

# TRADE, FINANCE AND DEVELOPMENT

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This course is designed to provide students with a basic introduction to important theories of international trade, balance of payments adjustment and capital flows. It will also give an indication of the historical evolution of trade and finance patterns, the important international institutions and major processes in the current international economy, and the issues of policy concern for developing countries such as India.

## COURSE OUTLINE

### **Part A: International Trade:**

- 1) Theories of international trade - Why countries trade; what determines the patterns of trade; what are the gains and implications of trade?
  - a) Ricardian comparative advantage and other classical models
  - b) Heckscher-Ohlin-Samuelson factor endowment based models
  - c) Demand-similarity hypothesis
  - d) Imperfect competition models, models relating to intra-industry trade, and theories of strategic trade policy
  
- 2) The context of international trade- The historical evolution of trading patterns and the institutional context within which trade occurs.
  - a) Patterns of trade in the 19<sup>th</sup> and early 20<sup>th</sup> centuries, and the emergence of the international division of labour by the mid 20<sup>th</sup> century
  - b) International investment, MNCs and trade patterns
  - c) Preferential trade agreements, their justification and implications
  - d) GATT and the WTO, with special consideration to the implications of specific GATT agreements and ongoing WTO negotiations
  
- 3) Trade policies for development- The theoretical and empirical basis for trade and industrialization policies of developing countries, and the current constraints.
  - a) Trade and growth, dynamic comparative advantage
  - b) Theories of tariff protection, infant industry protection and dynamic comparative advantage
  - c) The experience of developing countries with trade “openness”
  - d) Current constraints and emerging issues for developing countries like India

### **Part B: International Finance**

- 4) Open economy macroeconomics: The implications of openness for macro-economic performance and policy.
  - a) Approaches to balance of payments adjustment: the Keynesian (elasticities and absorption) and Monetarist (stock and portfolio choice) approaches
  - b) Implications of capital flows, Mundell-Fleming and subsequent models
  - c) Theories of exchange rate determination and the evidence: Purchasing Power Parity, asset market model, etc
  - d) Imperfections in international financial markets
  
- 5) The historical and institutional context within which international financial flows occur.
  - a) The Gold Standard regime-Theoretical explanations and actual patterns

- b) The interwar period of international financial instability
  - c) The Bretton Woods regime
  - d) Post-Bretton Woods arrangements, including the current role of the IMF and World Bank, and the current structure of international financial markets
- 6) Policy concerns for developing countries, especially India.
- a) The IMF adjustment package, how it has changed over time, and current implications
  - b) Financial liberalization, especially capital account liberalization, and its effects
  - c) Crises in emerging markets - patterns, consequences and lessons
  - d) Possible strategies for developing countries in the current context

## READINGS:

### *Basic Texts*

- Borkakoti, J. (1998) *International Trade: Causes and Consequences*
- Ethier, W.J. (1995) *Modern International Economics* 3<sup>rd</sup> edition
- Krugman, P. and M. Obstfeld (2000) *International Economics: Theory and Policy*, 5<sup>th</sup> edition.
- Rivera-Batiz, F. and L. Rivera-Batiz (1994) *International Finance and Open Economy Macroeconomics*, Macmillan, 2<sup>nd</sup> edition.
- Sodersten, B. and G. Reed (1994) *International Economics* 3<sup>rd</sup> edition.
- Salvatore, D. (2000) *International Economics*, John Wiley London, 7<sup>th</sup> edition.
- Williamson, J. and C. Milner (1991) *The Open Economy and the World Economy*, 2<sup>nd</sup> edition, Harvester Wheatsheaf.

### *Additional Readings*

- American Economic Association (1964) *Readings in International Trade* New York.
- Anderson, K. and R. Blackhurst (2001) *Regional Integration and the Global Trading System* London.
- Asheghian, P. (1998) *The Multinational Corporation: Environments and Operations* Nova Science Publishers.
- Baker, D., G. Epstein and B. Pollin (eds) (1999) *Globalisation and Progressive Economic Policy* Cambridge University Press.
- Banuri, T. and J. Schor (eds) (1990) *Financial Liberalisation: No Panacea* New Delhi and London: Oxford University Press.
- Bhagwati, J. (2000) *Regionalism and Multilateralism: An overview* New York.
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- Cooper, R.N. (1974) (ed) *International Finance*, Penguin.
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- Ghosh, J. and C.P. Chandrasekhar (eds) (2003) *Work and Well-being in the Age of Finance* New Delhi, Tulika.
- Hoekman, B. and M. Kostecki (2001) *The Political Economy of the World Trading System: From GATT to the WTO* OUP.
- Jomo, K.S. and S. Nagaraj (ed) (2001) *Globalisation versus Development* Palgrave.
- Kierkowsky, H. (ed) (1985) *Monopolistic Competition and International Trade*
- Krugman, P. (1987) *Rethinking International Economics*, MIT press.
- Kindleberger, C.P. (1974) *Power and Money: The Economics of International Politics and the Politics of International Economics*
- Kindleberger, C.P. (1970) *International Economics*, Basic Books
- Linder, S.B. (1961) *An Essay on Trade and Transformation*.
- Marglin, S. and J. Schor (eds) (1988) *The Golden Age of Capitalism* London: Oxford University Press.

- Mirza, H. (ed.) (1999) *Global Competitive Strategies in the New World Economy: Multilateralism, Regionalisation, and the Transnational Firm* Edward Elgar.
- Mundell, R. and A. Swoboda (eds) (1981) *Monetary Problems of the International Economy*, University of Chicago Press.
- Pilbeam, K. (1998) *International Finance* Macmillan.
- Srinivasan, T.N. (1998) *The Multilateral Trading System and Developing Countries* New York.
- Strange, S. (ed) (1998) *The Retreat of the State*, London,
- Stubbs, R. and G. Underhill (eds) *Political Economy and the Changing Global Order* Macmillan Press Ltd.