

**Irkutsk State University, Institute for Mathematics, Economics and Informatics**  
**Applied International Economics**  
**Fall 2013**  
**Course Syllabus**

**Instructor:** Olga Popova, Ph.D. (IOS Regensburg, CERGE-EI Prague, GSEM UrFU Yekaterinburg)

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**Course page:** [home.cerge-ei.cz/opopova/teaching.html](http://home.cerge-ei.cz/opopova/teaching.html)

**Office hours:** by appointment

**Prerequisites:** Principles of Microeconomics, Principles of Macroeconomics, Econometrics

**Course description.** This course introduces selected theoretical and empirical concepts in International Economics and serves as a preparation to more advanced courses in International Trade and International Finance. The aim of the course is to review the current state of theory and empirical work in International Economics and provide the guidance for using these concepts in applied research. Lectures are complemented by practical sessions to assure the understanding of the course material.

**Grading.** The grade for the course is based on a home assignment and class participation (30%) and a final exam (70%). The **home assignment** will contain empirical and theoretical parts and should serve as a preparation to the final exam. The **final exam** is a written closed book, closed notes exam. Violation of academic honesty during the exam, including the use of unauthorized materials, receiving and/or providing unauthorized help from/to other students, results in a failing grade for the course.

### Readings

*Principal textbook:*

**[KOM]** Krugman, Paul, Maurice Obstfeld, and Marc Melitz. *International Economics: Theory and Policy*. Boston, MA: Addison Wesley, 9<sup>th</sup> edition, 2012 (earlier editions are also suitable).

*Supplementary readings:*

**[F]** Feenstra, R. (2004). *Advanced International Trade: Theory and Evidence*. Princeton University Press.

**[R]** Ramanathan, R. (1998). *Introductory Econometrics with Applications*, 4<sup>th</sup> ed., Harcourt Brace College Publishers.

### Course Outline

#### 1. World trade: An overview. Gravity equation and its empirical applications [4 hours]

[KOM] Chapter 2; [F] Chapter 5

Anderson, J., van Wincoop, E. (2003). Gravity with Gravitas: A Solution to the Border Puzzle. *The American Economic Review*, 93(1), 170-192.

Babetskaia-Kukharchuk, O., Maurel, M. (2004). Russia's Accession to the WTO: the Potential for Trade Increase. *The Journal of Comparative Economics*, 32, 680-699.

Bergstrand, J. (1985). The Gravity Equation in International Trade: Some Microeconomic Foundations and Empirical Evidence. *The Review of Economics and Statistics*, 67(3), 474-481.

Evenett, S., Keller, W. (2002). On Theories Explaining the Success of the Gravity Equation. *The Journal of Political Economy*, 110(2), 281-316.

**2. Labor Productivity and Comparative Advantage: The Ricardian Model [4 hours]**

[KOM] Chapter 3

**3. Specific Factors and Income Distribution [4 hours]**

[KOM] Chapter 4

**4. Resources and Trade: The Heckscher-Ohlin Model [4 hours]**

[KOM] Chapter 5

**5. Additional concepts and applications**

**a. Forecasting. Basic principles and empirical applications for transition countries [4 hours]**

[R] Chapter 11

Krkoska L., Teksoz, U. (2005). *Accuracy of growth forecasts for transition countries: Assessing ten years of EBRD forecasting*, EBRD Working Paper 94.

Krkoska L., Teksoz, U. (2006). *Forecasting inflation for transition countries: How accurate are the EBRD forecasts?* EBRD Working Paper 98.

**b. Exchange rate pass-through. Empirical evidence [2 hours]**

Banik, N., Biswas, B. (2007). Exchange Rate Pass-Through in the U.S. Automobile Market: A Cointegration Approach. *The International Review of Economics and Finance*, 16, 223–236.

Coricelli, F., Jazbec, B., Masten, I. (2006). Exchange Rate Pass-Through in EMU Acceding Countries: Empirical Analysis and Policy Implications, *The Journal of Banking & Finance*, 30, 1375–1391.

Ghosh, A., Rajan, R. (2009). Exchange Rate Pass-Through in Korea and Thailand: Trends and Determinants. *Japan and the World Economy*, 21, 55–70.

**c. Balassa-Samuelson effect. Empirical evidence in transition countries. [2 hours]**

Egert, B. (2002). Estimating the Impact of the Balassa-Samuelson Effect on Inflation and the Real Exchange Rate during the Transition. *Economic Systems*, 26, 1-66.

Mihaljek, D., Klau, M. (2003). *The Balassa-Samuelson Effect in Central Europe: a Disaggregated Analysis*. BIS Working Paper #143.

**6. Homework solution [2 hours]. Final exam [2 hours]**