MGT 205A: International Business Economics
Instructor: Prof. Daniel J.B. Mitchell
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Tuesdays beginning April 5, 7-9:50 PM (B313 Anderson Complex)

MGT. 205A is a survey of the key topics of the international economy. The course is divided roughly equally between trade-related topics and monetary-finance-macro topics. Students prepare reports on international topics that they choose. An outline of the course with approximate time devoted to each unit is shown below. "Session" is defined below as one 3-hour class equivalent.

Introduction: enrollment formalities; discussion of empirical data on trade and questions they raise for the course. (½ session)

Unit I: Comparative International Costs as a Basis for Trade; comparative advantage; the terms of trade; country size and the gains from trade; is free trade always "best"?; is comparative advantage "fixed" or can it change? (1 ½ sessions)

Unit II: The Pattern of International Trade; can we predict which country exports what kind of goods based on supply-side criteria?; gains and losses in income distribution from trade. (½ session)

Unit III: National Commercial Policies; Tariff analysis; arguments for protection, measurement of tariffs, dumping, quotas and non-tariff barriers. (2 sessions)

Unit IV: Economic integration; common markets such as the European Union, free trade areas such as NAFTA, and similar agreements. (½ session)

Midterm Exam: ½ session

Unit V: Exchange Rates and Other Price Adjustments; exchange rates changes; impact of exchange rate changes on the terms of trade; purchasing power parity, price-specie-flow with fixed exchange rates, spot and forward exchange rates. (2 sessions)

Unit VI: Macroeconomic Aspects; business cycles in an open economy; macroeconomic policies, forecasting models in an open economy. (½ session)

Unit VII: Balance of Payments; balance of payments accounting; an empirical look at the balance of payments. (1 session)

* Any changes or corrections in this syllabus after the date shown above will be made in class.
Unit VIII: The International Monetary System; history and development of the international monetary system; the future of the international monetary system; course review. (1 session)

Final Exam
International Business Economics
MGT. 205A
Spring 2005

Instructor: Prof. Daniel J.B. Mitchell
Class Meets: Tuesdays beginning April 5, 7-9:50 PM
Location of Class: Room B313 Anderson Complex

Final Exam: Code 22, Tuesday, June 14, 6:30-9:30 PM

Office Hours: Tuesdays: 4:30-6 PM, A409 Collins (Anderson)
Wednesday: 4:30-6 PM, A409 Collins (Anderson)

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Location of Prof. Mitchell's telephone: 310-825-2505
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About the Course: MGT. 205A will familiarize you with the major topics in international economics and standard
analysis in the field. Topics covered include comparative advantage, trade patterns, protection, economic
integration, currency appreciations and depreciations, international price adjustments, forward and spot exchange
rates, international macroeconomic impacts, balance of payments, and the international monetary system. The course
is good preparation for further course work in international management and international finance.

Prerequisite: You should have had an introductory course in microeconomics. An example is MGT. 405 at
Anderson. A course taken as an undergraduate or in a program outside the Anderson School is acceptable.
Although there is some macro material, background information will be provided in the course if you have not had
macro before. Macro (such as MGT. 406) is not a requirement.

Note for Non-Anderson Students on Registration Procedures: Non-Anderson masters students can enroll in this
course after receiving permission from Prof. Mitchell, assuming space is available. However, such students may need
to register with Otha Stubblefield in B201 (Anderson complex) before Prof. Mitchell. (Procedures vary from year to
year.) Non-Anderson Ph.D. students can receive PTE numbers directly from Prof. Mitchell without this step.

Reading to be Purchased: Textbook: Robert J. Carbaugh, International Economics, 10th edition (Cincinnati: South-
Western, 2005). Available at ASUCLA bookstore. Denoted “RJC” on the syllabus below.

Web Material: Study Guide: MGT. 205A. Available on the web at the course webpage and on the Anderson “I”
drive. Also on the web, go to http://briefcase.yahoo.com/mgt205a. This service is available IF you have a Yahoo
account (which you can obtain from Yahoo for free). Give Prof. Mitchell your Yahoo ID if you want to use this
service. Once you have access, go to the folder in the Yahoo briefcase entitled “Copyrighted_Study_Guide” and
click on the appropriate section number. You should be able to open or download the files. Note: Sample exam
questions appear in the Study Guide. (One paper copy of the Study Guide is also on reserve at the Anderson library
along with the readers described below. Please report to Prof. Mitchell any problems you have in obtaining these materials.)

Other material to be distributed electronically: You will receive weekly summaries of subjects covered in class – after the class. Similarly, PowerPoint slides used in class are available – after the class.

Caution: The Study Guide is not a textbook. It is not even a draft of a textbook. Rather it is a set of notes designed to illuminate topics that are discussed in the textbook. The same can be said for the PowerPoint slides and weekly notes that are distributed electronically. The textbook contains examples, data, and historical background material that are not available in the Study Guide. **Prof. Mitchell takes care to place material from the textbook on the exams.**

**Other Readings:** Other readings listed in the back of this syllabus by topical area are “further background.” They are on reserve at the Anderson School library. **These are not required readings but provide information that may be helpful in writing class reports (see below).** (All readings were delivered to the library or requested to be put on reserve before the start of the quarter. Most background readings were placed in one or more binders and put on reserve as “readers” in the library.

**Exams:** There are two closed-book exams, a midterm and a final. The midterm will be held in class on Tuesday, May 10. It will occupy one half of the duration of that class. The final exam (code 22) is scheduled for Tuesday, June 14, 6:30-9:30 PM. Please take care to schedule job interviews, job starting dates, travel plans, etc., so that they do not conflict with the exam times. **Anderson policy is to give final exams only in final exam week as scheduled, not in week 10.**

**Special Project:** Students will prepare a written project. Directions for this project are on the web and on the Anderson “I” drive under projdir205a.doc and on the course web page. On the Yahoo briefcase (see above), go to [http://briefcase.yahoo.com/mgt205a](http://briefcase.yahoo.com/mgt205a) and click on the “otherfiles” folder. Then click on Project directions. A communications TA – Courtney Cochran” <courtney.coehran.2005@anderson.ucla.edu> - will be available to assist students who need help with style/editorial matters related to the written project. Obviously, if you wait until the day before the project is due to get in touch with the TA, you will not receive much assistance. As noted above, the supplemental readings listed below may be helpful to you in writing your project. **DUE DATE FOR THE PROJECT IS Tuesday, May 31 - which is NOT the last day of class.** Note also the earlier due dates on the syllabus below for topic selection and outline submission.

**Class Handouts and The Box:** From time to time, Prof. Mitchell will distribute handouts in class, typically containing recent data. Extra copies of handouts (including this syllabus) are kept in a cardboard box in room A416 Collins. If you misplace a handout, you may obtain another copy from the box for as long as supplies last. Exams are also returned in the box. Room A416 Collins is open at normal business hours (which means it is usually opened around 8:30 AM and closed after 5 PM and on weekends).

Prof. Mitchell does not generally bring handouts to classes that were distributed at prior sessions.
Readings and Schedule:

**Introduction:**
- RJC, Chapter 1

First half, April 5: Introduction; Enrollment formalities, Discussion of Empirical Handout

Note: Please report any problems you had obtaining the textbook.

**Unit I: Comparative International Costs as a Basis for Trade.**
- RJC: Chapter 2

Note: Try the sample midterm question in section 18 of your Study Guide. If you can't answer the question, consult the answer in Appendix A35.

Second half, Apr. 5: Comparative advantage

First half, Apr. 12: Comparative advantage; 2-Factor model

Second half, Apr. 12: 2-Factor model

**NOTE: TOPIC LIST FOR PROJECTS DUE APRIL 12 IN CLASS.**

Video: Queen Victoria: Crystal Palace (excerpt)

**Questions to consider for Apr. 12:**

- Question 1: What lesson might the notion of comparative advantage have for the prospects of integrating formerly-communist countries of Eastern Europe into the world market economy?

- Question 2: Given your answer to question 1, what might be said about the 1990 merger of the East German economy into West Germany with an exchange rate of 1 East German mark = 1 West German mark?

**Unit II: The Pattern of International Trade**
- RJC: chapters 3, 9
- Study Guide: Sections 30, 36, A15 (Optional: Sec. 35)

Note: Try the sample midterm question in Sec. 37 of the Study Guide. If you have trouble, consult Appendix A36.

First half, Apr. 19: Pattern of trade; Factor-price effects
Below are two questions and two industries to think about for Apr. 19:

Question 1: A number of observers commented on a slowdown in real wage growth in the U.S. during the 1980s and beyond. What role might trade have played in this phenomenon?

Question 2: Differentiate between a product and a process of production (such as assembly). What does this differentiation suggest about the pattern of world production? How does maquiladora production fit into this pattern?

Consider two industries: shoes and aircraft. Can we make sense of their export/import patterns using the framework of this unit?

Unit III: National Commercial Policies

- RJC: Chapters 4, 5, 6 (Optional: Chapter 7)
- Study Guide: Sections 40, 50, 51, 52, 60, 70, 75, 80, 81, 85, 90, 91, 101, 102

Videos: March of Time, Depression - Part 3 (U.S. tariffs on Canadian fish)  
WW2 - Defense - Part 2 (protecting merchant marine for "national defense")  
Postwar - Part 2 (customs administration)

Check your knowledge: Do you understand the example in A16 of your Study Guide? The analysis in A17 and in 91? Try the midterm sample questions in Sec. 105 and 106. If you have difficulty with them, check the answers in Appendices A37, A38.

Second half, Apr. 19: Tariff analysis

First half, Apr. 26: Arguments for protection including terms of trade effect

Second half, Apr. 26: Effective vs. nominal tariffs; Dumping

First half, May 3: Quotas; Non-tariff barriers

Videos: March of Time: Canadian Fish, U.S. Maritime fleet, Customs Administration (excerpts)

Unit IV: Economic integration

- RJC: Chapter 8
- Study Guide: Section 100

Second half, May 3: Common markets, free trade areas, and
First half, May 10: MIDTERM EXAM (closed book). Covers through Unit IV. Refer to Sec. 108 of your Study Guide for a concept list. Are the phrases in Section A50 familiar to you? Can you answer the multiple-choice sample questions in Section 107?

Unit V: Exchange Rates and Other Price Adjustments

- RJC: Chapters 11, 12, 13 (pp. 400-410), 14
- Study Guide: Sections 110, 111, 112, 115, 116, 120, 122, 139, 140. (Optional A18)

Note: Can you answer the question in Secs. 117 and 141 of the Study Guide? If you have trouble with Sec. 117, check Appendix A19.

Second half, May 10: Changes in exchange rates

First half, May 17: Exchange rates and the terms of trade; purchasing power parity

NOTE: OUTLINE FOR PROJECT DUE May 17!!


First half, May 24: Foreign exchange markets; spot and forward rates

Questions to consider for May 24:

Question 1: A devaluation seems to subsidize exports and to tax imports. Is devaluation, therefore, subject to the same criticisms as protective devices such as subsidies and tariffs?

Question 2: A country which keeps its inflation rate low relative to other countries produces effects similar to a devaluation (question 1). Is maintaining a low inflation rate, therefore, subject to the same criticisms as protective devices such as subsidies and tariffs?

Question 3: The dollar has depreciated substantially since its 1985 peak. Why hasn't the U.S. trade balance shown a bigger improvement?

Unit VI: Macroeconomic Aspects
• RJC: Chapters 13 (pp. 411-415), 16
• Study Guide: Sections 109, 129, 130, 135, 137

Video: Peoples’ Century – Breadlines (excerpt: U.S. depression spreads abroad)

Note for final exam: If you were given the type of information found in the numerical example of p. 130.6 of your Study Guide, could you work out a solution? Try the example. If you have a problem, consult the answers in Appendix 39.

Second half, May 24: Fix-price model; Business cycle in an open economy; macroeconomic policies

Observation to consider for May 24:

Take a look at the correlation between real imports to the U.S. and real GDP. What do you observe? Why do you observe it?

Unit VII: Balance of Payments.

• RJC: Chapter 10
• Study Guide: Sections 150, 160

Note for final exam: Sample balance-of-payments problems appear in Section 160 of your Study Guide. Work out these problems. If you have difficulty, consult the answers in Appendix A40.

REPORTS DUE May 31 IN CLASS!!

First half, May 31: Balance of payments accounting

Second half, May 31: An empirical look at the balance of payments

Unit VIII: The International Monetary System.

• RJC: Chapters 15, 17
• Study Guide: Sections 168, 170, 171

Audio: Cross of Gold speech
Audio/video: Telstar: Kennedy press conference
Video: Nixon TV speech ending Bretton Woods system (excerpt)
Video: Rollover (excerpt)

First half, June 7: History and development of the international
monetary system.

Second half, June 7: Current practices and possible changes in the international monetary system. Course review.

Question for consideration on June 7:

The EU developed the euro to replace the national currencies of many of its member states. In effect, countries using the euro have totally fixed exchange rates against one another, i.e., 1 “French” euro = 1 “German” euro = 1 “Italian” euro. Should the world move toward a single currency as much of Europe has? Or should other blocs of countries such as NAFTA adopt an internal currency for their member states?

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FINAL EXAMINATION (closed book): Code 22, Tuesday, June 14, 6:30-9:30 PM.
Refer to concept review of Section 180 in your Study Guide. Are you familiar with the phrases in Appendix A60?

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Final examinations are normally given in the regular classroom. If a different room is assigned, Prof. Mitchell will announce it in class. Final exams and grades will be available in room A416 Collins in the cardboard box for MGT. 205A. If you cannot pick up your exam, you may attach a stamped, self-addressed postcard to the exam. Postcards can also be left in Prof. Mitchell's mailbox in A416 Collins. Exams which are not picked up within a reasonable time may be discarded. If you want your exam back, but cannot pick it up yourself, arrange for a friend to do so for you.
Information Sources Beyond Your Textbook and Study Guide

Further Background by topical unit. All in one of the volumes of the Library Readers except where noted. (For use in doing your written projects.)

Note: The readers contain materials going back to the early 1990s. Over the years, materials have been added but not subtracted. You can search this listing for more recent dates. But in some cases the older references may be of use. Generally, highly technical studies are not included in the readers or listing. “NEW” means added to the list this academic year.

Introduction

- International excerpt from Economic Report of the President: 2005. (Copies of this material are on reserve at Anderson School library [separate from library reader]). You can find this and earlier editions of this report on the web.

Unit I: Comparative International Costs as a Basis for Trade

Note: The items below are listed here because of the oft-cited belief that former Eastern European communist countries are too inefficient to compete in world markets.


Note: The items below raise an interesting issue of why an Asian communist country moving towards a market economy would have a different experience in world markets from the Eastern European ones.

• Wolf, Thomas, and Emine Gurgen, “Improving Governance and Fighting Corruption in the Baltic and CIS Countries: The Role of the IMF,” Economic Issues, no. 21, 2000, IMF.

Unit II: The Pattern of International Trade

Note: On the “activity-exporting” Mexican maquiladoras:


Note: On the general question of comparative advantage, growth, and the pattern of trade:


Note: On concerns about wage competition across borders:


Unit III: National Commercial Policies

Note: Some aspects of U.S. trade policy are considered in the items below.


Note: Until the 1980s, less developed countries often followed policies limiting imports. Beginning in the 1980s, policies shifted more towards freer trade. The item below considers the impact of this shift.

Note: Issues related to the rapidly-growing East Asian countries are discussed in the items below. Did they use clever policies to achieve success in development and trade? Or did the “miracle” just happen?

• Sarel, Michael, “Growth In East Asia: What We Can and What We Cannot Infer,” Economic Issues (1:1996), IMF.
• “Business in Asia: The Search for the Asian Manager,” Economist, March 9, 1996.

Note: The readings below deal with the past economic success of Japan. Did Japan achieve its success through protectionist policies or through industrial policy? Or did it just happen?


Note: Miscellaneous issues related to commercial policies are discussed in the items below.

• Symposium on income inequality and trade in Journal of Economic Perspectives, vol. 9 (Summer 1995), pp. 15-80. (Journal available at Anderson library and others.)

Unit IV: Economic integration

• A set of 8 papers on U.S.-Mexico trade and the North American Free Trade Agreement can be found in the Spring 1993 issue of the North

- Lloyd Ulman, Barry Eichengreen, and William T. Dickens, eds., 
- "A Look at Mexico’s Trade: Free Trade Agreements, Business Frontier, Federal Reserve Bank of Dallas (3-1997).

Unit V: Exchange Rates and Other Price Adjustments

- Francesco Caramazza and Jahangir Aziz, Fixed or Flexible? Getting the Exchange Rate Right in the 1990s, IMF Economic Issues #13, 1998.
- Huemer, Alex, “The Return of the Tigers: With a Roar or Whimper?: Parts I and II,” Claremont Policy Briefs, 00-01, 00-02, August-September 2000.

Unit VI: Macroeconomic Aspects


Unit VII: Balance of Payments


Unit VIII: The International Monetary System

• Timothy Lane et all, IMF-Supported Programs in Indonesia, Korea and Thailand: A Preliminary Assessment, January 1999. (On reserve but not in reader; the IMF’s own internal assessment of lessons learned from the Asian financial crisis in selected countries)
• "Foreign Exchange Reserves in East Asia: Why the High Demand?," Economic Letter, Federal Reserve Bank of San Francisco, April 2003.
General Sources of Information:

Sources listed below are available from the Anderson School library and/or the Maps and Government Information section of the University Research Library. Use the library's Orion system to locate publications.

American Government Data Sources:

- **Survey of Current Business** (monthly publication of the Bureau of Economic Analysis, U.S. Dept. of Commerce). Regular articles and data on the U.S. balance of payments, international investment position, direct investment, and other topics.


- "FT" publications of the Bureau of the Census contain detailed data on U.S. exports and imports.


- **Economic Report of the President** (annual report with data on U.S. trade and investment trends in the appendix and frequently text dealing with current U.S. international economic policy and other international economic matters.)

- **World Factbook** (annual publication of the U.S. Central Intelligence Agency with brief profiles of just about every country in the world.)

- **U.S. Industry and Trade Outlook** (review of trade and industrial trends produced by International Trade Administration of U.S Department of Commerce and distributed by McGraw-Hill.) Information on ordering, etc., is available at "www.ita.doc.gov/outlook". Also, that URL will take you to information tariffs and other data on specific industries.

- **Country Commercial Guides** (information on various national markets. Available from National Technical Information Service, 1-800-553-NTIS.)

- Information on federal export promotion programs is available from the Trade Information Center of the U.S. Department of Commerce (1-800-USA-TRADE).
Other Sources:

- **Economist.** Weekly news magazine with worldwide coverage tilted toward economic issues. Tables on the last two pages summarize current economic data such as inflation rates, interest rates, and exchange rates.

- The Economist Intelligence Unit publishes regular country-by-country profiles. These are summarized in **EIU World Outlook.**

- **International Financial Statistics** (monthly publication of the International Monetary Fund). Contains country data on exchange rates, inflation, production, balance of payments. Regular data on world reserves, IMF accounts, world trade.

- **World Economic Outlook** (annual forecasts published by the International Monetary Fund).

- The Organisation for Economic Co-operation and Development puts out a variety of publications including **Main Economic Indicators** (summarizing country trends) and various foreign trade statistical publications on country exports and imports. The OECD also publishes periodic short books on the economic conditions in various countries. **Employment Outlook** summarizes international labor market trends.

- Statistical Abstracts are available for various countries and regions. For example, the UCLA Latin American Center publishes a **Statistical Abstract of Latin America.**

- Specialized journals are available such as the **Journal of Common Market Studies** with annual supplement: **European Union: Annual Review of Activities.**

- Data on wages, employment, and inflation by country are available in the **Yearbook of Labour Statistics** (annual publication of the International Labour Organisation). The ILO is an international agency affiliated with the United Nations. Other affiliated agencies also put out publications as does the U.N. itself. Another annual publication of the ILO is **World Labour Report.**


- Data on the European Union (EU) countries are available in numerous publications from Eurostat, the EU’s statistical agency.

- The Internet is a source of information and data. For example:

- **http://www.usitc.gov** is the address of the U.S. International Trade Commission
• http://www.wto.org is the address of the World Trade Organization

• http://www.un.org is the address of the United Nations. UN publications are listed as one option.

• http://www.ustr.gov is the address of the Office of the U.S. Trade Representative

• http://www.stat-usa.gov gives you access to numerous trade documents and data sources. Note: Although you can do a "test drive" at this address for free, real access for some components requires you to pay. Information on costs is available at the site.

• http://www.worldbank.org is the address of the World Bank (International Bank for Reconstruction and Development). Publications are one of the options.

• http://www.imf.org is the address of the International Monetary Fund. Information on publications and reports is available.

• http://www.oecd.org is the address of the Organisation for Economic Cooperation and Development. Information on activities of the OECD and publications is available.

• The National Bureau of Economic Research turns out many studies on all aspects of economics including international subjects. It maintains a website in which you can search for working papers on particular topics at http://www.nber.org.

• The Bank for International Settlements can be found at http://www.bis.org.

• A database maintained by the UC library system and known as “GPO Gate” contains texts of many federal publications. It is searchable. Go to http://www.gpo.ucop.edu.