: export subsidies Non-tariff measures, export subsidies, import quotas. Examples based on case studies.

Lecture 3

The political argument for free trade. National welfare argument against free trade. Income distribution and trade policy.

Lecture 4

International negotiation and trade policy: the role of trade agreements. Brief history of trade agreements. The concept of Most Favoured Nation (MFN). Difference between free trade area (FTA) and Custom Union (CU). Concept and examples of trade creation and trade diversion.

Lecture 5

Focus on trade policy in developing countries: the infant-industry argument. Some examples of trade as a way to promote growth: the case of Asian countries.

Compulsory readings Topic 4

- Krugman P.R., Obstfeld, M., Melitz M.J. “International Economics: Theory and Policy”, 11th Edition, Pearson Education, 2018 – Chapter 9-10-11
- Beugelsdijk S., Brakman S., Garretsen H., van Marrewijk C. “International Economics and Business. Nations and Firms in the Global Economy”, Second Edition, Cambridge University Press, 2013 – Chapter 5

Further readings

- Salvatore, D. (2012). Introduction to international economics. 3rd Edition Wiley- Chapter 5
- Krueger, A. O. (1999). Trade creation and trade diversion under NAFTA, Working Paper n.7429, NBER

Topic 5 - Theory of foreign direct investment (FDI): the birth and development of multinational enterprises (MNEs)

Lecture 1

Discussion about the role of transport costs. The modellization of distance at the firm level. Types of multinational activity: horizontal, vertical, efficiency seeking multinationals, hybrid cases.

Lecture 2

Modellization of distance at the country level: the gravity model. Discussion of the concept of liability of foreignness: different types of “distance” (institutional and cultural). The Porter model

Lecture 3

The theory of multinational enterprise: Ownership – Location – internalization (OLI) Dunning’s paradigm. General overview of the theories that justify the existence of MNEs.

Lecture 4

Management theories of the internationalizing firms: the resource-based view of the firm and the characteristics of firm specific advantage. Explanation of the global-local paradox. Different types of entry modes. Internationalization pattern over time.

Compulsory readings Topic 5

- Beugelsdijk S., Brakman S., Garretsen H., van Marrewijk C. “International Economics and Business. Nations and Firms in the Global Economy”, Second Edition, Cambridge University Press, 2013 – Chapter 6 and Chapter 7

Further readings

- Forsgren, M. (2017). Theories of the multinational firm: A multidimensional creature in the global economy. Edward Elgar Publishing. Chapters 1-2-3-4-6
- Dunning, J. H. (2000). The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International business review*, 9(2), 163-190.

