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**Code: ECON-404**

**Title: International Trade**

**Credit Hours: 03**

**Prerequisite: Intermediate Microeconomics and Intermediate Macroeconomics**

**Objectives:**

The main objective of the course is to offer a detailed introduction to the economics of international trade theory, international trade policy and balance of payments.

**Course Contents**

**Introduction**

International Trade and Nations' Standard of Living and Current International Economic Problems.

**The Law of Comparative Advantage**

Introduction, The Mercantilists' Views on Trade, Trade Based on Absolute Advantage: Adam Smith, Trade Based on Comparative Advantage: David Ricardo, Comparative Advantage and Opportunity Costs, The Basis for and Gains from Trade Under Constant Costs.

**The Standard Theory of International Trade**

The Production Frontier with Increasing Costs, Community Indifference Curves, The Marginal Rate of Substitution, Equilibrium in Isolation, The Basis for and Gains from Trade with Increasing Costs, Trade based on Differences in Tastes.

**Demand and Supply, Offer Curves and Terms of Trade**

The Equilibrium-Relative Commodity Price with Trade-Partial Equilibrium Analysis, Offer Curves, The Equilibrium-Relative Commodity Price with Trade: General Equilibrium Analysis and Relationship Between General and Partial Equilibrium Analysis and Terms of Trade.

**Factor Endowments and Heckscher-Ohlin Theory**

Assumption of the Theory, Factor Intensity, Factor Abundance and The Shape of Production Frontier, Factor Endowments and the Heckscher-Ohlin Theory and Empirical Tests of Heckscher Ohlin Theory.

**Trade Restrictions: Tariffs**

Partial Equilibrium Analysis of a Tariff, The Theory of Tariff Structure, General Equilibrium Analysis of Tariff in a Small Country, General Equilibrium Analysis of a Tariff in a Large Country and The Optimum Tariff.

**Non-Tariff Trade Barriers and the New Protectionism**

Import Quotas, Other Non-Tariff Trade Barriers and The New Protectionism, The Political Economy of Protectionism, Strategic Trade and Industrial Policies.

**Economic Integration: Custom Unions and Free Trade Areas**

Trade Creating Custom Unions, Trade Diverting Custom Unions, The Theory of the Second

Best and Other Static Welfare Effects of Custom Unions and History of Attempts at economic Integration.

### **The Balance of Payments of Pakistan**

Some Theoretical Aspects, History of Balance of Payments of Pakistan Economy, BOPs Equilibrium, Pakistan's Balance of Payments, Pakistan's Balance of Payment Problem, Current Position, Main Causes of Imbalance in Balance of Payments of the Economy and Solutions to the BOP Problems.

### **Recommended Books:**

- Paul R. Krugman and Maurice Obstfeld, International Economics: Theory and Policy, Addison Wesley, Latest edition.
- Donomick Sal Vatore B., International Economics: Prentice Hal, Latest edition.